

# The South African Bank of Athens Limited

BASEL III – COMPOSITION OF CAPITAL DISCLOSURE

**December 2014**



**BANK OF ATHENS**

*Business and Commercial Bank*

**COMPOSITION OF CAPITAL DISCLOSURE TEMPLATE**

Name of bank/ controlling company ..... The South African Bank of Athens  
 Six months ended ..... 2014-12-31

<b>Basel III common disclosure template to be used during the transition of regulatory adjustments (i.e. from 1 June 2013 to 1 January 2018)</b>		
<b>Common Equity Tier 1 capital: instruments and reserves</b>		
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	363,185
2	Retained earnings	-
3	Accumulated other comprehensive income (and other reserves)	7,807
6	<b>Common Equity Tier 1 capital before regulatory adjustments (BA700 line 41 column 1)</b>	<b>370,992</b>
<b>Common Equity Tier 1 capital: regulatory adjustments</b>		
28	<b>Total regulatory adjustments to Common equity Tier 1 (BA700 lines 42+55+57+58+59+61+63 column 1)</b>	<b>120,199</b>
29	<b>Common Equity Tier 1 (CET1) (BA700 line 64 column 1)</b>	<b>250,793</b>
44	<b>Additional Tier 1 capital (AT1) (BA700 line 76 column 1)</b>	<b>-</b>
45	<b>Tier 1 capital (T1 = CET1 + AT1) (BA700 line 77 column 1)</b>	<b>250,793</b>
<b>Tier 2 capital and provisions</b>		
50	Provisions	15,228
51	Tier 2 capital before regulatory adjustments (BA700 line 78 column 1)	15,228
<b>Tier 2 capital: regulatory adjustments</b>		
57	<b>Total regulatory adjustments to Tier 2 capital (BA700 line 86 column 1)</b>	<b>-</b>
58	<b>Tier 2 capital (T2) (BA700 line 87 column 1)</b>	<b>15,228</b>
59	<b>Total capital (TC = T1 + T2) (BA700 line 88 column 1)</b>	<b>266,021</b>
60	<b>Total risk weighted assets (BA700 line 6 column 7)</b>	<b>1,998,731</b>
<b>Capital ratios</b>		
61	Common Equity Tier 1 (as a percentage of risk weighted assets) (BA700 line 17 column 1)	12.5476
62	Tier 1 (as a percentage of risk weighted assets) (BA700 line 17 column 2)	12.5476
63	Total capital (as a percentage of risk weighted assets) (BA700 line 17 column 3)	13.3095
<b>Applicable caps on the inclusion of provisions in Tier 2</b>		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	15,228
77	Cap on inclusion of provisions in Tier 2 under standardised approach	15,228

# **The South African Bank of Athens Limited**

PILLAR 3 REGULATORY REPORT

**December 2014**



**BANK OF ATHENS**

*Business and Commercial Bank*

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## **1. Introduction**

The purpose of this document is to disclose both qualitative and quantitative information regarding the Bank's capital adequacy position, risk profile and risk management practices in terms of the Basel III requirements under Regulation 43 of the regulations relating to banks. In terms of Regulation 43(1)(e)(iii) of regulations relating to banks, minimum disclosure on capital adequacy of the bank is required on a quarterly basis. This announcement meets the on-going report requirement for quarterly disclosure in terms of Pillar 3 of the Basel III capital accord.

The Pillar 3 report is produced and published quarterly. This report is verified and approved internally in line with the Bank's disclosure policy.

The Pillar 3 report has not been audited by the Bank's external auditors.

### **Business Profile**

The South African Bank of Athens Limited ('the Bank') was established in 1947 and is a 99,79% subsidiary of National Bank of Greece S.A. (NBG), a major international banking and financial services provider listed on the New York and Athens Stock Exchanges. The parent company's commitment to and close involvement with the Bank provides a solid foundation and contact with the financial centres of the world.

### **Restrictions on transfer of funds or regulatory capital**

There are currently no restrictions or other major impediments on the transfer of funds or capital within the Bank.

## 2. Capital Management

The Bank is subject to minimum capital requirements as defined in the Banks Act and Regulations pertaining to Banks.

The Risk Management Committee considers the various risks faced by the Bank and analyses the need to hold capital against these risks whilst taking account of the regulatory requirements. In addition, the level of capital required to support the Bank's targeted business growth is taken into consideration.

The objective of the Bank's capital management approach is to ensure the maintenance of sound capital ratios, taking all the above requirements into account, whilst producing appropriate returns to shareholders. The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of the statement of financial position, are:

- To comply with the capital requirements set by the regulators of the banking industry in which the Bank operates;
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

The capital of the Bank consists almost entirely of Tier 1 capital.

Capital adequacy and the use of regulatory capital are monitored by ALCO, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the South African Reserve Bank (SARB), for supervisory purposes. The required information is filed with the SARB on a monthly basis.

The Bank maintains a ratio of total regulatory capital to its risk-weighted assets above a minimum level agreed with the SARB which takes into account the risk profile of the Bank.

The South African Bank of Athens remained above the minimum required capital adequacy ratio as at the 31 December 2014 with a total capital adequacy of 13.31% and a Tier 1 capital adequacy of 12.55%, exceeding minimum regulatory requirements.

The regulatory capital requirements are strictly observed when managing economic capital. The Bank's regulatory capital comprises two tiers:

- Tier 1 capital: share capital, general bank reserve, statutory reserve, unrealised gains arising on the fair valuation of equity instruments held as available for sale, retained earnings and reserves created by appropriations of retained earnings. The book value of intangible assets is deducted in arriving at Tier 1 capital; and
- Tier 2 capital: collective impairment allowances

Shortfalls of value adjustments and provisions as compared to expected losses are deducted from Tier 1 and Tier 2 capital to calculate regulatory capital.

**Regulatory Capital and Risk weighted assets – Table 2.1**

	<b>R'000</b>
	<b>Dec-14</b>
Ordinary Share Capital	24,158
Share Premium	339,027
Revaluation Reserves	7,807
<b>Total common equity tier 1 capital and unimpaired reserve funds</b>	<b>370,992</b>
Retained Earnings/(Loss)	-84,702
Regulatory deductions against primary capital	-35,497
<b>Total common equity tier 1 capital after regulatory adjustments</b>	<b>250,793</b>
<b>Tier 2 capital</b>	
General Provisions	15,229
<b>Total qualifying capital and reserve funds</b>	<b>266,021</b>
<b>Risk Weighted Assets</b>	<b>1,998,731</b>
Total Capital adequacy ratio	13.31%
Tier 1 Capital adequacy ratio	12.55%

**Composition of risk weighted assets and required regulatory capital- Table 2.2**

	<b>Composition of Risk Weighted Assets</b>	<b>Required Regulatory Capital</b>
	<b>R'000</b>	<b>R'000</b>
Credit Risk *	1,731,524	199,125
Counter party risk****	5,529	636
Operational Risk **	200,982	23,113
Market Risk ***	14,159	1,628
Other Assets	46,522	5,350
Equity Risk	15	2
<b>Total</b>	<b>1,998,731</b>	<b>229,854</b>

\* RWA and required regulatory capital in terms of credit risk are measured using the standardised approach.

\*\* RWA and required regulatory capital in terms of operational risk are measured using the basic approach.

\*\*\* RWA and required regulatory capital in terms of market risk are measured using the standardised approach.

\*\*\*\* RWA and required regulatory capital in terms of counterparty risk are measured using the current exposure method.

## Capital Structure

The Bank has one class of ordinary shares which carry no right to fixed income. The unissued shares are under the control of the directors subject to notification to and specific approval by National Bank of Greece S.A., until the next Annual General Meeting.

**Capital Structure – Table 2.3**

	<b>Dec-14</b>
	<b>R'000</b>
<b>Authorised</b>	
100 000 000 ordinary shares of R1 each (par value)	100,000
<b>Issued</b>	
Ordinary Share Capital	24,158
<b>Share Premium</b>	
Share Premium	339,027

### **3. Risk Management**

#### **The Banks Risk Management Philosophy**

The Board of Directors is ultimately responsible for establishing, maintaining and monitoring the effectiveness of the Bank's process of risk management and system of internal control. SABA recognises that effective risk management is core to generating sustainable shareholder value and enhancing stakeholder interests. The Bank's Risk Management business unit operates independently from other business units and monitors and reports on risks to ensure adherence to the stated risk appetite as set by the Board of Directors. Business units are ultimately responsible for managing risks that arise.

#### **Credit Risk**

Credit risk is defined as the possibility that customers may default on their future cash flow obligations to the Bank. In lending transactions, credit risk arises from the non-payment of approved loans and advances, and from off-balance sheet exposures such as commitments and guarantees. The Bank actively manages its credit risk at the individual transaction, counterparty and portfolio level using a variety of qualitative and quantitative measures. Customers' credit worthiness is thoroughly assessed before any credit facility is recommended to or granted by the various credit committees. The credit granting philosophy is a conservative one, where the ability and willingness of the borrower to repay a loan is analysed and is not simply based on the collateral offered. Lending is governed by a credit policy which has been approved by the Board of Directors and NBG. The credit policy establishes various levels of authority for local credit risk management approval. Facilities exceeding these levels are recommended to the Senior Credit Committee for consideration. The Board of Directors ratifies all exposures in excess of 10% of the Bank's qualifying capital. The Bank has implemented a risk rating model which calculates the probability of default of customers. All business banking customers are reviewed using this model.

#### **Liquidity Risk And Interest Rate Risk**

Liquidity risk is defined as the risk of not being able to generate sufficient cash to meet the Bank's commitment to lenders, depositors and other creditors at any point in time. The management of liquidity is primarily designed to ensure that depositors' funding requirements can be met and that the Bank has sufficient funding in place to ensure payment of daily transactions.

#### **Operational Risk**

Operational risk is defined as the risk of loss or earnings volatility arising from inadequate or failed internal processes, people and systems, or from external events. SABA recognises that operational risk is a significant risk category and therefore strives to manage this within set tolerance levels through the implementation of appropriate and relevant operational risk management practices. Operational risk includes, but is not limited to, the following:

- Theft and fraud;
- Improper capturing of transactions;
- Statutory and legislative compliance;
- Money laundering;
- System malfunction, interruption or non-availability;
- Legal challenges;
- Loss of key personnel without adequate succession planning; and
- Business continuity.



## **Management of operational risk**

In managing this risk, the following has been implemented and is reviewed on an annual basis:

- Clearly defined policies and methodologies;
- An effective system of internal controls;
- Well documented procedures that are communicated across the Bank;
- Ensuring that awareness is created off all aspects of risk via workshops or via electronic communications;
- Properly functioning and effective internal audit department;
- Properly functioning and effective compliance division that works closely with the Banks Risk Division;
- Adequate professional indemnity insurance cover; and
- Adequate business risk management and
- Disaster recovery plans and processes

## **Market risk**

SABA does not have a trading desk in its Treasury and as such does not have any significant exposure to market risk.

## **Hedging and risk mitigation**

The Bank uses a wide variety of techniques to reduce credit risk on its lending book of which the most fundamental is to assess the ability of a borrower to service the proposed level of borrowing without distress at the outset. The Bank makes wide use of collateral to mitigate credit risk. The Bank does not however use hedging as a form of credit risk mitigation.

#### 4. Credit Risk

Financial assets, other than those at fair value through profit and loss, are assessed for indicators of impairment at the end of each reporting period.

Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Bank's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account.

Changes in the carrying amount of the allowance account are recognised in profit or loss. When an Available for sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

In respect of Available for sale equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

The Bank defines a loan as past due but not impaired when the loan is more than 31 days in arrears but no specific provision has been raised on the loan. Advances that are not subject to repayments e.g. overdrafts are considered to be in default when limit arrangements have been breached.

Loans and advances in default are impaired when, following an individual assessment, the Bank has raised a specific provision for loss after taking account of the collateral held.

## **Credit Risk mitigation**

The Bank's does not apply netting of on- and off balance sheet exposures when determining its exposure to credit risk. There are no netting arrangements in place.

The Bank makes wide use of collateral to mitigate credit risk. Fair value of collateral is determined with reference to the realisable value of security under forced sale conditions.

The main types of collateral and the value placed thereon are as follows:

- Cession of debtors at 30% of book falling within the current to 90 day categories depended on debtor quality and spread. Increased reliance of 50% is considered where the book is insured and the insurance policy is ceded to the Bank.
- Value is placed on quoted shares normally at 50% of Market value but this is also dependent on the quality of the shares being pledged
- Cession of life and endowment policies at 70% of surrender value
- Pledge of call and savings accounts, fixed and notice deposits at 100%
- Bonds over vacant land at 50% of professional valuation
- Bonds over residential properties at 80% of professional valuation
- Bonds over commercial properties at 70% of professional valuation
- Bonds over industrial properties at 60% of professional valuation
- Values on motor vehicles and trucks are obtained from the TransUnion Dealer Guides. Values on other equipment is dependent on the asset type and depreciated value.
- Collateral is valued daily, monthly and at the very least annually dependant on its volatility.

Guarantees are generally requested from business owners given the market the Bank operates in. Guarantees are also generally secured from asset owning entities within a group. Credit worthiness of guarantors is established at the time of granting the facilities and reviewed at least annually.

Due to a high concentration to large borrowers the Bank is exposed in terms of some of the collateral provided by these borrowers.

The Bank operates within counterparty limits that have been approved by its parent company National Bank of Greece and exposures are reported to the parent on a quarterly basis.

<b>Gross credit exposure per product type- Table 4.1</b>	<b>Dec-14</b>
	<b>R'000</b>
<b>Category analysis</b>	
Overdrafts	140,774
Property, commercial and other loans	665,812
Home loans	480,829
Instalment credit and lease agreements	425,399
Non-Performing Loans	194,503
	<b>1,907,317</b>
<b>Less: Credit Impairment</b>	<b>-113,211</b>
Overdrafts	-24,908
Property, commercial and other loans	-6,014
Home loans	-10,331
Instalment credit and lease agreements	-71,958
<b>Net Loans and Advances</b>	<b>1,794,106</b>

<b>Gross credit exposure per asset class (per BA 200 asset classes)- Table 4.2</b>	<b>Dec-14</b>
	<b>R'000</b>
<b>Category analysis 2</b>	
<b>Corporate exposure</b>	
Corporate	168,601
SME corporate	882,503
<b>Retail exposure</b>	
Retail	378,852
SME retail	477,361
<b>Gross credit exposure excluding sovereigns and banks</b>	<b>1,907,317</b>
<b>Less: Credit Impairment</b>	<b>-113,211</b>
Corporate	-41,862
SME Corporate	-46,079
Retail	-5,288
SME retail	-19,982
<b>Net Loans and Advances</b>	<b>1,794,106</b>
Sovereign (including central government and central bank)	128,751
Banks	211,433
<b>Total</b>	<b>2,134,290</b>

**Gross credit exposure per Sectorial analysis - Table 4.3**

	<b>Dec-14</b>
	<b>R'000</b>
Agriculture	398
Building and property development	654,822
Individuals	445,664
Manufacturing and commerce	180,316
Transport and communication	225,806
Electricity and water	7,433
Mining	10,627
Other Service	382,251
<b>Gross credit exposure</b>	<b>1,907,317</b>

**Gross credit exposure per Geographical distribution - Table 4.4**

	<b>Dec-14</b>
	<b>R'000</b>
South Africa	1,907,317
	<b>1,907,317</b>

**Maturity Analysis of gross credit exposure as at 31 December 2014 – Table 4.5**

	<b>Maturing within one day to six months</b>	<b>Maturing within six months to one year</b>	<b>Maturing after one year but within five years</b>	<b>Maturing after five years</b>	<b>Total</b>
	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>
Corporate	40,029	9,106	75,133	23,165	147,433
SME corporate	125,825	57,831	460,588	253,505	897,749
Retail	18,000	11,648	115,779	266,928	412,355
SME retail	94,427	43,020	234,368	77,965	449,780
<b>Gross credit exposure excluding sovereigns and banks</b>	<b>278,281</b>	<b>121,605</b>	<b>885,868</b>	<b>621,563</b>	<b>1,907,317</b>

<b>Sovereigns and Banks</b>					
Sovereign	128,751	-	-	-	128,751
Banks	211,433	-	-	-	211,433
<b>Total</b>	<b>618,465</b>	<b>121,605</b>	<b>885,868</b>	<b>621,563</b>	<b>2,247,501</b>

**Non-performing Loans and Advances by category - Table 4.6**

	<b>Credit Risk</b>	<b>Securities and other expected recoveries</b>	<b>Specific provision</b>
	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>
Overdraft	27,457	4,462	22,995
Commercial and property loans	39,282	36,691	2,591
Instalment sale	102,196	36,925	66,270
Home loans	25,569	18,442	7,127
<b>Total</b>	<b>194,503</b>	<b>96,520</b>	<b>97,983</b>

**Non performing lending by sector - Table 4.7**

	<b>Credit Risk</b>	<b>Securities and other expected recoveries</b>	<b>Specific provision</b>
	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>
Individuals	30,670	15,220	15,450
Manufacturing	196	97	99
Trade and Accommodation	-	-	-
Transport and Communication	7,240	3,593	3,647
Financial / Real Estate	22,760	11,294	11,466
Other services	94,160	46,726	47,434
Other	39,477	19,590	19,887
Mining	-	-	-
Electricity and Water	-	-	-
<b>Total</b>	<b>194,503</b>	<b>95,520</b>	<b>97,983</b>

**Ageing analysis of Loans and Advances past due but not individually impaired - Table 4.8**

	<b>Consumer</b>	<b>Mortgage</b>	<b>Small Business loans</b>	<b>Corporate loans</b>	<b>Total Loans</b>
	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>
Past due up to 30	851	19,107	16,111	5,033	<b>41,102</b>
Past due 31 - 60 days	148	319	4,966	3,652	<b>9,085</b>
Past due 61 - 90 days	-	-	1,021	-	<b>1,021</b>
Past due 91 - 180 days	-	-	-	-	-
Past due 180 - 365 days	-	-	-	-	-
Past due 1 - 2 years	-	-	-	-	-
Past due over 2 years	-	-	-	-	-
<b>Total</b>	<b>999</b>	<b>19,426</b>	<b>22,098</b>	<b>8,685</b>	<b>51,208</b>

**Ageing analysis of loans individually impaired - Table 4.9**

	<b>Consumer</b>	<b>Mortgage</b>	<b>Small Business loans</b>	<b>Corporate loans</b>	<b>Total Loans</b>
	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>
Past due up to 30	-	-	-	-	-
Past due 31 - 60 days	-	-	-	-	-
Past due 61 - 90 days	-	-	-	-	-
Past due 91 - 180 days	748	2,109	20,963	6,920	<b>30,740</b>
Past due 180 - 365 days	-	125	6,400	48,345	<b>54,870</b>
Past due 1 - 2 years	21,438	4,963	20,493	48,727	<b>95,621</b>
Past due over 2 years	181	1,107	11,984	-	<b>13,272</b>
<b>Total</b>	<b>22,367</b>	<b>8,304</b>	<b>59,840</b>	<b>103,992</b>	<b>194,503</b>



**Credit Impairment For Loans And Advances - Table 4.10**

	<b>Dec-14</b>
<b>Category analysis</b>	<b>R'000</b>
Balance at 1 January	43,870
Amounts written off against provisions	-10,875
	32,995
Charge to the income statement	57,716
Specific impairment	62,957
Portfolio impairment	-
Recoveries of balances raised in current year	-4,106
Recoveries of Balance previously written off	-1,135
Recoveries of Balance previously written off	1,135
Operational loss provision	21,365
<b>Balance as at 31 December 2014</b>	<b>113,211</b>
<b>Analysis</b>	
Specific impairment	97,983
Portfolio impairment	15,228
<b>Balance</b>	<b>113,211</b>

**Outstanding amounts in respect of rated exposures as at the 31 December 2014 - Table 4.12**

	<b>Gross Exposure</b>	<b>Risk Weighted Exposure</b>
	<b>R'000</b>	<b>R'000</b>
AAA to AA-	116,228	34,597
A+ to A-	217	43
BBB+ to BBB-	2,132,951	1,698,662
BB+ to B-	7,944	3,750
Below B-	-	-
Unrated	-	-
	<b>2,257,339</b>	<b>1,737,053</b>

**Counterparty Credit Risk**

The Bank is exposed to counterparty credit risk in so far as Forward Exchange Contracts are concerned. The Bank adopted the current exposure method to assign capital in respect of exposures to counterparty risk.

In respect of counterparty credit risk there were neither netting agreements nor collateral arrangements in place at the end of December 2014.

For every forward exchange contract sale made by the Bank, there is an equivalent purchase and as such the Bank is adequately hedged against counterparty credit risk.

**Fair Value of derivatives - Table 4.13**

	<b>Dec-14</b>
	<b>R'000</b>
Gross positive fair value of derivative assets	13,071
Gross positive fair value of derivative liabilities	3,313
<b>Net exposure</b>	<b>9,758</b>

**Notional value of derivatives - Table 4.14**

	<b>Dec-14</b>
	<b>R'000</b>
<b>Foreign Exchange Contract</b>	
Assets	373,634
Liabilities	370,851

## 5. Market risk

Market risk is defined as the risk that Bank's earnings or capital, or its ability to meet business objectives, will be adversely affected by changes in the level or volatility of market rates or prices such as interest rates, foreign exchange rates, equity prices, commodity prices and credit spreads. The South African Bank of Athens is exposed to market risk in terms of foreign exchange contracts.

Available for sale financial assets are non-derivatives that are either designated as available for sale or are not classified as (a) loans and receivables, (b) held to- maturity investments or (c) financial assets at fair value through profit or loss.

The Bank has investments in unlisted shares that are not traded in an active market but that are also classified as available for sale financial assets and stated at fair value at the end of each reporting period (because the directors consider that fair value can be reliably measured).

The foreign exchange contracts as well as the unlisted shares are classified as available for sale financial assets.

Changes in the carrying amount of available for sale monetary financial assets relating to changes in foreign currency rates, interest income calculated using the effective interest method and dividends on available for sale equity investments are recognised in profit or loss.

Other changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve.

Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. Dividends on available for sale equity instruments are recognised in profit or loss when the Bank's right to receive the dividends is established.

The fair value of available for sale monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period.

The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

The Capital requirements in terms of market risk and equity instruments are shown in Table 2.1 Composition of required regulatory capital and the risk weighted assets are shown in Table 2.2 Composition of risk weighted assets.

The fair value of the unlisted investment equates to R15,000

## 6. Interest rate risk

The risk is managed by the Bank by maintaining an appropriate mix between fixed and floating rate borrowings. Liquidity and interest rate risk management are essentially inseparable from the core banking activities of advances growth and profitability management.

Liquidity and interest rate risk management form an integral part of proactive asset and liability management, which is managed by the Bank's Asset and Liability Committee (ALCO). Liquidity is managed on a cash flow approach.

Liquidity is ensured through optimal funding strategies taking into account various interest rate scenarios, as well as taking cognizance of available inter-bank lines of credit and the substantial committed lines of credit from the Bank's majority shareholder to cater for unforeseen circumstances.

Stress scenarios and testing have been undertaken thereby allowing the Bank to identify and be prepared for such eventualities. These scenarios have ensured that the Bank is well prepared to manage any liquidity or interest rate risks that may occur.

The Bank's exposures to interest rates on financial assets and financial liabilities are measured and reviewed on a monthly basis through the ALCO.

Exposure to interest rate risk is measured on a monthly basis using the regulatory sensitivity analysis of a 200 basis point shift in expected rates.

Assumptions relating to behaviour of assets and liabilities:

- Loans and Advances are variable rate items
- Treasury Bills are the only fixed rate assets on our book
- Fixed deposits and Negotiable Certificates of Deposit are the only fixed rate liabilities

**Interest Rate Risk as at 31 December 2014 – Table 6.1**

<b>Assets</b>	<b>Fixed</b>	<b>Floating</b>	<b>Non-interest sensitive</b>	<b>Total</b>
	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>
Cash and cash equivalents	-	211,432	54,437	<b>265,869</b>
Derivative financial assets	-	-	13,071	<b>13,071</b>
Short-term negotiable assets	128,751	-	-	<b>128,751</b>
Other investments	-	-	15	<b>15</b>
Advances	-	1,794,106	-	<b>1,794,106</b>
Other accounts receivable	-	-	12,640	<b>12,640</b>
Property and equipment	-	-	33,883	<b>33,883</b>
Intangible assets	-	-	35,497	<b>35,497</b>
	<b>128,751</b>	<b>2,005,538</b>	<b>149,543</b>	<b>2,283,832</b>

<b>Liabilities</b>	<b>Fixed</b>	<b>Floating</b>	<b>Non-interest sensitive</b>	<b>Total</b>
	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>
Deposits, current and other accounts	89,393	1,883,036	-	<b>1,972,429</b>
Derivative financial liabilities	-	-	3,313	<b>3,313</b>
Other liabilities	-	-	21,822	<b>21,822</b>
	<b>89,393</b>	<b>1,883,036</b>	<b>25,135</b>	<b>1,997,564</b>

## Interest rate Sensitivity Analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 200 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

At the reporting date, a 200 basis point change in prevailing interest rates was applied as a sensitivity analysis to determine the impact on earnings as a result of a change in the interest rates. If interest rates increased/decreased by 200 basis points and all other variables remained constant, the Bank's net profit and equity at year-end would increase by R13,168 million and decrease by R13,168 million.

**Interest rate Sensitivity Analysis – Table 6.2**

<b>Assets</b>	<b>Up to 1 month</b>	<b>1 to 31 months</b>	<b>3 to 12 months</b>	<b>1 to 2 years</b>	<b>2 to 5+ years</b>	<b>Non-Interest Bearing</b>	<b>Total</b>
	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>
Cash and cash equivalents	-	-	-	-	-	54,436	<b>54,436</b>
Due from other Banks	211,433	-	-	-	-	-	<b>211,433</b>
Derivative financial assets	-	-	-	-	-	13,071	<b>13,071</b>
Short-term negotiable assets	19,977	99,038	9,736	-	-	-	<b>128,751</b>
Other investments	-	-	-	-	-	15	<b>15</b>
Advances	1,794,106	-	-	-	-	-	<b>1,794,106</b>
Other accounts receivable	-	-	-	-	-	12,640	<b>12,640</b>
Property and equipment	-	-	-	-	-	33,883	<b>33,883</b>
Intangible assets	-	-	-	-	-	35,497	<b>35,497</b>
	<b>2,025,516</b>	<b>99,038</b>	<b>9,736</b>	-	-	<b>149,542</b>	<b>2,283,832</b>

Liabilities	Up to 1 month	1 to 31 months	3 to 12 months	1 to 2 years	2 to 5+ years	Non-Interest Bearing	Total
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Due to other Banks	230,459	404,513	36,984	-	-	-	<b>671,956</b>
Due to customers	909,978	263,310	106,165	21,020	-	-	<b>1,300,473</b>
Derivative financial liabilities	-	-	-	-	-	3,313	<b>3,313</b>
Other liabilities	-	-	-	-	-	21,822	<b>21,822</b>
	<b>1,140,437</b>	<b>667,823</b>	<b>143,149</b>	<b>21,020</b>	-	<b>25,135</b>	<b>1,997,564</b>

Below are the resultant effects on Net Interest Income (NII) of a 200 basis points shift in expected rates

Percentage impact of a parallel rate shock - Table 6.3	Cumulative change in NII over 12 months
	R'000
Interest Rate Increase	13,168
Interest Rate Decrease	-13,168

The Bank undertakes transactions denominated in foreign currencies; consequently the Bank is exposed to fluctuations in exchange rates. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

**Foreign Currency exposure as at 31 December 2014 – Table 6.4**

<b>Assets</b>	<b>ZAR</b>	<b>USD</b>	<b>EURO</b>	<b>Other</b>	<b>Total</b>
	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>
Cash and cash equivalents	148,094	84,127	21,436	12,212	<b>265,869</b>
Derivative financial assets	-	12,479	515	77	<b>13,071</b>
Short-term negotiable assets	128,751	-	-	-	<b>128,751</b>
Other investments	15	-	-	-	<b>15</b>
Advances	1,783,060	11,046	-	-	<b>1,794,106</b>
Other accounts receivable	12,640	-	-	-	<b>12,640</b>
Property and equipment	33,883	-	-	-	<b>33,883</b>
Intangible assets	35,497	-	-	-	<b>35,497</b>
	<b>2,141,940</b>	<b>107,652</b>	<b>21,951</b>	<b>12,289</b>	<b>2,283,832</b>

<b>Liabilities</b>	<b>ZAR</b>	<b>USD</b>	<b>EURO</b>	<b>Other</b>	<b>Total</b>
	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>
Deposits, current and other accounts	1,268,299	682,604	21,505	21	<b>1,972,429</b>
Derivative financial liabilities	-	2,816	421	76	<b>3,313</b>
Other liabilities	21,822	-	-	-	<b>21,822</b>
	<b>1,290,121</b>	<b>685,420</b>	<b>21,926</b>	<b>97</b>	<b>1,997,564</b>



## **7. Liquidity Risk**

Liquidity risk is defined as the risk of not being able to generate sufficient cash to meet the Bank's commitment to lenders, depositors and other creditors at any point in time. The management of liquidity is primarily designed to ensure that depositors' funding requirements can be met and that the bank has sufficient funding in place to ensure payment of daily transactions.

Ultimate responsibility for liquidity risk management rests with the Board of directors, which has established an appropriate liquidity risk management framework for the management of the Bank's short-, medium- and long-term funding and liquidity management requirements. The Bank manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities. Liquidity and interest rate risk management are essentially inseparable from the core banking activities of advances growth and profitability management. Liquidity and interest rate risk management form an integral part of proactive asset and liability management, which is managed by the Bank's Asset and Liability Committee (ALCO).

Liquidity is ensured through optimal funding strategies taking into account various interest rate scenarios, as well as taking cognisance of available inter-bank lines of credit and the substantial committed lines of credit from the Bank's majority shareholder to cater for unforeseen circumstances.

Stress scenarios and testing have been undertaken thereby allowing the Bank to identify and be prepared for such eventualities. These scenarios have ensured that the Bank is well prepared to manage any liquidity or interest rate risks that may occur.

## **8. Corporate Governance**

The Bank is committed to the highest levels of business ethics and organisational integrity in the conduct of its business and in its dealings with customers, therefore each business area and every employee of the group is responsible for acting in accordance with sound corporate governance practices.

The overall responsibility for compliance with regulations and codes of business practices rests with the Board of Directors. In terms of the provisions of the articles of association, a number of Board appointed committees have been established to assist the Board in discharging its responsibilities.

Specific responsibilities have been delegated to these committees, which operate according to written charters approved by the Board and which are subject to review on an annual basis. Furthermore, the minutes of these committees' meetings are submitted to the Board for noting.

The Board of Directors is responsible for ensuring that an adequate and effective process of corporate governance exists and is maintained, taking into account the nature, complexity and risks inherent in the Bank's on and off-balance sheet activities and which responds to changes in the Bank's environment and conditions.

The Board of directors are ultimately responsible for the capital and risk management strategy of the Bank.

All risk management policies and frameworks are approved by the Board.

The Board of Directors met four times during the year under review in order to evaluate the Bank's performance, assess risk and review the strategic direction of the Bank against its overall strategy and long term goals.