

THE SOUTH AFRICAN BANK OF ATHENS

INTERIM RISK MANAGEMENT REPORT  
JUNE 2011



**BANK OF ATHENS**

*Recognising you*



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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 II requirements under Regulation 43 of the regulations relating to banks. In terms of Regulation 43(1) (e)(ii) 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 II capital accord.

The document should be read in conjunction with the South African Bank of Athens' Annual Report 2010.

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; however it includes information that is contained within the audited financial statements as reported in the South African Bank of Athens' Annual Report 2010.

### *Business Profile*

The South African Bank of Athens Limited ('the Bank') was established in 1947 and is a 99,71% 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 and its Parent Company; NBG.

## 2. Capital Management

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

The Bank endeavours to manage its capital base in order to achieve a prudent balance between maintaining capital ratios to support business growth and depositor confidence. The capital management process of the Bank takes place under the auspices of the Risk Management Committee, through the ALCO (Asset and Liability Committee).

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 daily by the Group's management, 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 March 2011 with a total capital adequacy of 15.40% and a Tier 1 capital adequacy of 11.40%, 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, non-controlling interests arising on consolidation from interests in permanent shareholders' equity, retained earnings and reserves created by appropriations of retained earnings. The book value of goodwill is deducted in arriving at Tier 1 capital; and
- Tier 2 capital: qualifying subordinated loan capital, collective impairment allowances and unrealised gains arising on the fair valuation of equity instruments held as available for sale.

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

The risk-weighted assets are measured using the 'standardised approach' (SA) for credit risk. Risk weights are assigned to assets and off balance sheet items according to their asset class and credit assessment. For the determination of credit assessments the Fitch rating agency is nominated.

Any eligible collateral and netting agreements are taken into account for calculating risk-weighted assets.

The approach to capital management has been enhanced over the past year in line with Basel II.

#### Regulatory Capital and Risk weighted assets - Table 2.1

	R'000 Jun-11	R'000 Dec-10
Ordinary Share Capital	16,458	16,458
Share Premium	181,227	181,227
Retained Earnings/(Loss)	-25,639	-15,517
Regulatory deductions against primary capital	-8,940	-12,208
<b>Primary Capital</b>	<b>163,106</b>	<b>169,960</b>
Debentures	40,000	40,000
50% of Revaluation Reserves	6,789	8,633
General Provisions (limited to 1,25% of RWA)	10,331	10,015
<b>Secondary Capital</b>	<b>57,120</b>	<b>58,648</b>



<b>Total available resources</b>	<b>220,227</b>	<b>228,608</b>
<b>Risk Weighted Assets</b>	<b>1,430,413</b>	<b>1,259,038</b>
Total Capital adequacy ratio	15.40%	18.16%
Primary Capital adequacy ratio	11.40%	13.50%

*Composition of required regulatory capital- Table 2.2*

	<b>R'000</b>	<b>R'000</b>
	<b>Jun-11</b>	<b>Dec-10</b>
Credit Risk *	117,379	99,766
Operational Risk **	14,684	14,886
Market Risk ***	348	267
Other Assets	3,477	4,689
Equity Risk	1	1
<b>Total required regulatory capital</b>	<b>135,889</b>	<b>119,609</b>

*Composition of risk weighted assets - Table 2.3*

	<b>R'000</b>	<b>R'000</b>
	<b>Jun-11</b>	<b>Dec-10</b>
Credit Risk *	1,235,570	1,050,164
Operational Risk **	154,566	156,699
Market Risk ***	3,663	2,806
Other Assets	36,600	49,354
Equity Risk	15	15
<b>Total risk weighted assets</b>	<b>1,430,413</b>	<b>1,259,038</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 indicator approach.

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

### 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 2.4*

	<b>Jun-11</b>	<b>Dec-10</b>
	<b>R'000</b>	<b>R'000</b>
<b>Authorised</b>		
20 000 000 ordinary shares of R1 each (par value)	20,000	20,000
<b>Issued</b>		
Ordinary Share Capital	16,458	16,458
<b>Share Premium</b>		
Share Premium	181,227	181,227



### 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. Risk management is a core competency that is required within the Bank. The Bank has adopted an Enterprise Risk and Capital Management approach to address as wide a spectrum of risks. The Bank recognises that effective risk management is core to generating sustainable shareholder value and enhancing stakeholder interests.

#### **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 approval of loans and advances, and from off balance sheet exposures such as commitments and guarantees. The South African Bank of Athens Limited has a significant concentration risk which resides in a few clients where facilities granted exceed the 10% of qualifying capital.

#### ***Management Of Credit Risk***

The Bank actively manages its credit risk at the individual transaction, counterparty and other portfolio levels using a variety of qualitative and quantitative measures. Customers' credit worthiness is thoroughly assessed before credit is recommended or granted by the Credit Committees.

Lending is governed by a credit policy which has been approved by the Board of Directors. The credit policy establishes various levels of authority for local credit risk management approval. Anything exceeding this level is recommended to the Senior Credit Committee for consideration and the Board of Directors ratifies 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 clients. All clients where facilities have been granted are reviewed via 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. Interest rate risk is defined as the impact that the repricing of the Bank's assets and liabilities may have on future cash flows and earnings.

#### ***Management Of Liquidity Risk And Interest Rate***

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 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.

### **Operational Risk**

Operational risk is defined as the potential losses resulting from inadequate systems, management failure, faulty controls or human error.

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 these risks, the following has been implemented:

- 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 on 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 Bank's Risk Division;
- Adequate professional indemnity insurance cover; and
- Adequate business risk management and
- Disaster recovery plans and processes

### **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.

### **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.



#### 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 are 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 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 90% – 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, trucks and other equipment are dependent on the asset type and depreciated value.
- Collateral is values 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 - Table 4.1**

	<b>Jun-11</b>	<b>Dec-10</b>
	<b>R'000</b>	<b>R'000</b>
<b>Category analysis</b>		
Overdrafts	185,315	173,479
Property, commercial and other loans	463,432	471,924
Home loans	282,101	230,324
Instalment credit and lease agreements	263,933	183,381
Non-Performing Loans	22,392	16,903
	<b>1,217,172</b>	<b>1,076,011</b>
Less: Credit Impairment	-19,556	-17,707
Overdrafts	-3,271	-4,936
Property, commercial and other loans	-7,176	-7,885
Home loans	-2,686	-1,450
Instalment credit and lease agreements	-6,422	-3,436
<b>Net Loans and Advances</b>	<b>1,197,616</b>	<b>1,058,304</b>
<b>Sectoral analysis</b>		
	<b>Jun-11</b>	<b>Dec-10</b>
	<b>R'000</b>	<b>R'000</b>
Agriculture	5,018	5,667
Mining	7,839	-
Manufacturing	123,046	96,559
Construction	8	269



Electricity and water	20,509	12,511
Trade/Accommodation	111,964	113,478
Transport & Communication	62,974	33,782
Financial/Real Estate	370,570	325,277
Other Service	14,508	26,125
Other	224,955	235,146
Individuals	275,781	227,197
<b>Gross credit exposure</b>	<b>1,217,172</b>	<b>1,076,011</b>

#### Geographical distribution

All exposures are located in South Africa.

<b>Maturity analysis</b>	<b>Jun-11</b>	<b>Dec-10</b>
	<b>R'000</b>	<b>R'000</b>
Maturing within one year	386,406	346,433
Maturing after one year but within five years	499,573	448,578
Maturing after five years	331,193	281,000
	<b>1,217,172</b>	<b>1,076,011</b>

#### Non-performing Loans and Advances by category - Table 4.2

	<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	4,630	3,992	638
Commercial and property loans	4,962	2,624	2,337
Instalment sale	3,457	1,235	2,222
Home loans	9,344	8,062	1,282
<b>Total</b>	<b>22,392</b>	<b>15,914</b>	<b>6,478</b>

#### Non performing lendings by sector - Table 4.3

	<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>
Agriculture	-	-	-
Mining	-	-	-
Manufacturing	6,257	4,447	1,810
Construction	-	-	-
Electricity and water	-	-	-
Trade/Accommodation	1,834	1,303	531
Transport & Communication	193	137	56
Financial/Real Estate	4,783	3,399	1,384
Other Service	-	-	-
Other	1,506	1,070	436
Individuals	7,819	5,557	2,262
<b>Total</b>	<b>22,392</b>	<b>15,914</b>	<b>6,478</b>



#### Ageing analysis of Loans and Advances past due but not individually impaired - Table 4.4

	Consumer	Mortgage	Small Business loans	Corporate loans	Total Loans
	R'000	R'000	R'000	R'000	R'000
Past due up to 30	10	6,627	14,544	0	21,181
Past due 31 - 60 days	128	1,461	3,798	0	5,387
Past due 61 - 90 days	44	0	0	0	44
Past due 91 - 180 days	0	0	8,545	257	8,802
Past due 180 - 365 days	0	669	198	0	867
Past due 1 - 2 years	0	0	0	0	0
Past due over 2 years	0	235	1,347	0	1,582
<b>Total</b>	<b>182</b>	<b>8,992</b>	<b>28,432</b>	<b>257</b>	<b>37,863</b>

#### Ageing analysis of loans individually impaired - Table 4.5

	Consumer	Mortgage	Small Business loans	Corporate loans	Total Loans
	R'000	R'000	R'000	R'000	R'000
Past due up to 30	0	0	0	0	0
Past due 31 - 60 days	0	0	730	0	730
Past due 61 - 90 days	0	0	0	0	0
Past due 91 - 180 days	5	2,715	606	0	3,326
Past due 180 - 365 days	67	1,181	5,016	0	6,264
Past due 1 - 2 years	116	3,616	2,372	0	6,104
Past due over 2 years	35	30	5,903	0	5,968
<b>Total</b>	<b>223</b>	<b>7,542</b>	<b>14,627</b>	<b>0</b>	<b>22,392</b>

#### CREDIT IMPAIRMENT FOR LOANS AND ADVANCES - Table 4.6

	Jun-11 R'000	Dec-10 R'001
<b>Category analysis</b>		
Balance at 1 January	17,707	19,156
Interest in abeyance	2,029	957
Amounts written off against provisions	-1,762	-6,415
	<b>17,975</b>	<b>13,698</b>
Charge to the income statement	<b>1,581</b>	<b>3,960</b>
Specific impairment	1,279	3,094
Portfolio impairment	540	921
Recoveries of balances raised in current year	-162	-6
Recoveries of Balance previously written off	-76	-49
Recoveries of Balance previously written off	-	49
<b>Balance</b>	<b>19,556</b>	<b>17,707</b>
<b>Analysis</b>		
Specific impairment	6,478	5,030
Portfolio impairment	13,077	12,677
<b>External Credit Agencies</b>		
<b>Balance</b>	<b>19,556</b>	<b>17,707</b>



The Bank uses Fitch ratings to assign credit assessments to exposures to Banks as well as other exposures guaranteed by banks.

Only Bank exposures have been given credit assessment ratings.

The below table shows the risk-weights associated with the different types of credit ratings:

	<b>AAA to AA-</b>	<b>A+ to A-</b>	<b>BBB+ to BBB-</b>	<b>BB+ to B-</b>	<b>Below B-</b>	<b>Unrated</b>
Banks(Short term)	20%	20%	20%	50%	150%	20%
Banks(Other)	20%	50%	50%	100%	150%	50%

Short-term claims are claims with an original maturity of 3 months or less, excluding claims, which are renewed or rolled, resulting in effective maturities of more than 3 months.

**Outstanding amounts in respect of rated exposures as at the 30 June 2011 - Table 4.8**

	<b>Gross Exposure</b>	<b>Risk Weighted Exposure</b>
AA	753	151
A	27,834	5,567
BBB	593	119
Unrated	1,480,290	1,023,024
	<b>1,509,471</b>	<b>1,028,860</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 March 2011.

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 4.9**

	<b>Jun-11</b>	<b>Dec-10</b>
	<b>R'000</b>	<b>R'000</b>
Gross positive fair value of derivative assets	390	3,762
Gross positive fair value of derivative liabilities	325	3,455
<b>Net exposure</b>	<b>65</b>	<b>308</b>

**Notional value of derivatives - Table 4.10**

	<b>Jun-11</b>	<b>Dec-10</b>
	<b>R'000</b>	<b>R'000</b>
<b>Foreign Exchange Contract</b>		
Assets	36,615	150,902
Liabilities	164,040	74,560



## 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 directors' valuation of the unlisted investment equates to the fair value which approximates cost and is 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:

- All our 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 which account for 10.93% of the deposit book.

#### Interest Rate Risk as at 30 June 2011 – Table 6.1

Assets	Fixed	Floating	Non-interest sensitive	Total
	R'000	R'000	R'000	R'000
Cash and short-term funds	-	58,962	34,640	93,602
Derivative financial assets	-	-	390	390
Short-term negotiable assets	54,044	-	-	54,044
Other investments	-	-	15	15
Advances	-	1,197,616	-	1,197,616
Other accounts receivable	-	-	6,637	6,637
Property and equipment	-	-	29,963	29,963
Intangible assets	-	-	8,775	8,775
	<b>54,044</b>	<b>1,256,578</b>	<b>80,419</b>	<b>1,391,042</b>

Liabilities	Fixed	Floating	Non-interest sensitive	Total
	R'000	R'000	R'000	R'000
Long term interest bearing borrowings	-	40,000	-	40,000
Deposits, current and other accounts	124,393	1,013,845	-	1,138,239
Derivative financial liabilities	-	-	325	325
Other liabilities	-	-	25,877	25,877
Provision	-	-	1,003	1,003
	<b>124,393</b>	<b>1,053,845</b>	<b>27,205</b>	<b>1,205,443</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 50 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.

The Group's sensitivity to interest rates has decreased during the current year mainly due to the reduction in variable rate debt instruments and the increase in interest rate swaps to swap floating rate debt to fixed.

### 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>
Cash and short-term funds	-	-	-	-	-	34,640	34,640
Due from other Banks	58,962	-	-	-	-	-	58,962
Derivative financial assets	-	-	-	-	-	390	390
Short-term negotiable assets	4,996	19,809	29,240	-	-	-	54,044
Other investments	-	-	-	-	-	15	15
Advances	1,197,616	-	-	-	-	-	1,197,616
Other accounts receivable	-	-	-	-	-	6,637	6,637
Property and equipment	-	-	-	-	-	29,963	29,963
Intangible assets	-	-	-	-	-	8,775	8,775
	<b>1,261,574</b>	<b>19,809</b>	<b>29,240</b>	<b>0</b>	<b>0</b>	<b>80,419</b>	<b>1,391,042</b>

<b>Liabilities</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>
Due to other Banks	159,194	-	-	-	-	-	159,194
Due to customers	507,005	237,361	234,641	37	0	-	979,044
Derivative financial liabilities	-	-	-	-	-	325	325
Debentures	-	-	40,000	-	-	-	40,000



Other liabilities	-	-	-	-	-	25,877	25,877
Provision	-	-	-	-	-	1,003	1,003
	<b>666,200</b>	<b>237,361</b>	<b>274,641</b>	<b>37</b>	<b>0</b>	<b>27,205</b>	<b>1,205,443</b>

Below are the resultant effects on Net Interest Income (NII) and Economic value of Equity (EVE) of a 200 basis points shift in expected rates.

**Percentage impact of a parallel rate shock - Table 6.3**

	<b>Cumulative change in NII over 12 months</b>	<b>Percentage change in EVE</b>
Interest Rate Increase	3,165	1.43%
Interest Rate Decrease	-3,165	-1.43%

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 30 June 2011 – 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 short-term funds	56,502	27,555	7,380	2,165	93,602
Derivative financial assets	-	388	2	-	390
Short-term negotiable assets	54,044	-	-	-	54,044
Other investments	15	-	-	-	15
Advances	1,196,624	992	-	-	1,197,616
Other accounts receivable	6,637	-	-	-	6,637
Property and equipment	29,963	-	-	-	29,963
Intangible assets	8,775	-	-	-	8,775
	<b>1,352,560</b>	<b>28,935</b>	<b>7,382</b>	<b>2,165</b>	<b>1,391,042</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	944,336	29,601	4,460	647	979,044
Due to other Banks	30,298	128,465	147	284	159,194
Derivative financial liabilities	-	323	2	-	325
Other liabilities	25,877	-	-	-	25,877
Provision	1,003	-	-	-	1,003
Long term liabilities	40,000	-	-	-	40,000
	<b>1,041,514</b>	<b>158,389</b>	<b>4,609</b>	<b>931</b>	<b>1,205,443</b>





## 7. 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.