The South African Bank of Athens Limited

PILLAR 3 REGULATORY REPORT

December 2018

BANK OF ATHENS

Business and Commercial Bank

CONTENTS

Regulatory Capital and Risk weighted assets – Table 2.1

	R'000
	31-Dec-18
Ordinary Share Capital	39,572
Share Premium	460,579
Revaluation Reserves	-
Total common equity tier 1 capital and unimpaired reserve funds	**500,151**
Retained Earnings/(Loss)	(207,121)
Regulatory deductions against primary capital	(86,222)
Total common equity tier 1 capital after regulatory adjustments	**206,808**
Tier 2 capital	
Portfolio impairment	9,365
Long-term debt instrument (Debentures)	30,000
Total qualifying capital and reserve funds	**246,172**
Risk Weighted Assets	**1,722,193**
Total Capital adequacy ratio	14.2941%
Tier 1 Capital adequacy ratio	12.0084%

Required capital adequacy ratios and amounts - Table 2.2

Required capital adequacy ratios and amounts - Table 2.2	31-Dec-18	
	Percentages	Rand amounts (R'000)
	Common Equity Tier 1	Common Equity Tier 1
Base minimum (2)	4.50%	**77,499**
Add-on: systemic risk add-on (Pillar 2A)	1.00%	**17,222**
Add-on: conservation buffer (6)	1.875%	**32,291**
	8.125%	**139,928**
	BA700 LI 7COL1	**BA700 LI 7COL4**

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

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 **	213,875	19,783
Market Risk ***	1,327	123
Other Assets	42,227	3,906
Equity Risk	15	1
Total	**1,722,193**	**159,303**

** 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.*

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 GroCapital Holdings, until the next Annual General Meeting.

Capital Structure – Table 2.4	**Dec-18**
	R'000
Authorised	
100 000 000 ordinary shares of R1 each (par value)	100,000
Issued	
Ordinary Share Capital	39,572
Share Premium	
Share Premium	460,579
Term-debt instruments	
Debentures	50,000

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.

Impairment losses on loans and advances
The Bank assesses at each reporting date whether there is objective evidence that a loan (or bank of loans) is impaired.

The Bank assesses whether objective evidence of impairment exists for loans that are considered individually significant (Specific Provision) and collectively for loans that are not considered individually significant (General Provision).

A loan (or bank of loans) is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan ("loss event") and that loss event (or events) has an impact on the estimated future cash flows of the loan (or bank of loans) that can be reliably estimated. A credit risk provision for loan impairment is established if there is objective evidence that the Bank will be unable to collect all amounts due on a claim according to the original contractual terms. Objective evidence that a claim is impaired includes observable data that comes to the Bank's attention about the following loss events, but not restricted to:
• significant financial difficulty of the issuer or obligor;
• a breach of contract, such as a default or delinquency in interest or principal payments (in arrears for a period over 90 days);
• the Bank, for economic or legal reasons relating to the borrower's financial difficulty;
• it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
• the disappearance of an active market for that financial asset because of financial difficulties; or
• observable data indicating that there is a measurable decrease in the estimated future cash flows from a bank of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Bank, including:
- adverse changes in the payment status of borrowers in the Bank (e.g. an increased number of delayed payments); or - national or local economic conditions that correlate with defaults on the assets in the Bank.
A provision for loan impairment is reported as a reduction of the carrying amount of a claim on the Statement of Financial Position. Any identified impairment losses are recognised in the Statement of Comprehensive Income. If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has occurred, the amount of the loss is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at a) the loan's original effective interest rate, if the loan bears a fixed interest rate, or b) current effective interest rate, if the loan bears a variable interest rate. Interest in Abeyance is interest earned on non-performing loans and is not recognised as part of profit and loss.

Credit Risk mitigation

The Bank 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.

Gross credit exposure per product type - Table 4.1

Gross credit exposure per product type- Table 4.1	**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 asset class per Regulation Definition - Table 4.2**

	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**

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

	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

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

Maturity Analysis of gross credit exposure as at 31 Dec 2018 – 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	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**	**92,365**	**611,142**	**793,050**	**3,117,733**

Non-performing Loans and Advances by category - Table 4.6

	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

	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 4.8

Category analysis	Dec-18 R'000
Balance at 1 January	51,160
IFRS 9 General impairment adjustment to opening balance	(2,779)
Amounts written off against provisions	(9,232)
	39,149
Charge to the Statement of Comprehensive Income	**(5,575)**
Specific impairment: raised in the current year	8,350
Specific provisions: recoveries of balances raised in current year	(3,824)
Portfolio impairment reversal	(8,850)
Recoveries of Balance previously written off	(1,251)
Recoveries of Balance previously written off	1,251
Interest in Abeyance raised deducted against interest income	6,870
Recovery of interest in abeyance	(8,409)
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 4.9

	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 4.10

	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 4.11

	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 4.12

	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

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.

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

The Bank seeks to minimise market risk by using derivatives to economically hedge market risk - currency risk. The use of financial derivatives is governed by the Bank's policy approved by the board of directors, which provides written principles on foreign exchange risk, interest rate and credit risk. The Bank does not enter into or trade financial instruments, including derivative instruments for speculative risk purposes.

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

The Bank 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 Bank's assets and liabilities may have on the future cash flows and earnings.

"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 (ALCCO).

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 detailed in the liquidity risk management section of this note.

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**
	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	-	-	26,961	**26,961**
Investment property	-	-	-	**-**
Property and equipment	-	-	15,417	**15,417**
Intangible assets	-	-	86,222	**86,222**
	1,126,023	**1,845,740**	**349,764**	**3,321,527**

	Fixed	**Floating**	**Non-interest sensitive**	**Total**
Liabilities	**R'000**	**R'000**	**R'000**	**R'000**
Long term debt instruments	-	50,000	-	**50,000**
Deposits, current and other accounts	450,320	2,466,687	-	**2,917,007**
Derivative financial liabilities	-	-	5,794	**5,794**
Other liabilities	-	-	55,696	**55,696**
	450,320	**2,516,687**	**61,489**	**3,028,497**

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	-	-	-	-	-	26,961	**26,961**
Investment property	-	-	-	-	-	-	**-**
Property and equipment	-	-	-	-	-	15,417	**15,417**
Intangible assets	-	-	-	-	-	86,222	**86,222**
	2,740,564	**183,699**	**-**	**47,500**	**-**	**349,764**	**3,321,527**

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	30,960	-	332,312	-	-	-	**363,272**
Due to customers	1,852,856	312,018	388,861	-	-	-	**2,553,735**
Long term debt instruments	-	-	50,000	-	-	-	**50,000**
Derivative financial liabilities	-	-	-	-	-	5,794	**5,794**
Other liabilities	-	-	-	-	-	55,696	**55,696**
	1,883,816	**312,018**	**771,173**	**-**	**-**	**61,490**	**3,028,497**

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 – 2%	7,314
Interest Rate Decrease – 2%	-7,310

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

Foreign Currency exposure as at 31 Dec 2018 – Table 6.4

Assets	ZAR	USD	EURO	Other	Total
	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	26,961	-	-	-	**26,961**
Investment Property	-	-	-	-	**-**
Property and equipment	15,417	-	-	-	**15,417**
Intangible assets	86,222	-	-	-	**86,222**
	3,147,993	**87,703**	**58,621**	**27,210**	**3,321,527**
Liabilities	**ZAR**	**USD**	**EURO**	**Other**	**Total**
	R'000	**R'000**	**R'000**	**R'000**	**R'000**
Deposits, current and other accounts	2,762,524	88,207	54,906	11,370	**2,917,007**
Long term debt instruments	50,000	-	-	-	**50,000**
Derivative financial liabilities	-	2,902	2,115	777	**5,794**
Other liabilities	55,696	-	-	-	**55,696**
	2,868,220	**91,108**	**57,022**	**12,147**	**3,028,497**

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

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

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

Liquidity risk as at 31 Dec 2018 – Table 7.1

	Up to 1 month R'000	1 - 3 months R'000	3 - 6 months R'000	7 - 12 months R'000	1- 5 years R'000	Over 5 years R'000	Total R'000
ASSETS							
Cash and cash equivalents	296,293	-	-	-	-	-	**296,293**
Derivative financial assets	3,296	2,098	145	54	-	-	**5,593**
Short-term negotiable securities	894,824	183,699	-	47,500	-	-	**1,126,023**
Other investments	15	-	-	-	-	-	**15**
Advances	183,207	35,076	50,153	92,374	611,143	793,050	**1,765,003**
Other accounts receivable	25,192	443	92	55	1,179	-	**26,961**
Property and equipment	-	-	-	-	-	15,417	**15,417**
Investment property	-	-	-	-	-	-	**-**
Intangible assets	-	-	-	-	-	86,222	**86,222**
	1,402,827	**221,317**	**50,390**	**139,982**	**612,322**	**894,688**	**3,321,527**
	Up to 1 month R'000	**1 - 3 months R'000**	**3 - 6 months R'000**	**7 - 12 months R'000**	**1- 5 years R'000**	**Over 5 years R'000**	**Total R'000**
LIABILITIES							
Long term debt instruments	-	-	-	-	50,000	-	**50,000**
Deposits, current and other accounts	1,883,816	312,018	35,437	685,736	-	-	**2,917,007**
Derivative financial liabilities	3,645	1,976	125	48	-	-	**5,794**
Other liabilities	22,765	2,391	7,622	5,134	5,414	12,370	**55,696**
	1,910,226	**316,385**	**43,184**	**690,918**	**55,414**	**12,370**	**3,028,497**

Contractual mismatch	(507,399)	(95,069)	7,206	(550,935)	556,908	882,319	293,030