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The South African Bank of Athens Limited

PILLAR 3 REGULATORY REPORT
June 2016



BANK OF ATHENS

Business and Commercial Bank

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1. Introduction

The purpose of this document is to disclose both qualitative and quantitative information regarding the Bank's capital adequacy position, risk profile and risk management practices in terms of the Basel III requirements under Regulation 43 of the regulations relating to banks.

In terms of Regulation 43(1) (e) (iii) of regulations relating to banks, minimum disclosure on capital adequacy of the bank is required on a quarterly basis. This announcement meets the on-going report requirement for quarterly disclosure in terms of Pillar 3 of the Basel III capital accord.

The Pillar 3 report is produced and published quarterly. This report is verified and approved internally in line with the Bank's disclosure policy.

The Pillar 3 report has not been audited by the Bank's external auditors.

Business Profile

The South African Bank of Athens Limited ('the Bank') was established in 1947 and is a 99.81% subsidiary of National Bank of Greece S.A. (NBG), a major international banking and financial services provider. The parent company's commitment to and close involvement with the Bank provides a solid foundation and contact with the financial centres of the world.

Restrictions on transfer of funds or regulatory capital

There are currently no restrictions or other major impediments on the transfer of funds or capital within the Bank.

2. Capital Management

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

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

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

- To comply with the capital requirements set by the regulators of the banking industry in which the Bank operates;
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

The capital of the Bank consists tier 1 capital and tier 2 capital.

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.

The South African Bank of Athens remained above the minimum required capital adequacy ratio as at the 30 Jun 2016 with a total capital adequacy of 13.09% and a Tier 1 capital adequacy of 9.64%, exceeding minimum regulatory requirements.

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

- Tier 1 capital: share capital, general bank reserve, statutory reserve, unrealised gains arising on the fair valuation of equity instruments held as available for sale, retained earnings and reserves created by appropriations of retained earnings. The book value of intangible assets is deducted in arriving at Tier 1 capital; and
- Tier 2 capital: collective impairment allowances and debentures

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

Regulatory Capital and Risk weighted assets – Table 2.1

	R'000
	Jun-16
Ordinary Share Capital	24 158
Share Premium	339 027
Revaluation Reserves	5 439
Total common equity tier 1 capital and unimpaired reserve funds	368 624

Retained Earnings/(Loss)	(119 218)
Regulatory deductions against primary capital	(66 195)
Total common equity tier 1 capital after regulatory adjustments	183 211
Tier 2 capital	
General Provisions	15 517
Long-term debt instrument(debentures)	50 000
Total qualifying capital and reserve funds	248 728
Risk Weighted Assets	1 899 845
Total Capital adequacy ratio	13.09%
Tier 1 Capital adequacy ratio	9.64%

Composition of risk weighted assets and required regulatory capital- Table 2.2

	Composition of Risk Weighted Assets	Base Minimum Required Regulatory Capital
	R'000	R'000
Credit Risk *	1 620 817	158 030
Counter party risk****	18 090	1 764
Operational Risk **	211 938	20 664
Market Risk ***	7 589	740
Other Assets	41 396	4 036
Equity Risk	15	1
Total	1 899 845	185 235

* 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.

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 2.3

	Jun-16
	R'000
Authorised	
100 000 000 ordinary shares of R1 each (par value)	100 000
Issued	
Ordinary Share Capital	24 158
Share Premium	
Share Premium	339 027
Term-debt instruments	
Debentures	50 000

3. Risk Management

The Banks Risk Management Philosophy

The Board of Directors is ultimately responsible for establishing, maintaining and monitoring the effectiveness of the Bank's process of risk management and system of internal control. SABA recognises that effective risk management is core to generating sustainable shareholder value and enhancing stakeholder interests. The Bank's Risk Management business unit operates independently from other business units and monitors and reports on risks to ensure adherence to the stated risk appetite as set by the Board of Directors. Business units are ultimately responsible for managing risks that arise.

Credit Risk

Credit risk is defined as the possibility that customers may default on their future cash flow obligations to the Bank. In lending transactions, credit risk arises from the non-payment of approved loans and advances, and from off-balance sheet exposures such as commitments and guarantees. The Bank actively manages its credit risk at the individual transaction, counterparty and portfolio level using a variety of qualitative and quantitative measures. Customers' credit worthiness is thoroughly assessed before any credit facility is recommended to or granted by the various credit committees. The credit granting philosophy is a conservative one, where the ability and willingness of the borrower to repay a loan is analysed and is not simply based on the collateral offered. Lending is governed by a credit policy which has been approved by the Board of Directors and NBG. The credit policy establishes various levels of authority for local credit risk management approval. Facilities exceeding these levels are recommended to the Senior Credit Committee for consideration. The Board of Directors ratifies all exposures in excess of 10% of the Bank's qualifying capital. The Bank has implemented a risk rating model which calculates the probability of default of customers. All business banking customers are reviewed using this model.

Liquidity Risk And Interest Rate Risk

Liquidity risk is defined as the risk of not being able to generate sufficient cash to meet the Bank's commitment to lenders, depositors and other creditors at any point in time. The management of liquidity is primarily designed to ensure that depositors' funding requirements can be met and that the Bank has sufficient funding in place to ensure payment of daily transactions.

Operational Risk

Operational risk is defined as the risk of loss or earnings volatility arising from inadequate or failed internal processes, people and systems, or from external events. SABA recognises that operational risk is a significant risk category and therefore strives to manage this within set tolerance levels through the implementation of appropriate and relevant operational risk management practices. Operational risk includes, but is not limited to, the following:

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

Management of operational risk

In managing this risk, the following has been implemented and is reviewed on an annual basis:

- Clearly defined policies and methodologies;
- An effective system of internal controls;
- Well documented procedures that are communicated across the Bank;

- Ensuring that awareness is created off all aspects of risk via workshops or via electronic communications;
- Properly functioning and effective internal audit department;
- Properly functioning and effective compliance division that works closely with the Banks Risk Division;
- Adequate professional indemnity insurance cover; and
- Adequate business risk management and
- Disaster recovery plans and processes

Market risk

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

Hedging and risk mitigation

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

4. Credit Risk

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

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

Objective evidence of impairment could include:

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

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

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

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

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

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

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

Credit Risk mitigation

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

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

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

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

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

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

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

Gross credit exposure per product type (BA 200 product)- Table 4.1

	Jun-16
	R'000
Category analysis 1	
Overdrafts	170,515
Property, commercial and other loans	768,925
Home loans	548,138
Instalment credit and lease agreements	263,399
Non-Performing Loans	217,330
Gross credit exposure excluding sovereigns and banks	1,968,306
Less: Credit Impairment	-124,082
Overdrafts	-27,024
Property, commercial and other loans	-8,814
Home loans	-7,781
Instalment credit and lease agreements	-80,463
Net Loans and Advances	1,844,225

Gross credit exposure per asset class (per BA 200 asset classes)- Table 4.2

	Jun-16
	R'000
Category analysis 2	
Corporate exposure	
Corporate	156,653
SME corporate	733,041
Retail exposure	
Retail	451,453
SME retail	627,159
Gross credit exposure excluding sovereigns and banks	1,968,306
Less: Credit Impairment	-124,082
Corporate	-40,515
SME Corporate	-42,813
Retail	-4,268
SME retail	-36,486
Net Loans and Advances	1,844,225
Sovereign (including central government and central bank)	143,317
Banks	346,947
Total Net exposure	2,334,488

Gross credit exposure per Sectorial analysis - Table 4.3

Jun-16

	R'000
Agriculture, hunting, forestry and fishing	252
Business services	239,537
Community, social and personal services	414
Construction	18,650
Financial intermediation and insurance	700,727
Manufacturing	76,872
Mining and quarrying	10,849
Other	107,014
Real estate	835,021
Sovereign (central governments and central bank)	143,317
Transport, storage and communication	244,708
Wholesale and retail trade, repair of specified items, hotel	81,209
Gross credit exposure	2,458,570

Gross credit exposure per Geographical distribution - Table 4.4

	Jun-16
	R'000
South Africa	2 458 570
Gross credit exposure	2 458 570

Maturity Analysis of gross credit exposure as at 30 Jun 2016 – Table 4.5

Maturing within one day to six months	Maturing within six months to one year	Maturing after one year but within five	Maturing after five years	Total

			years		
	R'000	R'000	R'000	R'000	R'000
Corporate	55,670	6,054	60,060	34,869	156,653
SME corporate	93,044	40,067	363,225	236,706	733,042
Retail	17,162	12,106	109,960	312,226	451,453
SME retail	150,633	45,062	253,271	178,193	627,159
Gross credit exposure excluding sovereigns and banks	316,509	103,288	786,516	761,994	1,968,307

Sovereigns and Banks					
Sovereign	143,317				143,317
Banks	346,946				346,946
Total Gross credit exposure	806,772	103,288	786,516	761,994	2,458,570

Non-performing Loans and Advances by category - Table 4.6

	Credit Risk	Securities and other expected recoveries	Specific provision
	R'000	R'000	R'000
Overdraft	31,219	4,195	27,024
Commercial and property loans	56,748	47,934	8,814
Instalment sale	90,840	10,377	80,463
Home loans	38,523	30,741	7,781
Total	217,330	93,248	124,082

Non performing lending by sector - Table 4.7

	Jun-16		
	Credit Risk	Securities and other expected recoveries	Specific provision
	R'000	R'000	R'000
Business services	91,698	22,997	68,702
Construction	23	16	6

Financial intermediation and insurance	2,347	1,581	766
Manufacturing	2,464	170	2,295
Mining and quarrying	6,569	-	6,569
Individuals	25,736	2,320	23,416
Real estate	77,949	64,904	13,045
Transport, storage and communication	10,544	1,260	9,284
Gross credit exposure	217,330	93,248	124,082

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

	Consumer	Mortgage	Small Business loans	Corporate loans	Total Loans
	R'000	R'000	R'000	R'000	R'000
Past due up to 30	755	9,783	32,264	3,127	45,929
Past due 31 - 60 days		2,755	2,884	5,492	11,131
Past due 61 - 90 days		717			717
Total	755	13,255	35,148	8,619	57,777

Ageing analysis of loans individually impaired - Table 4.9

	Consumer	Mortgage	Small Business loans	Corporate loans	Total Loans
	R'000	R'000	R'000	R'000	R'000
Past due 91 - 180 days		7,748	7,729	903	16,380
Past due 180 - 365 days		8,406	14,858	9,290	32,554
Past due 1 - 2 years	1,140	5,009	27,571	6,117	39,837
Past due over 2 years	21,210	1,752	16,369	89,228	128,559
Total	22,350	22,915	66,527	105,538	217,330

Credit Impairment For Loans And Advances - Table 4.10

	30-Jun-16
Category analysis	R'000
Balance at 1 January	136,652
Amounts written off against provisions	-2,813
	133,839
Charge to the income statement	5,760
Specific impairment	10,886
Portfolio impairment	-

Recoveries of balances raised in current year	-5,124
Recoveries of Balance previously written off	-1
Recoveries of Balance previously written off	
Balance as at 30 June 2016	139,599
Analysis	
Specific impairment	124,082
Portfolio impairment	15,517
Balance	139,599

Sectorial Analysis – Non-performing Table 4.11 (General & Specific impairment)

	R '000
Agriculture, hunting, forestry and fishing	2
Business services	68,702
Construction	8
Electricity & water	35
Financial / Real Estate	18,039
Individuals	30,429
Manufacturing	2,821
Mining	6,606
Other	2,346
Trade & accomodation	352
Transport and Communication	10,260
Total	139,599

Outstanding amounts in respect of Geographical distribution exposures as at the 30 June 2016 - Table 4.12

	Gross Exposure	Risk Weighted Exposure
AAA to AA-	244,882	44,472
A+ to A-	168	35
BBB+ to BBB-	2,207,924	1,413,490
BB+ to B-	3	2
Below B-	5,593	1,587
Unrated		
	2,458,570	1,459,587

Counterparty Credit Risk

The Bank is exposed to counterparty credit risk in so far as Forward Exchange Contracts are concerned. The Bank adopted the current exposure method to assign capital in respect of exposures to counterparty risk.

In respect of counterparty credit risk there were neither netting agreements nor collateral arrangements in place at the end of June 2016.

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

	Jun-16
	R'000
Gross positive fair value of derivative assets	11 605
Gross positive fair value of derivative liabilities	30 880
Net exposure	-19 275

Notional value of derivatives - Table 4.14

	Jun-16
	R'000
Foreign Exchange Contract	
Assets	673 090
Liabilities	420 646

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:

- Composition of required regulatory capital is shown in Table 2.1.
- Composition of risk weighted assets are shown in Table 2.2.

The fair value of the unlisted investment equates to R15,000

6. Interest rate risk

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

Liquidity and interest rate risk management form an integral part of proactive asset and liability management, which is managed by the Bank's Asset, Liability and Capital Committee (ALCCO). 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 ALCCO.

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

Assumptions relating to behaviour of assets and liabilities:

- Loans and Advances are variable rate items
- Treasury Bills are the only fixed rate assets on our book
- Fixed deposits and Negotiable Certificates of Deposit are the only fixed rate liabilities
- Debentures are according to variables rates.

Interest Rate Risk as at 30 June 2016 – Table 6.1

Assets	Fixed	Floating	Non-interest sensitive	Total
	R'000	R'000	R'000	R'000
Cash and cash equivalents		97,211	309,079	406,290
Derivative financial assets			11,605	11,605
Short-term negotiable assets	143,317			143,317
Other investments			15	15
Advances		1,720,130		1,720,130
Other accounts receivable			15,654	15,654
Property and equipment			26,741	26,741
Intangible assets			66,195	66,195
	143,317	1,817,341	429,289	2,389,947

Liabilities	Fixed	Floating	Non-interest sensitive	Total
	R'000	R'000	R'000	R'000
Long-term debt instruments		50,000		50,000
Deposits, current and other accounts	1,076,803	906,547		1,983,350
Equity			295,210	295,210
Derivative financial liabilities			30,880	30,880
Other liabilities			30,506	30,506
	1,076,803	956,547	356,597	2,389,947

Interest rate Sensitivity Analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 200 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

At the reporting date, a 200 basis point change in prevailing interest rates was applied as a sensitivity analysis to determine the impact on earnings as a result of a change in the interest rates. If interest rates increased/decreased by 200 basis points and all other variables remained constant, the Bank's net profit and equity at year-end would increase by R 1.608million and decrease by R 1.608million.

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 Bearing	Total
Cash and cash equivalents	-	-	-	-	-	309,079	309,079
Due from other Banks	97,211	-	-	-	-	-	97,211
Derivative financial assets	-	-	-	-	-	11,605	11,605
Short-term negotiable assets	106,632	36,685	-	-	-	-	143,317
Other investments	-	-	-	-	-	15	15
Advances	1,720,130	-	-	-	-	-	1,720,130
Other accounts receivable	-	-	-	-	-	15,654	15,654
Property and equipment	-	-	-	-	-	26,741	26,741
Intangible assets	-	-	-	-	-	66,195	66,195
	1,923,973	36,685	-	-	-	429,289	2,389,947

Liabilities	Up to 1 month	> 1 to 3 months	3 to 12 months	1 to 2 years	2 to 5+ years	Non-Interest Bearing	Total
Due to other Banks	275,599	147,300	148,110			249,406	820,415
Due to customers	918,017	460,420	78,904				1,457,341
Long-term debt instruments	-	-	-	-	50,000		50,000

Derivative financial liabilities	-	-	-	-	-	30,880	30,880
Other liabilities	-	-		-	-	31,311	31,311
	1,193,616	607,720	227,014	-	50,000	311,598	2,389,947

Below are the resultant effects on Net Interest Income (NII) of a 200 basis points shift in expected rates

Percentage impact of a parallel rate shock - Table 6.3	Cumulative change in NII over 12 months
Interest Rate Increase	6 608
Interest Rate Decrease	(6 608)

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

Foreign Currency exposure as at 30 June 2016 – Table 6.4

Assets	ZAR	USD	EURO	Other	Total
	R'000	R'000	R'000	R'000	R'000
Cash and cash equivalents	126,037	249,632	22,888	7,733	406,290
Derivative financial assets	0	7,107	3,942	556	11,605
Short-term negotiable assets	143,317				143,317
Other investments	15				15
Advances	1,698,860	6,698	14,573		1,720,130
Other accounts receivable	15,654				15,654

Property and equipment	26,741				26,741
Intangible assets	66,195				66,195
	2,076,819	263,436	41,403	8,289	2,389,947

Liabilities	ZAR	USD	EURO	Other	Total
	R'000	R'000	R'000	R'000	R'000
Deposits, current and other accounts	1,614,426	626,934	36,272	123	2,277,756
Long-term debt instruments	50,000				50,000
Derivative financial liabilities	0	26,560	3,770	550	30,880
Other liabilities	31,311				31,311
	1,695,737	653,494	40,042	673	2,389,947

1. 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, Liability and Capital 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.

2. 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.