PILLAR 3 DISCLOSURE
SEPTEMBER 2019

grobank

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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

Grobank was established in 1947 (formerly known as South African Bank of Athens Limited) and is a 99,93% subsidiary GroCapital Holdings Limited. The parent company's commitment to and close involvement with the Bank provides a solid foundation and supports the bank's strategy of being a niche bank in the food and agriculture value chain.

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 of Tier 1 capital and Tier 2 in the form of IFRS general provision.
Capital adequacy and the use of regulatory capital are monitored by ALCCO, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the South African Reserve Bank (SARB), for supervisory purposes. The required information is filed with the SARB on a monthly basis.

The Bank maintains a ratio of total regulatory capital to its risk-weighted assets above a minimum level agreed with the SARB which takes into account the risk profile of the Bank.

Grobank met the minimum required capital adequacy ratio requirement as at the 30 September 2019 with a total capital adequacy of 14.32% and a Tier 1 capital adequacy of 13.68%, 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 and share premium, less accumulated losses. The book value of intangible assets is deducted in arriving at Tier 1 capital; and
- Tier 2 capital: IFRS 9 general provisions

Regulatory Capital and Risk weighted assets – Table 2.1	R'000
	30-Sep-19
Ordinary Share Capital	59,882
Share Premium	583,869
Revaluation Reserves	
Total common equity tier 1 capital and unimpaired reserve funds	**643,751**
Retained Earnings/(Loss)	(270,372)
Regulatory deductions against primary capital	(88,876)
Total common equity tier 1 capital after regulatory adjustments	**284,503**
Tier 2 capital	
Portfolio impairment	13,274
Total qualifying capital and reserve funds	**297,776**
Risk Weighted Assets	**2,080,029**
Total Capital adequacy ratio	14.3160%
Tier 1 Capital adequacy ratio	13.6779%

Required capital adequacy ratios and amounts - Table 2.2	30-Sep-19	
	Percentages	Rand amounts (R'000)
	Common Equity Tier 1	Common Equity Tier 1
Base minimum (2)	4.5000%	**93,601**
Add-on: systemic risk add-on (Pillar 2A)	0.5000%	**10,400**
Add-on: countercyclical buffer (5)	0.0000%	-
Add-on: conservation buffer (6)	2.5000%	**52,001**
	8.0000%	**171,602**

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Composition of risk weighted assets and required regulatory capital- Table 2.3	Composition of Risk Weighted Assets	Base Minimum Required Regulatory Capital
30-Sep-19	R'000	R'000
Risk weighted exposure		
Credit Risk *	1,735,144	156,163
Counter party risk****	64,189	5,777
Operational Risk **	213,875	19,249
Market Risk ***	1,609	145
Other Assets	65,197	5,868
Equity Risk	15	1
Total	**2,080,029**	**187,203**

** 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	Sep-19
	R'000
Authorised	
100 000 000 ordinary shares of R1 each (par value)	100,000
Issued	
Ordinary Share Capital	59,882
Share Premium	
Share Premium	583,869

OVERVIEW OF RISK WEIGHTED ASSETS (OV1) DISCLOSURE TEMPLATE ANNEXURE A Name of bank/ controlling company ………………….. GROBANK Period ended ……………………….. 2019-09-30	T	T - 90	T - 180	T - 270	T - 360	f
	a	b	c	d	e	
	RWA					Minimum capital requirements = 8%
	Sep-19	Jun-19	Mar-19	Dec-18	Sep-18	Sep-19
Credit risk (excluding counterparty credit risk)	**1,800,356**	**1,586,197**	**1,507,592**	**1,492,819**	**1,520,161**	**144,029**
Of which: standardised approach (SA)	1,800,356	1,586,197	1,507,592	1,492,819	1,520,161	144,029
Of which: foundation internal ratings-based (F-IRB) approach						
Of which: supervisory slotting approach						
Of which: advanced internal ratings-based (A-IRB) approach						
Counterparty credit risk (CCR)	**64,189**	**43,221**	**31,040**	**14,173**	**13,449**	**5,135**
Of which: standardised approach for counterparty credit risk	64,189	43,221	31,040	14,173	13,449	5,135
Of which: Internal Model Method (IMM)						
Of which: other CCR						
Credit valuation adjustment (CVA)						
Equity positions under the simple risk weight approach						
Equity investments in funds – look-through approach						
Equity investments in funds – mandate-based approach						
Equity investments in funds – fall-back approach						
Settlement risk						
Securitisation exposures in banking book	**0**	**0**	**0**	**0**	**0**	**0**
Of which: securitisation internal ratings-based approach (SEC-IRBA)						
Of which: securitisation external ratings-based approach (SEC-ERBA), including internal assessment approach (IAA)						
Of which: securitisation standardised approach (SEC-SA)						
Market risk	**1,609**	**2,562**	**2,049**	**1,327**	**3,035**	**129**
Of which: standardised approach (SA)	1,609	2,562	2,049	1,327	3,035	129
Of which: internal model approaches (IMA)						
Capital charge for switch between trading book and banking book						
Operational risk	**213,875**	**213,875**	**213,875**	**213,875**	**215,497**	**17,110**
Amounts below the thresholds for deduction (subject to 250% risk weight)						
Floor adjustment						
Total (1 + 6 + 10 + 11 + 12 + 13 + 14 + 15 + 16 + 20 + 23 + 24 + 25 + 26)	**2,080,029**	**1,845,855**	**1,754,555**	**1,722,193**	**1,752,142**	**166,402**

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KEY METRICS DISCLOSURE TEMPLATE
ANNEXURE A - KM1
Name of bank/ controlling company …………………..GROBANK
Period ended ………………………. 2019-09-30

		a	b	c	d	e
		T	T-1	T-2	T-3	T-4
	Available capital (amounts)	**Sep-19**	**Jun-19**	**Mar-19**	**Dec-18**	**Sep-18**
1	**Common Equity Tier 1 (CET1)**	284,503	308,026	239,937	206,808	180,473
1a	Fully loaded ECL accounting model					
2	**Tier 1**	284,503	308,026	239,937	206,808	180,473
2a	Fully loaded ECL accounting model Tier 1					
3	**Total capital**	**297,777**	**319,579**	**249,646**	**246,173**	**233,781**
3a	Fully loaded ECL accounting model total capital					
	Risk-weighted assets (amounts)					
4	Total risk-weighted assets (RWA)	2,080,029	1,845,855	1,754,555	1,722,193	1,752,142
	Risk-based capital ratios as a percentage of RWA					
5	Common Equity Tier 1 ratio (%)	13.68%	16.69%	13.68%	12.01%	10.30%
5a	Fully loaded ECL accounting model Common Equity Tier 1 (%)					
6	Tier 1 ratio (%)	13.68%	16.69%	13.68%	12.01%	10.30%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)					
7	**Total capital ratio (%)**	14.32%	17.31%	14.23%	14.29%	13.34%
7a	Fully loaded ECL accounting model total capital ratio (%)					
	Additional CET1 buffer requirements as a percentage of RWA					
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.500%	2.500%	2.500%	2.680%	1.875%
9	Countercyclical buffer requirement (%)	0.0000%	0.0025%	0.0025%	0%	0%
10	Bank G-SIB and/or D-SIB additional requirements (%)					
11	**Total of bank CET1 specific buffer requirements (%) (row 8 + row 9 + row 10)**	**2.500%**	**2.503%**	**2.503%**	**2.680%**	**1.875%**
12	CET1 available after meeting the bank's minimum capital requirements (%)	5.43%	8.43%	5.42%	3.88%	4.05%
	Basel III leverage ratio					
13	Total Basel III leverage ratio exposure measure	3,065,274	2,899,495	2,818,016	3,377,114	2,937,593
14	Basel III leverage ratio (%) (row 2 / row 13)	9.28%	10.62%	8.51%	6.12%	6.14%
14 a	Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2a / row13)					
	Liquidity Coverage Ratio					
15	Total HQLA	258,400	409,183	513,841	1,195,761	737,164
16	Total net cash outflow	104,273	110,828	114,557	538,824	193,275
17	LCR ratio (%)	247.81%	369.21%	448.55%	221.92%	381.41%
	Net Stable Funding Ratio					
18	Total available stable funding	2,214,460	2,119,557	1,825,623	2,049,316	1,869,316
19	Total required stable funding	2,058,535	1,863,736	1,677,079	1,586,076	1,561,172
20	NSFR ratio	107.57%	113.73%	108.86%	129.21%	119.74%

LEVERAGE RATIO DISCLOSURE TEMPLATE

ANNEXURE A

Name of bank/ controlling company ………………….. GROBANK

Period ended ……………………….. 2019-09-30

Annexure A - LR1

Table 1

Summary comparison of accounting assets vs leverage ratio exposure measure		Sep-19	Jun-19
	Item	**R'000**	**R'000**
1	Total consolidated assets as per published financial statements	2,983,806	2,790,764
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation		
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure		
4	Adjustments for derivative financial instruments	21,130	14,342
5	Adjustment for securities financing transactions (ie repos and similar secured lending)		
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off- balance sheet exposures)	169,838	203,991
7	Other adjustments	(88,876)	(86,573)
8	**Leverage ratio exposure**	**3,085,899**	**2,922,525**

Table 2

Leverage ratio common disclosure template - LR2		Leverage ratio framework	
		Sep-19	Jun-19
	Item	R'000	R'000
	On-balance sheet exposures		
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	2,935,233	2,749,496
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(88,876)	(86,573)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)**	**2,846,357**	**2,662,924**
	Derivative exposures		
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	27,948	18,238
5	Add-on amounts for PFE associated with all derivatives transactions	21,130	14,342
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework		
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)		
8	(Exempted CCP leg of client-cleared trade exposures)		
9	Adjusted effective notional amount of written credit derivatives		
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)		
11	**Total derivative exposures (sum of lines 4 to 10)**	**49,078**	**32,580**
	Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions		
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)		
14	CCR exposure for SFT assets		
15	Agent transaction exposures		
16	**Total securities financing transaction exposures (sum of lines 12 to 15)**	-	-
	Other off-balance sheet exposures		
17	Off-balance sheet exposure at gross notional amount	336,684	357,631
18	(Adjustments for conversion to credit equivalent amounts)	(166,846)	(153,640)
19	**Off-balance sheet items (sum of lines 17 and 18)**	**169,838**	**203,991**
	Capital and total exposures		
20	**Tier 1 capital**	**284,503**	**308,026**
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	**3,065,274**	**2,899,495**
	Leverage ratio		
22	**Basel III leverage ratio**	**9.28%**	**10.62%**

*** Minimum Regulatory requirement for Leverage ratio = 4.00%**

3. Liquidity risk

The purpose of this document is to disclose both qualitative and quantitative information regarding the Bank's Liquidity position, in specific the Liquidity Coverage Ratio in terms of the Basel III requirements under Regulation 43 of the regulations relating to banks.

In terms of Regulation 43(1)(e)(iii)(F) of regulations relating to banks, minimum disclosure on the Liquidity Coverage Ratio 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.

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 risk management is essentially inseparable from the core banking activities of advances growth and profitability management. Liquidity risk management form an integral part of proactive asset and liability management, which is managed by the Bank's Asset, Liability and Capital Committee (ALCCO).

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 risks that may occur.

The Liquidity Ratios, i.e. Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR), introduced by Basel III are monitored and managed by the Bank's Asset, Liability and Capital Committee (ALCCO). The Liquidity Coverage Ratio has been fully implemented from 01 January 2015 and the minimum requirement is set at 100% for 2019.

Liquidity Coverage Ratio – Table 2.1

	R'000 30-Sep-19
High Quality Liquid Assets	291,152
Net Cash Outflows	146,304
Minimum Required Liquidity Coverage Ratio	100%
Actual Liquidity Coverage Ratio	**199.00%**

LIQUIDITY COVERAGE RATIO (LCR) DISCLOSURE TEMPLATE
ANNEXURE A - LIQ1
Name of bank/ controlling company ………………….. GROBANK
Period ended ………………………. 2019-09-30

		a	b
		Total unweighted value (average)	Total weighted value (average)
High-quality liquid assets			
1	Total HQLA	270,855	258,400
Cash outflows			
2	**Retail deposits and deposits from small business customers, of which:**		
3	Stable deposits		
4	Less stable deposits	650,816	65,082
5	**Unsecured wholesale funding, of which:**		
6	Operational deposits (all counter-parties) and deposits in networks of cooperative banks		
7	Non-operational deposits (all counter-parties)	496,884	312,486
8	Unsecured debt		
9	**Secured wholesale funding**		
10	**Additional requirements, of which:**		
11	Outflows related to derivative exposures and other collateral requirements	14,696	14,696
12	Outflows related to loss of funding on debt products		
13	Credit and liquidity facilities	244,076	17,524
14	**Other contractual funding obligations**	-	-
15	**Other contingent funding obligations**	146,074	7,304
16	**TOTAL CASH OUTFLOWS**	**1,552,546**	**417,091**
17	Secured lending (eg. reverse repos)		
18	Inflows from fully performing exposures	947,730	933,844
19	Other cash inflows	14,402	1,440
20	**TOTAL CASH INFLOWS**	**962,132**	**935,284**
			Total adjusted value
21	**Total HQLA**		**258,400**
22	**Total net cash outflows**		**104,273**
23	**Liquidity Coverage Ratio (%)**		**247.81%**

*** Minimum Regulatory requirement for Liquidity Coverage ratio = 100.00%**

***LCR UNWEIGHTED VALUE BASED ON 90DAYS AVERAGE BEFORE RUN-OFF FACTOR**

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NET STABLE FUNDING RATIO (NSFR) DISCLOSURE TEMPLATE
ANNEXURE B - LIQ2
Name of bank/ controlling company ………………….. GROBANK
Period ended ……………………….. 2019-09-30

	(In currency amount)	Unweighted value by residential maturity			Weighted value
		< 6 months	≥ 6 months to < 1 year	≥1 year	
	Available stable funding (ASF) item				
1	**Capital:**				
2	Regulatory capital			657,025	657,025
3	Other capital instruments				
4	**Retail deposits and deposits from small business customers**				
5	Stable deposits				
6	Less stable deposits	980,953	42,293	4,693	925,613
7	**Wholesale funding:**				
8	Operational deposits				
9	Other wholesale funding	1,098,771	348,513	20,000	606,363
10	**Liabilities with matching interdependent assets**				
11	**Other liabilities**				
12	NSFR derivative liabilities			27,416	-
13	All other liabilities and equity not included in the above categories	37,980	7,448	21,736	25,460
14	**TOTAL ASF**				**2,214,460**

	(In currency amount)	Unweighted value by residential maturity			Weighted value
		< 6 months	≥ 6 months to < 1 year	≥1 year	
	Required stable funding (RSF) item				
15	**Total NSFR High-quality liquid assets (HQLA)**	**291,152**			**13,737**
16	Deposits held with other financial institutions for operational purposes				
17	**Performing loans and securities:**	**636,226**	**100,485**	**1,450,879**	**1,286,184**
18	Performing loans to financial institutions secured by Level 1 HQLA				
19	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	511,115			76,667
20	**Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs of which:**	**112,946**	**82,563**	**768,238**	**750,757**
21	With a risk weight of less than or equal to 35% under Basel II standardised approach for credit risk				
22	**Performing residential mortgages, of which:**	**12,165**	**17,921**	**682,641**	**458,760**
23	With a risk weight of less than or equal to 35% under Basel II standardised approach for credit risk	12,165	17,921	682,641	458,760
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities				
25	**Assets with matching interdependent liabilities**				
26	**Other assets:**	**-**	**-**	**791,366**	**739,275**
27	Physical traded commodities, including gold				
28	Assets posted as initial margin for derivative contracts and distribution to default funds of CCPs				
29	NSFR derivative assets			55,364	3,273
30	NSFR derivative liabilities before deduction of variation margin posted				
31	All other assets not included in above categories			736,002	736,002
32	Off-balance sheet items				19,339
33	TOTAL RSF				2,058,535
34	NET STABLE FUNDING RATIO %				107.57%

*Minimum Regulatory Requirement for Net Stable Funding Ratio = 100%