GroCapital

HOLDINGS

PILLAR 3 REGULATORY REPORT

December 2018

CONTENTS

Capital Management

The Group 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 GroCapital Holdings, until the next Annual General Meeting.

Capital Structure – Table 2.4	**Dec-18**
Group	**R'000**
Authorised	
1 000 000 ordinary shares of R1 each (par value)	1,000
Issued	
Ordinary Share Capital	124
Share Premium	
Share Premium	466,521

The Group’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 Grouping industry in which the Group operates
• To safeguard the Group’s ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders
• To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by The South African Reserve Group, for supervisory purposes.

The required information is filed with The South African Reserve Group on a monthly and quarterly basis.

The Group maintains a ratio of total regulatory capital to its risk-weighted assets above a minimum level agreed with The South African Reserve Group which takes into account the risk profile of the Group. The regulatory capital requirements are strictly observed when managing capital.

The Group’s regulatory capital comprises two tiers:
• Tier 1 capital: share capital, share premium, general Group reserve and statutory reserves. The book value of goodwill and 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.

“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 table below summarises the composition of regulatory capital and the ratios of the Group for the year ended 31 December.

Regulatory Capital and Risk weighted assets – Table 2.1

Group	**31-Dec-18**
	R'000
Ordinary Share Capital	124
Share Premium	466,521
Revaluation Reserves	-
Total common equity tier 1 capital and unimpaired reserve funds	**466,645**
Minority Interest held	213
Regulatory deductions against primary capital	(144,876)
Total common equity tier 1 capital after regulatory adjustments	**321,982**
Tier 2 capital	
Portfolio impairment	9,365
Long-term debt instrument (Debentures)	
Total qualifying capital and reserve funds	**331,347**
Risk Weighted Assets	**1,725,147**
Total Capital adequacy ratio	**19.2068%**
Tier 1 Capital adequacy ratio	**18.6641%**

Required capital adequacy ratios and amounts - Table 2.2

Group	31-Dec-18	
	Percentages	Rand amounts (R'000)
	Common Equity Tier 1	Common Equity Tier 1
Base minimum (2)	4.50%	**77,632**
Add-on: systemic risk add-on (Pillar 2A)	1.00%	**17,251**
Add-on: conservation buffer (6)	1.875%	**32,346**
	8.125%	**140,168**

Composition of risk weighted assets and required regulatory capital- Table 2.3

Group		31-Dec-18
Risk weighted exposure	**Composition of Risk Weighted Assets**	**Base Minimum Required Regulatory Capital**
	R'000	**R'000**
Credit Risk *	1,450,577	134,178
Counter party risk****	14,173	1,311
Operational Risk **	216,018	19,982
Market Risk ***	1,327	123
Other Assets	43,027	3,981
Equity Risk	15	1
Total	**1,725,147**	**159,576**

** 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 under the standardised approach.*

1. 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 of 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.

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.

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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. 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.

Credit Risk mitigation

The Group 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 Group 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 Group 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.

Gross credit exposure per product type - Table 4.1

Group	Dec-18
	R'000
Category analysis	
Overdrafts	157,842
Property, commercial and other loans	597,555
Home loans	727,567
Instalment credit and lease agreements	192,578
Non-Performing Loans	122,747
	1,798,289
Less: Credit Impairment	**(33,286)**
Guarantees	(158)
Overdrafts	(2,751)
Property, commercial and other loans	(14,085)
Home loans	(10,686)
Instalment credit and lease agreements	(5,606)
Net Loans and Advances	**1,765,003**

***Gross credit exposure per asset class per Regulation Definition - Table 4.2**

Group	Dec-18
	R'000
Category analysis 2	
Corporate exposure	
Corporate	68,836
SME corporate	630,049
Retail exposure	
Residential Mortgages	772,288
Retail Other	35,588
Retail SME	291,527
Gross credit exposure excluding sovereigns and banks	**1,798,289**
Less: Credit Impairment	**(33,286)**
Corporate	(358)
SME Corporate	(12,049)
Residential Mortgages	(10,476)
Retail Other	(1,710)
Retail SME	(8,693)
Net Loans and Advances	**1,765,003**
Sovereign (including central government and central bank)	1,126,024
Banks	226,707
Total	**3,117,733**

Gross credit exposure per Sectorial analysis - Table 4.3

Group	Dec-18
	R'000
Agriculture	390
Financial, Building and property development	835,672
Individuals	528,297
Manufacturing and commerce	119,810
Transport and communication	74,339
Electricity and Water	4,083
Mining	5,031
Other services	230,668
Gross credit exposure	**1,798,289**
Sovereign and Banks	
Sovereign (including central government and central bank)	1,126,024
Banks	226,707
TOTAL GROSS CREDIT EXPOSURE	**3,151,019**

Gross credit exposure per Geographical distribution - Table 4.4

Group	Dec-18
	R'000
South Africa	3,003,019

Maturity Analysis of gross credit exposure as at 31 Dec 2018 – Table 4.5

Group	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	33,633	3,269	25,145	6,431	**68,477**
SME Corporate	74,534	41,833	311,958	189,676	**618,001**
Residential Mortgage	16,362	17,017	151,868	576,566	**761,813**
Retail	10,588	3,571	16,184	3,536	**33,879**
SME retail	133,330	26,675	105,987	16,842	**282,834**
Gross credit exposure excluding sovereigns and banks	**268,447**	**92,365**	**611,142**	**793,050**	**1,765,003**

Sovereigns and Banks					
Sovereign	1,078,524	47,500	-	-	**1,126,024**
Banks	226,707	-	-	-	**226,707**
Total	**1,573,677**	**139,865**	**611,142**	**793,050**	**3,117,733**

GroCapital HOLDINGS

Non-performing Loans and Advances by category - Table 4.6

Group	Credit Risk	Securities and other expected recoveries	Impairment allowance
	R'000	R'000	R'000
Overdraft	4,228	3,031	1,197
Commercial and property loans	68,794	56,413	12,381
Instalment sale	5,003	934	4,069
Home loans	44,722	38,448	6,274
Total	**122,748**	**98,826**	**23,921**

Non performing lending by sector - Table 4.7

Group	Credit Risk	Securities and other expected recoveries	Impairment allowance
	R'000	R'000	R'000
Individuals	24,390	20,868	3,521
Manufacturing	38,366	28,187	10,179
Transport	1,250	508	743
Financial and Real Estate	53,956	48,960	4,995
Other services	4,785	302	4,483
	122,747	**98,826**	**23,921**

Credit Impairment for Loans and Advances - Table 4.10

Group	**Dec-18**
	R'000
Part of purchase consideration of investment	44,295
Amounts written off against provisions	(9,232)
	35,063
Charge to the Statement of Comprehensive Income	**(2,669)**
Specific impairment: raised in the current year	2,243
Specific provisions: recoveries of balances raised in current year	(246)
Portfolio impairment reversal	(3,943)
Recoveries of Balance previously written off	(723)
Recoveries of Balance previously written off	**723**
Interest in Abeyance raised deducted against interest income	2,011
Interest on Abeyance recovered included in interest income	(1,842)
Balance as at 31 Dec 2018	**33,286**
Analysis	
Specific impairment	23,921
Portfolio impairment	9,365
Balance	**33,286**

The requirements of IFRS 9 'Financial Instruments' was adopted from 1 January 2018. The classification and measurement and impairment requirements are applied retrospectively by adjusting the opening balance sheet at the date of initial application, with no requirement to restate comparative periods.

Sectorial Analysis – Credit Impairment Table 4.11

Group	Dec-18
	R '000
Individuals	6,272
Manufacturing	10,803
Transport and communication	1,130
Financial and real estate	9,271
Mining	26
Electricity and water	-
Other Services	5,784
	33,286

Sectorial Analysis – Credit Impairment Table 4.11

Group	R '000
Individuals	6,272
Manufacturing	10,803
Transport and communication	1,130
Financial and real estate	9,271
Mining	26
Electricity and water	-
Other Services	5,784
	33,286

Outstanding amounts in respect of rated exposures as at the 31 Dec 2018 - Table 4.12

Group	Gross Exposure	Risk Weighted Exposure
	R'000	R'000
A	15,036	2,918
A-	127,030	28,410
AA-	2,031	407
BB+	1,206,911	22,282
BBB+	1,651	445
CCC	71	356
Unrated	1,798,289	1,335,093
	3,151,019	**1,389,912**

Fair Value of derivatives - Table 4.13

Group	Dec-18
	R'000
Gross positive fair value of derivative assets	5,593
Gross positive fair value of derivative liabilities	5,794
Net exposure	**(201)**

Notional value of derivatives - Table 4.14

Group	Dec-18
	R'000
Gross positive fair value of derivative assets	286,013
Gross positive fair value of derivative liabilities	266,614
Net exposure	**19,400**

2. Market risk

The Group seeks to minimise market risk by using derivatives to economically hedge market risk - currency risk. The use of financial derivatives is governed by the Group's policy approved by the board of directors, which provides written principles on foreign exchange risk, interest rate and credit risk.

The Group does not enter into or trade financial instruments, including derivative instruments for speculative risk purposes.

The Group's activities expose it primarily to the financial risks of change in foreign currency exchange rate and interest rate risk.

The Group manages it foreign exchange risk by entering into forward exchange contracts. This exchange rate risk arises from the intragroup loans which are denominated in foreign currency.

3. Interest rate risk

Interest rate risk is defined as the impact that the repricing of the Group's assets and liabilities may have on the future cash flows and earnings.

"The risk is managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings. Liquidity and interest rate risk management are essentially inseparable from the core Grouping 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 Group's Asset Liability and Capital Committee (ALCCO).

Stress scenarios and testing have been undertaken thereby allowing the Group to identify and be prepared for such eventualities.

These scenarios have ensured that the Group is well prepared to manage any liquidity or interest rate risks that may occur.

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 are the only fixed rate liabilities
- Debentures are according to variables rates.

Interest Rate Risk as at 31 Dec 2018 – Table 6.1

Assets	Fixed	Floating	Non-interest sensitive	Total
Group	R'000	R'000	R'000	R'000
Cash and cash equivalents	-	80,737	215,556	**296,293**
Derivative financial assets	-	-	5,593	**5,593**
Short-term negotiable assets	1,126,023	-	-	**1,126,023**
Other investments	-	-	15	**15**
Advances	-	1,765,003	-	**1,765,003**
Other accounts receivable	-	-	27,770	**27,770**
Goodwill	-	-	35,888	**35,888**
Property and equipment	-	-	15,417	**15,417**
Intangible assets	-	-	86,222	**86,222**
	1,126,023	**1,845,740**	**386,461**	**3,358,225**

	Fixed	Floating	Non-interest sensitive	Total
Liabilities	R'000	R'000	R'000	R'000
Short term loan	256,261	-	-	**256,261**
Deposits, current and other accounts	-	2,582,096	-	**2,582,096**
Derivative financial liabilities	-	-	5,794	**5,794**
Other liabilities	-	-	69,980	**69,980**
	256,261	**2,582,096**	**75,774**	**2,914,131**

- **Interest rate Sensitivity Analysis**

The tables below summarise the Group's exposure to interest rate risk. Assets and liabilities are included at the carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

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 Group's net profit and equity at year-end would increase by R7.3 million and decrease by R7.3 million.

- **Interest rate Sensitivity Analysis – Table 6.2**

Assets	**Up to 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 2 years**	**2 to 5+ years**	**Non-interest sensitive**	**Total**
Cash and cash equivalents	80,737	-	-	-	-	215,556	**296,293**
Derivative financial assets	-	-	-	-	-	5,593	**5,593**
Short-term negotiable assets	894,824	183,699	47,500	-	-	-	**1,126,023**
Other investments	-	-	-	-	-	15	**15**
Advances	1,765,003	-	-	-	-	-	**1,765,003**
Other accounts receivable	-	-	-	-	-	27,770	**27,770**
Investment property	-	-	-	-	-	35,888	**35,888**
Property and equipment	-	-	-	-	-	15,417	**15,417**
Intangible assets	-	-	-	-	-	86,222	**86,222**
	2,740,564	**183,699**	**47,500**	**-**	**-**	**386,461**	**3,358,225**

Liabilities	**Up to 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 2 years**	**2 to 5+ years**	**Non-interest sensitive**	**Total**
Due to other Banks	30,011	-	588,573	-	-	-	**618,583**
Due to customers	1,768,894	312,018	138,862	-	-	-	**2,219,774**
Derivative financial liabilities	-	-	-	-	-	5,794	**5,794**
Other liabilities	-	-	-	-	-	69,980	**69,980**
	1,798,904	**312,018**	**727,4345**	**-**	**-**	**75,774**	**2,914,131**

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	31-Dec-18
	R'000
	Cumulative change in NII over 12 months
Interest Rate Increase	7,314
Interest Rate Decrease	(7,310)

The Group undertakes transactions denominated in foreign currencies; consequently the Group 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 Dec 2018 – Table 6.4

Assets	ZAR	USD	EURO	Other	Total
Group	R'000	R'000	R'000	R'000	R'000
Cash and cash equivalents	128,352	84,451	56,418	27,071	**296,293**
Derivative financial assets	-	3,251	2,204	138	**5,593**
Short-term negotiable assets	1,126,023	-	-	-	**1,126,023**
Other investments	15	-	-	-	**15**
Loans and advances	1,765,003	-	-	-	**1,765,003**
Other accounts receivable	27,770	-	-	-	**27,770**
Investment Property	35,888	-	-	-	**35,888**
Property and equipment	15,417	-	-	-	**15,417**
Intangible assets	86,222	-	-	-	**86,222**
	3,184,690	**87,702**	**58,622**	**27,210**	**3,358,224**

Liabilities	ZAR	USD	EURO	Other	Total
	R'000	R'000	R'000	R'000	R'000
Deposits, current and other accounts	2,427,613	88,207	54,906	11,370	**2,582,096**
Short term loans	256,261	-	-	-	**256,261**
Derivative financial liabilities	-	2,902	2,115	777	**5,794**
Other liabilities	69,980	-	-	-	**69,980**
	2,753,854	**91,108**	**57,021**	**12,146**	**2,914,131**

4. Liquidity risk

“Liquidity risk is defined as the risk of not being able to generate sufficient cash to meet the Group’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 Group 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 Group’s short-, medium- and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, grouping 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 grouping 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 Group’s Asset and Liability Committee (ALCCO). Liquidity is ensured through optimal funding strategies taking into account various interest rate scenarios, as well as taking cognisance of available inter-Group lines of credit and the substantial committed lines of credit from the Group’s majority shareholder to cater for unforeseen circumstances.”

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

Liquidity risk as at 31 Dec 2018 – Table 7.1

Group	Up to 1 month	1 - 3 months	3 - 6 months	7 - 12 months	1- 5 years	Over 5 years	Total
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
ASSETS							
Cash and cash equivalents	296,293	-	-	-	-	-	**296,293**
Derivative financial assets	3,296	2,098	145	53	-	-	**5,593**
Short-term negotiable securities	894,824	183,699	-	47,500	-	-	**1,126,023**
Other investments	15	-	-	-	-	-	**15**
Advances	183,207	35,078	50,153	92,374	611,143	793,050	**1,765,003**
Other accounts receivable	23,115	3,106	122	55	266	1,106	**27,770**
Property and equipment	-	-	-	-	-	15,417	**15,417**
Goodwill	-	-	-	-	-	35,888	**35,888**
Intangible assets	-	-	-	-	-	86,221	**86,221**
	1,400,750	**223,989**	**50,428**	**139,983**	**611,409**	**931,683**	**3,358,224**

	Up to 1 month	1 - 3 months	3 - 6 months	7 - 12 months	1- 5 years	Over 5 years	Total
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
LIABILITIES							
Short term loans	-	-	-	256,261	-	-	**256,261**
Deposits, current and other accounts	1,798,904	312,018	35,437	435,737	-	-	**2,582,096**
Derivative financial liabilities	3,645	1,976	125	48	-	-	**5,794**
Other liabilities	24,639	2,391	7,739	5,134	5,414	24,663	**69,980**
	1,827,188	**316,385**	**43,301**	**697,180**	**5,414**	**24,663**	**2,914,131**

Contractual mismatch	**(426,438)**	**(92,406)**	**7,129**	**(557,207)**	**603,395**	**909,610**	**444,093**