PILLAR 3 REGULATORY REPORT

DECEMBER 2015

BANK OF ATHENS

Business and Commercial Bank

CONTENTS

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. 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 tier 1 capital and tier 2 capital.

Capital adequacy and the use of regulatory capital are monitored by ALCCO, 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 2015 with a total capital adequacy of 13.37% and a Tier 1 capital adequacy of 10.09%, 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 and debentures

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

	R'000
	Dec-15
Ordinary Share Capital	24 158
Share Premium	339 027
Revaluation Reserves	4 885
Total common equity tier 1 capital and unimpaired reserve funds	**368 070**
Retained Earnings/(Loss)	(111 271)
Regulatory deductions against primary capital	(55 493)
Total common equity tier 1 capital after regulatory adjustments	**201 306**
Tier 2 capital	
General Provisions	15 517
Term debt instruments (debentures)	50 000
Total tier 2 capital	**65 517**
Total qualifying capital and reserve funds	**266 823**
Risk Weighted Assets	**1 995 186**
Total Capital adequacy ratio	13.37%
Tier 1 Capital adequacy ratio	10.09%

Composition of risk weighted assets and required regulatory capital- Table 2.2		
	Composition of Risk Weighted Assets	**Required Regulatory Capital**
	R'000	**R'000**
Credit Risk *	1 685 050	168 505
Counter party risk****	45 793	4 579
Operational Risk **	211 938	21 194
Market Risk ***	11 890	1 189
Other Assets	40 499	4 050
Equity Risk	15	2
Total	**1 995 186**	**199 519**

** 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 standardised 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	**Dec-15**
	R'000
Authorised	
100 000 000 ordinary shares of R1 each (par value)	100 000
Issued	
Ordinary Share Capital	24 158
Share Premium	
Share Premium	339 027
Term-debt instruments	
Debentures	50 000

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 risk mitigation.

Gross credit exposure per product type- Table 4.1	**Dec-15**
	R'000
Category analysis	
Overdrafts	153 577
Property, commercial and other loans	709 653
Home loans	542 544
Instalment credit and lease agreements	318 861
Non-Performing Loans	204 050
	1 928 385
Less: Credit Impairment	**(136 652)**
Overdrafts	(25 197)
Property, commercial and other loans	(12 275)
Home loans	(9 138)
Instalment credit and lease agreements	(90 042)
Net Loans and Advances	**1 791 733**

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.

Gross credit exposure per asset class (per BA 200 asset classes)- Table 4.2	**Dec-15**
	R'000
Category analysis 2	
Corporate exposure	
Corporate	143 710
SME corporate	914 407
Retail exposure	
Retail	424 263
SME retail	446 005
Gross credit exposure excluding sovereigns and banks	**1 928 385**
Less: Credit Impairment	**(136 652)**
– Corporate	(50 224)
– SME Corporate	(54 643)
– Retail	(4 358)
– SME retail	(27 428)
Net Loans and Advances	**1 791 733**
Sovereign (including central government and central bank)	139 602
Banks	339 931
Total	**2 271 266**

Gross credit exposure per Sectorial analysis - Table 4.3	**Dec-15**
	R'000
Agriculture	302
Building and property development	753 556
Individuals	480 762
Manufacturing and commerce	116 701
Transport and communication	173 350
Electricity and water	5 977
Mining	6 379
Other Service	391 358
Gross credit exposure	**1 928 385**

Gross credit exposure per Geographical distribution - *Table 4.4*

	Dec-15
	R'000
South Africa	1 928 385
	1 928 385

Maturity Analysis of gross credit exposure as at 31 December 2015 – Table 4.5

	Maturing within one day to six months	Maturing within six months to one year	Maturing after one year but within five years	Maturing after five years	Total
	R'000	R'000	R'000	R'000	R'000
Corporate	47 437	8 053	70 522	17 698	143 710
SME corporate	125 182	52 694	445 319	291 212	914 407
Retail	15 128	11 551	99 664	297 920	424 263
SME retail	116 558	39 204	202 318	87 925	446 005
Gross credit exposure excluding sovereigns and banks	**304 305**	**111 502**	**817 823**	**694 755**	**1 928 385**
Sovereigns and Banks					
Sovereign	139 602				139 602
Banks	339 931				339 931
Total	**783 838**	**111 502**	**817 823**	**694 755**	**2 407 918**

Non-performing Loans and Advances by category - Table 4.6

	Credit Risk	Securities and other expected recoveries	Specific provision
	R'000	R'000	R'000
Overdraft	28 806	4 649	24 157
Commercial and property loans	33 201	25 978	7 223
Instalment sale	95 269	11 179	84 090
Home loans	46 774	41 109	5665
Total	**204 050**	**82 915**	**121 135**

Non performing lending by sector - Table 4.7

	Credit Risk	Securities and other expected recoveries	Specific provision
	R'000	R'000	R'000
Individuals	38 499	15 644	22 855
Manufacturing	27 070	11 000	16 070
Transport and Communication	7 061	2 869	4 192
Financial / Real Estate	33 935	13 790	20 145
Other services	97 485	39 612	57 873
Total	**204 050**	**82 915**	**121 135**

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

	Consumer	Mortgage	Small Business loans	Corporate loans	Total Loans
	R'000	R'000	R'000	R'000	R'000
Past due up to 30	5 095	7 485	21 630	1 029	**35 239**
Past due 31 - 60 days	-	1 420	3 390	3 025	**7 835**
Past due 61 - 90 days	-	-	441	-	**441**
Total	**5 095**	**8 905**	**25 461**	**4 054**	**43 315**

Ageing analysis of loans individually impaired - Table 4.9

	Consumer	Mortgage	Small Business loans	Corporate loans	Total Loans
	R'000	R'000	R'000	R'000	R'000
Past due 91 - 180 days	-	550	913	-	**1 463**
Past due 180 - 365 days	415	10 797	31 371	6 133	**48 716**
Past due 1 - 2 years	22 430	2 565	19 349	42 217	**86 561**
Past due over 2 years	53	1 689	15 782	49 786	**67 310**
Total	**22 898**	**15 601**	**67 415**	**98 136**	**204 050**

Credit Impairment For Loans And Advances - Table 4.10

	Dec-15
Category analysis	**R'000**
Balance at 1 January	113,211
Amounts written off against provisions	(9 430)
	103 781
Charge to the income statement	32 639
Specific impairment	38 432
Portfolio impairment	290
Recoveries of balances raised in current year	(5 851)
Recoveries of Balance previously written off	(232)
Recoveries of Balance previously written off	(232)
Balance as at 31 December 2014	136 652
Analysis	
Specific impairment	121 135
Portfolio impairment	15 517
Balance	136 652

Sectorial Analysis – Non-performing Table 4.11

	R '000
Individuals	31 403
Manufacturing	8 485
Trade and Accommodation	4 359
Transport and Communication	12 603
Financial / Real Estate	54 787
Other	24 116
Mining	464
Electricity and Water	435
Total	**136 652**

Outstanding amounts in respect of rated exposures as at the 31 December 2015 - Table 4.12

	Gross Exposure	Risk Weighted Exposure
AAA to AA-	241 970	48 394
A+ to A-	298	60
BBB+ to BBB-	2 535 973	1 660 803
BB+ to B-	6	4
Below B-	8 484	8 362
Unrated	-	
	2 786 731	**1 717 624**

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 2015.

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	**Dec-15**
	R'000
Gross positive fair value of derivative assets	71 798
Gross positive fair value of derivative liabilities	6 649
Net exposure	**65 149**

Notional value of derivatives - Table 4.14	**Dec-15**
	R'000
Foreign Exchange Contract	
Assets	715 570
Liabilities	119 529

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:

- Composition of required regulatory capital is shown in Table 2.1.
- Composition of risk weighted assets are shown in Table 2.2.

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, Liability and Capital Committee (ALCCO). 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 ALCCO.

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
- Debentures are according to variables rates.

Interest Rate Risk as at 31 December 2015 – Table 6.1

Assets	**Fixed**	**Floating**	**Non-interest sensitive**	**Total**
	R'000	**R'000**	**R'000**	**R'000**
Cash and cash equivalents	-	117 207	293 803	**411 010**
Derivative financial assets	-	-	71 798	**71 798**
Short-term negotiable assets	139 602	-	-	**139 602**
Other investments	-	-	15	**15**
Advances	-	1 791 733	-	**1 791 733**
Other accounts receivable	-	-	11 940	**11 940**
Property and equipment	-	-	28 360	**28 360**
Intangible assets	-	-	55 493	**55 493**
	139 602	**1 908 940**	**461 409**	**2 509 951**

Liabilities	**Fixed**	**Floating**	**Non-interest sensitive**	**Total**
	R'000	**R'000**	**R'000**	**R'000**
Long-term debt instruments		50 000	-	**50 000**
Deposits, current and other accounts	102 656	2 064 513	-	**2 116 969**
Derivative financial liabilities	-	-	6 649	**6 649**
Other liabilities	-	-	29 253	**29 253**
	102 656	**2 114 313**	**35 902**	**2 252 871**

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 R 1.608million and decrease by R 1.608million.

Interest rate Sensitivity Analysis – Table 6.2

Assets	**Up to 1 month**	**1 to 31 months**	**3 to 12 months**	**1 to 2 years**	**2 to 5+ years**	**Non-Interest Bearing**	**Total**
Cash and cash equivalents	-	-	-	-	-	293 789	**293 789**
Due from other Banks	117 221	-	-	-	-	-	**117 221**
Derivative financial assets	-	-	-	-	-	71 798	**71 798**
Short-term negotiable assets	-	74 012	65 590	-	-	-	**139 602**
Other investments	-	-	-	-	-	15	**15**
Advances	1 791 733	-	-	-	-	-	**1 791 733**
Other accounts receivable	-	-	-	-	-	11 940	**11 940**
Property and equipment	-	-	-	-	-	28 360	**28 360**
Intangible assets	-	-	-	-	-	55 493	**55 493**
	1 908 954	**74 012**	**65 590**	**-**	**-**	**461 395**	**2 509 951**

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**
Due to other Banks	360 659	295 602	224 250	-	-		**880 511**
Due to customers	923 631	306 036	55 624	1 167	-		**1 286 458**
Long-term debt instruments	-	-	50 000	-	-		**50 000**
Derivative financial liabilities	-	-	-	-	-	6 649	**6 649**
Other liabilities	-	-	-	-	-	29 253	**29 253**
	1 284 290	**601 638**	**329 874**	**1 167**	**-**	**35 902**	**2 252 871**

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**
Interest Rate Increase	1 608
Interest Rate Decrease	(1 608)

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 2015 – Table 6.4

Assets	**ZAR R'000**	**USD R'000**	**EURO R'000**	**Other R'000**	**Total R'000**
Cash and cash equivalents	141 797	240 874	22 499	5 480	**411 010**
Derivative financial assets	-	68 923	2 769	106	**71 798**
Short-term negotiable assets	139 602	-	-	-	**139 602**
Other investments	15	-	-	-	**15**
Advances	1 761 352	15 268	15 113	-	**1 791 733**
Other accounts receivable	11 940	-	-	-	**11 940**
Property and equipment	28 360	-	-	-	**28 360**
Intangible assets	55 493	-	-	-	**55 493**
	2 138 559	**325 065**	**40 381**	**5 586**	**2 509 951**

Liabilities	**ZAR R'000**	**USD R'000**	**EURO R'000**	**Other R'000**	**Total R'000**
Deposits, current and other accounts	1 218 884	910 5998	37 487	-	**2 166 969**
Long-term debt instruments	50 000	-	-	-	**50 000**
Derivative financial liabilities	-	3 779	2 735	135	**6 649**
Other liabilities	29 253	-	-	-	**29 253**
	1 298 137	**914 377**	**40 222**	**135**	**2 252 871**

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, Liability and Capital Committee (ALCCO).

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.