

# The South African Bank of Athens Limited

BASEL III – COMPOSITION OF CAPITAL DISCLOSURE

**June 2015**



**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 ..... 2015-06-30

**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>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)	7,855
6	<b>Common Equity Tier 1 capital before regulatory adjustments</b> (BA700 line 41 column 1)	371,040
<b>Common Equity Tier 1 capital: regulatory adjustments</b>		
2 8	<b>Total regulatory adjustments to Common equity Tier 1</b> (BA700 lines 42+55+57+58+59+61+63 column 1)	136,386
2 9	<b>Common Equity Tier 1 (CET1)</b> (BA700 line 64 column 1)	234,654
4 4	<b>Additional Tier 1 capital (AT1)</b> (BA700 line 76 column 1)	-
4 5	<b>Tier 1 capital (T1 = CET1 + AT1)</b> (BA700 line 77 column 1)	234,654
<b>Tier 2 capital and provisions</b>		
5 0	Provisions	15,228
5 1	Tier 2 capital before regulatory adjustments (BA700 line 78 column 1)	15,228
<b>Tier 2 capital: regulatory adjustments</b>		
5 7	<b>Total regulatory adjustments to Tier 2 capital</b> (BA700 line 86 column 1)	-
5 8	<b>Tier 2 capital (T2)</b> (BA700 line 87 column 1)	15,228
5 9	<b>Total capital (TC = T1 + T2)</b> (BA700 line 88 column 1)	249,882
6 0	<b>Total risk weighted assets</b> (BA700 line 6 column 7)	1,976,575
<b>Capital ratios</b>		
6 1	Common Equity Tier 1 (as a percentage of risk weighted assets) (BA700 line 17 column 1)	11.8718
6 2	Tier 1 (as a percentage of risk weighted assets) (BA700 line 17 column 2)	11.8718
6 3	Total capital (as a percentage of risk weighted assets) (BA700 line 17 column 3)	12.6422
<b>Applicable caps on the inclusion of provisions in Tier 2</b>		
7 6	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	15,228
7 7	Cap on inclusion of provisions in Tier 2 under standardised approach	15,228

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

PILLAR 3 REGULATORY REPORT

**June 2015**



**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 30 June 2015 with a total capital adequacy of 12.64% and a Tier 1 capital adequacy of 11.87%, 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.

<b>Regulatory Capital and Risk weighted assets – Table 2.1</b>	
	<b>R'000</b>
	<b>Jun-15</b>
Ordinary Share Capital	24,158
Share Premium	339,027
Revaluation Reserves	7,855
<b>Total common equity tier 1 capital and unimpaired reserve funds</b>	<b>371,040</b>
Retained Earnings/(Loss)	-93,316
Regulatory deductions against primary capital	-43,069
<b>Total common equity tier 1 capital after regulatory adjustments</b>	<b>234,655</b>
<b>Tier 2 capital</b>	
General Provisions	15,228
<b>Total qualifying capital and reserve funds</b>	<b>249,883</b>
<b>Risk Weighted Assets</b>	<b>1,976,575</b>
Total Capital adequacy ratio	12.64%
Tier 1 Capital adequacy ratio	11.87%

<b>Composition of risk weighted assets and required regulatory capital- Table 2.2</b>		
	<b>Composition of Risk Weighted Assets</b>	<b>Required Regulatory Capital</b>
	<b>R'000</b>	<b>R'000</b>
Credit Risk *	1,703,456	170,346
Counter party risk****	8,392	839
Operational Risk **	200,982	20,098
Market Risk ***	16,589	1,659
Other Assets	47,141	4,714
Equity Risk	15	2
<b>Total</b>	<b>1,976,575</b>	<b>197,658</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.

<b>Capital Structure – Table 2.3</b>	<b>Jun-15 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>Jun-15 R'000</b>
<b>Category analysis</b>	
Overdrafts	152,208
Property, commercial and other loans	649,863
Home loans	494,904
Instalment credit and lease agreements	372,981
Non-Performing Loans	214,023
	<b>1,883,979</b>
Less: Credit Impairment	<b>-125,464</b>
Overdrafts	-27,204
Property, commercial and other loans	-9,986
Home loans	-7,340
Instalment credit and lease agreements	-80,934
<b>Net Loans and Advances</b>	<b>1,758,515</b>

<b>Gross credit exposure per asset class (per BA 200 asset classes)- Table 4.2</b>	<b>Jun-15 R'000</b>
<b>Category analysis 2</b>	
<b>Corporate exposure</b>	
Corporate	140,678
SME corporate	873,957
<b>Retail exposure</b>	
Retail	413,765
SME retail	455,580
<b>Gross credit exposure excluding sovereigns and banks</b>	<b>1,883,979</b>
<b>Less: Credit Impairment</b>	<b>-125,464</b>
Corporate	-46,112
SME Corporate	-50,169
Retail	-4,001
SME retail	-25,182
<b>Net Loans and Advances</b>	<b>1,758,515</b>
Sovereign (including central government and central bank)	139,069
Banks	264,798
<b>Total</b>	<b>2,162,382</b>

<b>Gross credit exposure per Sectorial analysis - Table 4.3</b>	<b>Jun-15 R'000</b>
Agriculture, hunting, forestry and fishing	355
Mining and quarrying	16,549
Manufacturing	87,441
Construction	14,110
Wholesale and retail trade, repair of specified items, hotels and restaurants	85,441
Transport, storage and communication	284,047
Financial intermediation and insurance	444,011
Real estate	283,218
Business services	208,594
Community, social and personal services	178
Private households	371,520
Other	88,515
<b>Gross credit exposure</b>	<b>1,883,979</b>

<b>Gross credit exposure per Geographical distribution - Table 4.4</b>	<b>Jun-15 R'000</b>
South Africa	1,883,979
	<b>1,883,979</b>

**Maturity Analysis of gross credit exposure as at 30 June 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	28,139	3,325	24,337	84,877	140,678
SME corporate	65,216	7,863	198,278	602,600	873,957
Retail	6,951	946	36,212	369,656	413,765
SME retail	76,877	12,360	216,120	150,222	455,579
<b>Gross credit exposure excluding sovereigns and banks</b>	<b>177,183</b>	<b>24,494</b>	<b>474,947</b>	<b>1,207,355</b>	<b>1,883,979</b>
<b>Sovereigns and Banks</b>					
Sovereign	139,069	-	-	-	139,069
Banks	264,798	-	-	-	264,798
<b>Total</b>	<b>581,050</b>	<b>24,494</b>	<b>474,947</b>	<b>1,207,355</b>	<b>2,287,846</b>

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	28,183	-	23,902
Commercial and property loans	51,256	31,245	4,960
Instalment sale	99,982	28,834	71,111
Home loans	34,662	44,151	10,263
<b>Total</b>	<b>214,023</b>	<b>104,230</b>	<b>110,236</b>

Gross credit exposure per Sectorial analysis - Table 4.7	Credit Risk	Securities and other expected recoveries	Specific provision
	R'000	R'000	R'000
Manufacturing	227	223	21
Real estate	69,029	58,672	11,950
Business services	95,609	32,607	61,442
Other	25,699	2,527	23,245
Transport, storage and communication	12,699	3,647	9,008
Construction	26	25	6
Mining and quarrying	8,192	4,028	4,082
Financial intermediation and insurance	2,542	2,499	481
<b>Gross credit exposure</b>	<b>214,023</b>	<b>104,230</b>	<b>110,236</b>

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	-	9,110	8,908	3,987	22,005
Past due 31 - 60 days	29	844	2,035	-	2,908
Past due 61 - 90 days	143	548	1,460	-	2,151
Past due 91 - 180 days	-	-	-	-	-
Past due 180 - 365 days	-	-	-	-	-
Past due 1 - 2 years	-	-	-	-	-
Past due over 2 years	-	-	-	-	-
<b>Total</b>	<b>172</b>	<b>10,502</b>	<b>12,403</b>	<b>3,987</b>	<b>27,064</b>

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 up to 30	-	-	-	-	-
Past due 31 - 60 days	-	-	-	-	-
Past due 61 - 90 days	-	-	-	-	-
Past due 91 - 180 days	-	7,391	21,992	6,211	35,594
Past due 180 - 365 days	926	2,087	16,204	1,437	20,654
Past due 1 - 2 years	21,313	3,612	23,307	95,634	143,866
Past due over 2 years	181	3,157	10,571	-	13,909
<b>Total</b>	<b>22,420</b>	<b>16,247</b>	<b>72,074</b>	<b>103,282</b>	<b>214,023</b>

Credit Impairment For Loans And Advances - Table 4.10	Jun-15
	R'000
<b>Category analysis</b>	
Balance at 1 January 2015	113,209
Interest in abeyance	16,405
Interest in abeyance prior year	-13,218
	116,396
Charge to the income statement	9,068
Specific impairment	13,648
Portfolio impairment	-
Recoveries of balances raised in current year	-4,580
Recoveries of Balance previously written off	-70
<b>Balance as at 30 June 2015</b>	<b>125,464</b>
<b>Analysis</b>	
Specific impairment	110,236
Portfolio impairment	15,228
<b>Balance</b>	<b>125,464</b>

<b>Outstanding amounts in respect of rated exposures as at the 30 June 2015 - Table 4.11</b>		
	<b>Gross Exposure</b>	<b>Risk Weighted Exposure</b>
	<b>R'000</b>	<b>R'000</b>
AAA to AA-	151,446	42,413
A+ to A-	263	53
BBB+ to BBB-	2,111,422	1,663,056
BB+ to B-	9	7
Below B-	4,608	4,121
Unrated	-	-
	<b>2,267,748</b>	<b>1,709,650</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 June 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.

<b>Fair Value of derivatives - Table 4.12</b>	<b>Jun-15</b>
	<b>R'000</b>
Gross positive fair value of derivative assets	5,191
Gross positive fair value of derivative liabilities	3,321
<b>Net exposure</b>	<b>1,870</b>

<b>Notional value of derivatives - Table 4.13</b>	<b>Jun-15</b>
	<b>R'000</b>
<b>Foreign Exchange Contract</b>	
Assets	729,737
Liabilities	232,194



## 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

<b>Interest Rate Risk as at 30 June 2015 – Table 6.1</b>	<b>Fixed</b>	<b>Floating</b>	<b>Non-interest sensitive</b>	<b>Total</b>
<b>Assets</b>	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>
Cash and cash equivalents	-	-	50,770	<b>50,770</b>
Due from other Banks	-	122,144	168,078	<b>290,222</b>
Derivative financial assets	-	-	5,191	<b>5,191</b>
Short-term negotiable assets	139,069	-	-	<b>139,069</b>
Other investments	-	-	15	<b>15</b>
Advances	-	1,884,965	-125,464	<b>1,759,501</b>
Other accounts receivable	-	-	14,692	<b>14,692</b>
Property and equipment	-	-	32,448	<b>32,448</b>
Intangible assets	-	-	43,069	<b>43,069</b>
	<b>139,069</b>	<b>2,007,109</b>	<b>188,801</b>	<b>2,334,978</b>

Liabilities	Fixed	Floating	Non-interest sensitive	Total
	R'000	R'000	R'000	R'000
Deposits, current and other accounts	1,053,613	968,439	3,760	2,025,812
Derivative financial liabilities	-	-	3,321	3,321
Other liabilities	-	-	28,099	28,099
	<b>1,053,613</b>	<b>968,439</b>	<b>35,180</b>	<b>2,057,232</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	Up to 1 month	1 to 3 months	3 to 12 months	1 to 2 years	2 to 5+ years	Non-Interest Bearing	Total
Assets	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Cash and cash equivalents	-	-	-	-	-	50,770	50,770
Due from other Banks	122,144	-	-	-	-	168,078	290,222
Derivative financial assets	-	-	-	-	-	5,191	5,191
Short-term negotiable assets	19,985	96,695	22,389	-	-	-	139,069
Other investments	-	-	-	-	-	15	15
Advances	1,884,965	-	-	-	-	-125,464	1,759,501
Other accounts receivable	-	-	-	-	-	14,692	14,692
Property and equipment	-	-	-	-	-	32,448	32,448
Intangible assets	-	-	-	-	-	43,069	43,069
<b>Total</b>	<b>2,027,094</b>	<b>96,695</b>	<b>22,389</b>	<b>-</b>	<b>-</b>	<b>188,801</b>	<b>2,334,978</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	626,173	40,000	36,581	-	-	623	703,377
Due to customers	928,605	307,655	83,038	-	-	3,137	1,322,435
Derivative financial liabilities	-	-	-	-	-	3,321	3,321
Other liabilities	-	-	-	-	-	28,099	28,099
<b>Total</b>	<b>1,554,778</b>	<b>347,655</b>	<b>119,619</b>	<b>-</b>	<b>-</b>	<b>35,180</b>	<b>2,057,232</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
Interest Rate Increase	3,272
Interest Rate Decrease	-3,272

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 2015 – Table 6.4	ZAR	USD	EURO	Other	Total
	R'000	R'000	R'000	R'000	R'000
<b>Assets</b>					
Cash and cash equivalents	43,086	4,871	2,814	-	<b>50,770</b>
Derivative financial assets	-	3,327	1,403	461	<b>5,191</b>
Short-term negotiable assets	139,069	-	-	-	<b>139,069</b>
Other investments	15	-	-	-	<b>15</b>
Advances	1,852,517	162,466	27,171	7,569	<b>2,049,723</b>
Other accounts receivable	14,692		-	-	<b>14,692</b>
Property and equipment	32,448				<b>32,448</b>
Intangible assets	43,069	-	-	-	<b>43,069</b>
<b>Total Assets</b>	<b>2,124,897</b>	<b>170,663</b>	<b>31,388</b>	<b>8,030</b>	<b>2,334,978</b>
<b>Liabilities</b>					
Deposits, current and other accounts	1,225,655	71,786	19,807	4,516	1,321,764
Due to other Banks	102,833	601,215	-	-	704,049
Derivative financial liabilities	-	1,696	1,208	417	3,321
Other liabilities	28,099				28,099
Long term liabilities	-	-	-	-	-
<b>Total Liabilities</b>	<b>1,356,587</b>	<b>674,698</b>	<b>21,015</b>	<b>4,932</b>	<b>2,057,232</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.