

THE SOUTH AFRICAN BANK OF ATHENS

PILLAR 3 REGULATORY REPORT  
SEPTEMBER 2011



BANK OF ATHENS

*Recognising you*



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## 1. Introduction

The purpose of this document is to disclose both qualitative and quantitative information regarding the bank's capital adequacy position, risk profile and risk management practices in terms of the Basel II requirements under Regulation 43 of the regulations relating to banks. In terms of Regulation 43(1) (e)(ii) of regulations relating to banks, minimum disclosure on capital adequacy of the bank is required on a quarterly basis. This announcement meets the on-going report requirement for quarterly disclosure in terms of Pillar 3 of the Basel II capital accord.

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

The Pillar 3 report is produced and published quarterly. This report is verified and approved internally in line with the Bank's disclosure policy. The Pillar 3 report has not been audited by the Bank's external auditors; however it includes information that is contained within the audited financial statements as reported in the South African Bank of Athens' Annual Report 2010.

### *Business Profile*

The South African Bank of Athens Limited ('the Bank') was established in 1947 and is a 99,71% subsidiary of National Bank of Greece S.A. (NBG), a major international banking and financial services provider listed on the New York and Athens Stock Exchanges. The parent company's commitment to and close involvement with the Bank provides a solid foundation and contact with the financial centres of the world.

### *Restrictions on transfer of funds or regulatory capital*

There are currently no restrictions or other major impediments on the transfer of funds or capital within the Bank and its Parent Company; NBG.

## 2. Capital Management

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

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

The Risk Management Committee considers the various risks faced by the Bank and analyses the need to hold capital against these risks whilst taking account of the regulatory requirements. In addition, the level of capital required to support the Bank's targeted business growth is taken into consideration.

The objective of the Bank's capital management approach is to ensure the maintenance of sound capital ratios, taking all the above requirements into account, whilst producing appropriate returns to shareholders. The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of the statement of financial position, are:

- To comply with the capital requirements set by the regulators of the banking industry in which the Bank operates;



- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

The capital of the Bank consists almost entirely of tier 1 capital.

Capital adequacy and the use of regulatory capital are monitored daily by the Group's management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the South African Reserve Bank (SARB), for supervisory purposes. The required information is filed with the SARB on a monthly basis.

The Bank maintains a ratio of total regulatory capital to its risk-weighted assets above a minimum level agreed with the SARB which takes into account the risk profile of the Bank. The South African Bank of Athens remained above the minimum required capital adequacy ratio as at the 30 September 2011 with a total capital adequacy of 14.28% and a Tier 1 capital adequacy of 10.62%, exceeding minimum regulatory requirements.

The regulatory capital requirements are strictly observed when managing economic capital. The Bank's regulatory capital comprises two tiers:

- Tier 1 capital: share capital, general bank reserve, statutory reserve, non-controlling interests arising on consolidation from interests in permanent shareholders' equity, retained earnings and reserves created by appropriations of retained earnings. The book value of goodwill is deducted in arriving at Tier 1 capital; and
- Tier 2 capital: qualifying subordinated loan capital, collective impairment allowances and unrealised gains arising on the fair valuation of equity instruments held as available for sale.

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

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

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

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

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

	Sep-11
	R'000
Ordinary Share Capital	16,458
Share Premium	181,227
Retained Earnings/(Loss)	-23,713
Regulatory deductions against primary capital	-7,519
<b>Primary Capital</b>	<b>166,453</b>
Debentures	40,000
50% of Revaluation Reserves	6,789
General Provisions (limited to 1,25% of RWA)	10,663
<b>Secondary Capital</b>	<b>57,452</b>
<b>Total available resources</b>	<b>223,906</b>
<b>Risk Weighted Assets</b>	<b>1,567,615</b>
Total Capital adequacy ratio	14.28%
Primary Capital adequacy ratio	10.62%

**Composition of required regulatory capital- Table 2.2**

	Sep-11
	R'000
Credit Risk *	129,856
Operational Risk **	14,684
Market Risk ***	441
Other Assets	3,941
Equity Risk	1
<b>Total required regulatory capital</b>	<b>148,923</b>

**Composition of risk weighted assets - Table 2.3**

	Sep-11
	R'000
Credit Risk *	1,366,909
Operational Risk **	154,566
Market Risk ***	4,638
Other Assets	41,488
Equity Risk	15
<b>Total risk weighted assets</b>	<b>1,567,615</b>

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

\*\* RWA and required regulatory capital in terms of operational risk are measured using the basic indicator approach.

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



### Capital Structure

The Bank has one class of ordinary shares which carry no right to fixed income. The unissued shares are under the control of the directors subject to notification to and specific approval by National Bank of Greece S.A., until the next Annual General Meeting.

Capital Structure – Table 2.4

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

### 3. Risk Management

#### The Banks Risk Management Philosophy

The Board of Directors is ultimately responsible for establishing, maintaining and monitoring the effectiveness of the Bank's process of risk management and system of internal control. Risk management is a core competency that is required within the Bank. The Bank has adopted an Enterprise Risk and Capital Management approach to address as wide a spectrum of risks. The Bank recognises that effective risk management is core to generating sustainable shareholder value and enhancing stakeholder interests.

#### Credit Risk

Credit risk is defined as the possibility that customers may default on their future cash flow obligations to the Bank. In lending transactions, credit risk arises from the approval of loans and advances, and from off balance sheet exposures such as commitments and guarantees. The South African Bank of Athens Limited has a significant concentration risk which resides in a few clients where facilities granted exceed the 10% of qualifying capital.

#### Management Of Credit Risk

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

Lending is governed by a credit policy which has been approved by the Board of Directors. The credit policy establishes various levels of authority for local credit risk management approval. Anything exceeding this level is recommended to the Senior Credit Committee for consideration and the Board of Directors ratifies exposures in excess of 10% of the Bank's qualifying capital. The Bank has implemented a risk rating model which calculates the probability of default of clients. All clients where facilities have been granted are reviewed via this model.

#### Liquidity Risk And Interest Rate Risk

Liquidity risk is defined as the risk of not being able to generate sufficient cash to meet the Bank's commitment to lenders, depositors and other creditors at any point in time. The management of liquidity is primarily designed to ensure that depositors' funding requirements can be met and that the bank has sufficient funding in place to ensure payment of daily transactions. Interest rate risk is defined as the impact that the repricing of the Bank's assets and liabilities may have on future cash flows and earnings.



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

Liquidity and interest rate risk management are essentially inseparable from the core banking activities of advances growth and profitability management. Liquidity and interest rate risk management form an integral part of proactive asset and liability management, which is managed by the Bank's Asset and Liability Committee (ALCO). Liquidity is managed on a cash flow approach.

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

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

### **Operational Risk**

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

Operational risk includes, but is not limited to, the following:

- Theft and fraud;
- Improper capturing of transactions;
- Statutory and legislative compliance;
- Money laundering;
- System malfunction, interruption or non-availability;
- Legal challenges;
- Loss of key personnel without adequate succession planning; and
- Business continuity.

### ***Management of operational risk***

In managing these risks, the following has been implemented:

- Clearly defined policies and methodologies;
- An effective system of internal controls;
- Well documented procedures that are communicated across the Bank;
- Ensuring that awareness is created on all aspects of risk via workshops or via electronic communications;
- Properly functioning and effective internal audit department;
- Properly functioning and effective compliance division that works closely with the Bank's Risk Division;
- Adequate professional indemnity insurance cover; and
- Adequate business risk management and
- Disaster recovery plans and processes

### **Market risk**

Market risk is defined as the risk that Bank's earnings or capital, or its ability to meet business objectives, will be adversely affected by changes in the level or volatility of market rates or prices such as interest rates, foreign exchange rates, equity prices, commodity prices and credit spreads.

The South African Bank of Athens is exposed to market risk in terms of foreign exchange contracts.



### Hedging and risk mitigation

The Bank uses a wide variety of techniques to reduce credit risk on its lending book of which the most fundamental is to assess the ability of a borrower to service the proposed level of borrowing without distress at the outset. The bank makes wide use of collateral to mitigate credit risk. The bank does not however use hedging as a form of risk mitigation.

## 4. Credit Risk

Financial assets, other than those at fair value through profit and loss, are assessed for indicators of impairment at the end of each reporting period.

Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Bank's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account.

Changes in the carrying amount of the allowance account are recognised in profit or loss. When an Available for sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

In respect of Available for sale equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.



The bank defines a loan as past due but not impaired when the loan is more than 31 days in arrears but no specific provision has been raised on the loan. Advances that are not subject to repayments e.g. overdrafts are considered to be in default when limit arrangements have been breached.

Loans and advances in default are impaired when, following an individual assessment, the bank has raised a specific provision for loss after taking account of the collateral held.

### **Credit Risk mitigation**

The Bank's does not apply netting of on- and off balance sheet exposures when determining its exposure to credit risk. There are no netting arrangements are in place.

The bank makes wide use of collateral to mitigate credit risk. Fair value of collateral is determined with reference to the realisable value of security under forced sale conditions.

The main types of collateral and the value placed thereon are as follows:

- Cession of debtors at 30% of book falling within the current to 90 day categories depended on debtor quality and spread. Increased reliance is considered where the book is insured and the insurance policy is ceded to the bank.
- Value is placed on quoted shares normally at 50% of Market value but this is also dependent on the quality of the shares being pledged
- Cession of life and endowment policies at 70% of surrender value
- Pledge of call and savings accounts, fixed and notice deposits at 90% – 100%
- Bonds over vacant land at 50% of professional valuation
- Bonds over residential properties at 80% of professional valuation
- Bonds over commercial properties at 70% of professional valuation
- Bonds over industrial properties at 60% of professional valuation
- Values on motor vehicles, trucks and other equipment are dependent on the asset type and depreciated value.
- Collateral is values daily, monthly and at the very least annually dependant on its volatility.

Guarantees are generally requested from business owners given the market the bank operates in. Guarantees are also generally secured from asset owning entities within a group. Credit worthiness of guarantors is established at the time of granting the facilities and reviewed at least annually.

Due to a high concentration to large borrowers the bank is exposed in terms of some of the collateral provided by these borrowers.

The bank operates within counterparty limits that have been approved by its parent company National Bank of Greece and exposures are reported to the parent on a quarterly basis.



**Gross credit exposure per product type- Table 4.1**

	<b>Sep-11</b>
	<b>R'000</b>
<b>Category analysis</b>	
Overdrafts	214,467
Property, commercial and other loans	504,510
Home loans	308,737
Instalment credit and lease agreements	319,940
Non-Performing Loans	25,126
	<b>1,372,780</b>
Less: Credit Impairment	-20,858
Overdrafts	-7,894
Property, commercial and other loans	-7,081
Home loans	-2,231
Instalment credit and lease agreements	-3,652
<b>Net Loans and Advances</b>	<b>1,351,922</b>

<b>Gross credit exposure per asset class - Table 4.2</b>	<b>Sep-11</b>
<b>Category analysis 2</b>	<b>R'000</b>
Corporate exposure	
Corporate	84,955
SME corporate	568,254
Retail exposure	
Retail	308,713
SME retail	410,859
<b>Gross credit exposure excluding sovereigns and banks</b>	<b>1,372,780</b>
Less: Credit Impairment	-20,858
Retail	-6,491
SME retail	-14,367
<b>Net Loans and Advances</b>	<b>1,351,922</b>
Sovereign (including central government and central bank)	59,473
Banks	45,736
<b>Total</b>	<b>1,457,131</b>

<b>Gross credit exposure per Sectoral analysis - Table 4.3</b>	<b>Sep-11</b>
	<b>R'000</b>
Agriculture	0
Mining	12,771
Manufacturing	158,367
Construction	1,555
Electricity and water	22,615
Trade/Accommodation	107,988
Transport & Communication	88,536
Financial/Real Estate	396,813
Other Service	26,166
Other	270,431
Individuals	287,538
<b>Gross credit exposure</b>	<b>1,372,780</b>



<b>Gross credit exposure per Geographical distribution - Table 4.4</b>		<b>Sep-11</b>
		<b>R'000</b>
South Africa		1,360,625
Europe		12,155
		<b>1,372,780</b>

**Maturity Analysis of gross credit exposure as at 30 September 2011 – Table 4.5**

	<b>Maturing within one day to six months</b>	<b>Maturing within six months to one year</b>	<b>Maturing after one year but within five years</b>	<b>Maturing after five years</b>	<b>Total</b>
	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>
Corporate	49,373	3,088	32,493	-	84,955
SME corporate	126,774	813	180,726	259,941	568,254
Retail	11,977	523	59,652	236,560	308,713
SME retail	74,770	2,119	192,851	141,119	410,859
<b>Gross credit exposure excluding sovereigns and banks</b>	<b>262,893</b>	<b>6,544</b>	<b>465,723</b>	<b>637,620</b>	<b>1,372,780</b>

<b>Sovereigns and Banks</b>					
Sovereign	59,473	-	-	-	59,473
Banks	45,736	-	-	-	45,736
<b>Total</b>	<b>368,103</b>	<b>6,544</b>	<b>465,723</b>	<b>637,620</b>	<b>1,477,989</b>

**Non-performing Loans and Advances by category - Table 4.6**

	<b>Credit Risk</b>	<b>Securities and other expected recoveries</b>	<b>Specific provision</b>
	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>
Overdraft	4,157	2,710	1,447
Commercial and property loans	7,235	4,038	3,196
Instalment sale	2,700	1,119	1,582
Home loans	11,034	9,898	1,136
<b>Total</b>	<b>25,126</b>	<b>17,765</b>	<b>7,361</b>



**Non performing lendings by sector - Table 4.7**

	<b>Credit Risk</b>	<b>Securities and other expected recoveries</b>	<b>Specific provision</b>
	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>
Agriculture	-	-	-
Mining	-	-	-
Manufacturing	5,390	3,811	1,579
Construction	-	-	-
Electricity and water	-	-	-
Trade/Accommodation	3,868	2,735	1,133
Transport & Communication	4	3	1
Financial/Real Estate	4,785	3,383	1,402
Other Service	-	-	-
Other	1,543	1,091	452
Individuals	9,535	6,742	2,793
<b>Total</b>	<b>25,126</b>	<b>17,765</b>	<b>7,361</b>

**Ageing analysis of Loans and Advances past due but not individually impaired - Table 4.8**

	<b>Consumer</b>	<b>Mortgage</b>	<b>Small Business loans</b>	<b>Corporate loans</b>	<b>Total Loans</b>
	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>
Past due up to 30	103	3,703	12,131	0	15,937
Past due 31 - 60 days	0	669	678	0	1,347
Past due 61 - 90 days	0	1,622	0	0	1,622
Past due 91 - 180 days	0	0	6,939	169	7,108
Past due 180 - 365 days	0	0	0	0	0
Past due 1 - 2 years	0	0	0	0	0
Past due over 2 years	0	201	1,273	0	1,474
<b>Total</b>	<b>103</b>	<b>6,195</b>	<b>21,021</b>	<b>169</b>	<b>27,488</b>

**Ageing analysis of loans individually impaired - Table 4.9**

	<b>Consumer</b>	<b>Mortgage</b>	<b>Small Business loans</b>	<b>Corporate loans</b>	<b>Total Loans</b>
	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>	<b>R'000</b>
Past due up to 30	3,694	0	0	0	3,694
Past due 31 - 60 days	0	0	0	0	0
Past due 61 - 90 days	0	0	0	0	0
Past due 91 - 180 days	217	1,330	2,854	0	4,401
Past due 180 - 365 days	72	2,611	2,520	0	5,203
Past due 1 - 2 years	0	1,544	4,272	0	5,816
Past due over 2 years	37	29	5,946	0	6,012
<b>Total</b>	<b>4,020</b>	<b>5,514</b>	<b>15,592</b>	<b>0</b>	<b>25,126</b>



## CREDIT IMPAIRMENT FOR LOANS AND ADVANCES - Table 4.10

	Sep-11 R'000
<b>Category analysis</b>	
Balance at 1 January	17,707
Interest in abeyance	2,147
Amounts written off against provisions	142
	<b>19,996</b>
Charge to the income statement	<b>863</b>
Specific impairment	2,116
Portfolio impairment	820
Recoveries of balances raised in current year	-162
Recoveries of Balance previously written off	-1,911
Recoveries of Balance previously written off	-
<b>Balance</b>	<b>20,858</b>
<b>Analysis</b>	
Specific impairment	7,361
Portfolio impairment	13,497
<b>Balance</b>	<b>20,858</b>

### External Credit Agencies

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

Only Bank exposures have been given credit assessment ratings.

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

Fitch Ratings - Table 4.11						
	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Below B-	Unrated
Banks(Short term)	20%	20%	20%	50%	150%	20%
Banks(Other)	20%	50%	50%	100%	150%	50%

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

### Outstanding amounts in respect of rated exposures as at the 30 September 2011 - Table 4.12

	Gross Exposure	Risk Weighted Exposure
AA	6,008	1,202
A	3,323	665
B	1,206	603
BBB	965	193
Unrated	1,741,129	1,162,511
	<b>1,752,632</b>	<b>1,165,174</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 September 2011.

For every forward exchange contract sale made by the bank, there is an equivalent purchase and as such the bank is adequately hedged against counterparty credit risk.

#### Fair Value of derivatives - Table 4.13

	Sep-11
	R'000
Gross positive fair value of derivative assets	4,514
Gross positive fair value of derivative liabilities	4,388
<b>Net exposure</b>	<b>126</b>

#### Notional value of derivatives - Table 4.14

	Jun-11
	R'000
<b>Foreign Exchange Contract</b>	
Assets	116,932
Liabilities	43,011

## 5. Market risk

Market risk is defined as the risk that Bank's earnings or capital, or its ability to meet business objectives, will be adversely affected by changes in the level or volatility of market rates or prices such as interest rates, foreign exchange rates, equity prices, commodity prices and credit spreads. The South African Bank of Athens is exposed to market risk in terms of foreign exchange contracts.

Available for sale financial assets are non-derivatives that are either designated as available for sale or are not classified as (a) loans and receivables, (b) held to- maturity investments or (c) financial assets at fair value through profit or loss.

The Bank has investments in unlisted shares that are not traded in an active market but that are also classified as available for sale financial assets and stated at fair value at the end of each reporting period (because the directors consider that fair value can be reliably measured).

The foreign exchange contracts as well as the unlisted shares are classified as available for sale financial assets.

Changes in the carrying amount of available for sale monetary financial assets relating to changes in foreign currency rates, interest income calculated using the effective interest method and dividends on available for sale equity investments are recognised in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve.



Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. Dividends on available for sale equity instruments are recognised in profit or loss when the Bank's right to receive the dividends is established.

The fair value of available for sale monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period.

The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

The Capital requirements in terms of market risk and equity instruments are shown in Table 2.1 Composition of required regulatory capital and the risk weighted assets are shown in Table 2.2 Composition of risk weighted assets.

The directors' valuation of the unlisted investment equates to the fair value which approximates cost and is R15,000.

## **6. Interest rate risk**

The risk is managed by the Bank by maintaining an appropriate mix between fixed and floating rate borrowings. Liquidity and interest rate risk management are essentially inseparable from the core banking activities of advances growth and profitability management.

Liquidity and interest rate risk management form an integral part of proactive asset and liability management, which is managed by the Bank's Asset and Liability Committee (ALCO). Liquidity is managed on a cash flow approach.

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

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

The Bank's exposures to interest rates on financial assets and financial liabilities are measured and reviewed on a monthly basis through the ALCO.

Exposure to interest rate risk is measured on a monthly basis using the regulatory sensitivity analysis of a 200 basis point shift in expected rates.

Assumptions relating to behaviour of assets and liabilities:

- All our Loans and Advances are variable rate items
- Treasury Bills are the only fixed rate assets on our book
- Fixed deposits and Negotiable Certificates of Deposit are the only fixed rate liabilities which account for 10.04% of the deposit book.



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

Assets	Fixed	Floating	Non-interest sensitive	Total
	R'000	R'000	R'000	R'000
Cash and short-term funds	-	45,736	42,862	88,598
Derivative financial assets	-	-	4,514	4,514
Short-term negotiable assets	59,473	-	-	59,473
Other investments	-	-	15	15
Advances	-	1,351,922	-	1,351,922
Other accounts receivable	-	-	11,679	11,679
Property and equipment	-	-	29,809	29,809
Intangible assets	-	-	7,354	7,354
	<b>59,473</b>	<b>1,397,658</b>	<b>96,233</b>	<b>1,553,364</b>

Liabilities	Fixed	Floating	Non-interest sensitive	Total
	R'000	R'000	R'000	R'000
Long term interest bearing borrowings	-	40,000	-	40,000
Deposits, current and other accounts	131,345	1,176,752	-	1,308,097
Derivative financial liabilities	-	-	4,388	4,388
Other liabilities	-	-	11,935	11,935
Provision	-	-	1,402	1,402
	<b>131,345</b>	<b>1,216,752</b>	<b>17,724</b>	<b>1,365,821</b>

### Interest rate Sensitivity Analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

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



### Interest rate Sensitivity Analysis – Table 6.2

<b>Assets</b>	<b>Up to 1 month</b>	<b>1 to 31 months</b>	<b>3 to 12 months</b>	<b>1 to 2 years</b>	<b>2 to 5+ years</b>	<b>Non-Interest Bearing</b>	<b>Total</b>
Cash and short-term funds	-	-	-	-	-	42,862	42,862
Due from other Banks	45,736	-	-	-	-	-	45,736
Derivative financial assets	-	-	-	-	-	4,514	4,514
Short-term negotiable assets	9,993	44,552	4,929	-	-	-	59,473
Other investments	-	-	-	-	-	15	15
Advances	1,351,922	-	-	-	-	-	1,351,922
Other accounts receivable	-	-	-	-	-	11,679	11,679
Property and equipment	-	-	-	-	-	29,809	29,809
Intangible assets	-	-	-	-	-	7,354	7,354
	<b>1,407,650</b>	<b>44,552</b>	<b>4,929</b>	<b>0</b>	<b>0</b>	<b>96,233</b>	<b>1,553,364</b>

<b>Liabilities</b>	<b>Up to 1 month</b>	<b>1 to 31 months</b>	<b>3 to 12 months</b>	<b>1 to 2 years</b>	<b>2 to 5+ years</b>	<b>Non-Interest Bearing</b>	<b>Total</b>
Due to other Banks	202,368	-	-	-	-	-	202,368
Due to customers	572,281	291,536	241,762	150	0	-	1,105,729
Derivative financial liabilities	-	-	-	-	-	4,388	4,388
Debentures	-	-	40,000	-	-	-	40,000
Other liabilities	-	-	-	-	-	11,935	11,935
Provision	-	-	-	-	-	1,402	1,402
	<b>774,649</b>	<b>291,536</b>	<b>281,762</b>	<b>150</b>	<b>0</b>	<b>17,724</b>	<b>1,365,821</b>

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



Percentage impact of a parallel rate shock - Table 6.3

	Cumulative change in NII over 12 months	Percentage change in EVE
Interest Rate Increase	10,644	4.75%
Interest Rate Decrease	-10,644	-4.75%

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 September 2011 – Table 6.4

Assets	ZAR	USD	EURO	Other	Total
	R'000	R'000	R'000	R'000	R'000
Cash and short-term funds	74,021	6,361	5,721	2,495	88,598
Derivative financial assets	-	3,710	388	416	4,514
Short-term negotiable assets	59,473	-	-	-	59,473
Other investments	15	-	-	-	15
Advances	1,319,830	32,092	-	-	1,351,922
Other accounts receivable	11,679	-	-	-	11,679
Property and equipment	29,809	-	-	-	29,809
Intangible assets	7,354	-	-	-	7,354
	<b>1,502,181</b>	<b>42,163</b>	<b>6,109</b>	<b>2,911</b>	<b>1,553,364</b>

Liabilities	ZAR	USD	EURO	Other	Total
	R'000	R'000	R'000	R'000	R'000
Deposits, current and other accounts	1,087,605	12,944	4,408	772	1,105,729
Due to other Banks	105,133	97,235	-	-	202,368
Derivative financial liabilities	-	3,599	386	403	4,388
Other liabilities	11,935	-	-	-	11,935
Provision	1,402	-	-	-	1,402
Long term liabilities	40,000	-	-	-	40,000
	<b>1,246,074</b>	<b>113,778</b>	<b>4,794</b>	<b>1,175</b>	<b>1,365,821</b>



## 7. Corporate Governance

The Bank is committed to the highest levels of business ethics and organisational integrity in the conduct of its business and in its dealings with customers, therefore each business area and every employee of the group is responsible for acting in accordance with sound corporate governance practices.

The overall responsibility for compliance with regulations and codes of business practices rests with the Board of Directors. In terms of the provisions of the articles of association, a number of Board appointed committees have been established to assist the Board in discharging its responsibilities.

Specific responsibilities have been delegated to these committees, which operate according to written charters approved by the Board and which are subject to review on an annual basis. Furthermore, the minutes of these committees' meetings are submitted to the Board for noting.

The Board of Directors is responsible for ensuring that an adequate and effective process of corporate governance exists and is maintained, taking into account the nature, complexity and risks inherent in the Bank's on and off-balance sheet activities and which responds to changes in the Bank's environment and conditions.

The board of directors are ultimately responsible for the capital and risk management strategy of the Bank.

All risk management policies and frameworks are approved by the Board.

The Board of Directors met four times during the year under review in order to evaluate the Bank's performance, assess risk and review the strategic direction of the Bank against its overall strategy and long term goals.