

The South African Bank of Athens Limited

PILLAR 3 REGULATORY REPORT

December 2017



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 31 December 2017 with a total capital adequacy of 14.26% and a Tier 1 capital adequacy of 10.92%, 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, non-distributable reserves, unrealised gains arising on the fair valuation of equity instruments held as available for sale, accumulated losses. The book value of intangible assets is deducted in arriving at Tier 1 capital; and
- Tier 2 capital: collective impairment allowances and debentures

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

| | R'000 |
|--|------------------|
| | 31-Dec-17 |
| Ordinary Share Capital | 31,781 |
| Share Premium | 406,404 |
| Revaluation Reserves | 4,596 |
| Total common equity tier 1 capital and unimpaired reserve funds | 442,781 |
| Retained Earnings/(Loss) | (166,344) |
| Regulatory deductions against primary capital | (83,731) |
| Total common equity tier 1 capital after regulatory adjustments | 192,706 |
| | |
| Tier 2 capital | |
| General Provisions | 18,768 |
| Long-term debt instrument (Debentures) | 40,000 |
| | |
| Total qualifying capital and reserve funds | 251,474 |
| | |
| Risk Weighted Assets | 1,763,953 |
| | |
| Total Capital adequacy ratio | 14.26% |
| Tier 1 Capital adequacy ratio | 10.92% |

Required capital adequacy ratios and amounts - Table 2.2

| | 31-Dec-17 | |
|--|----------------------|----------------------|
| | Percentages | Rand amounts (R'000) |
| | Common Equity Tier 1 | Common Equity Tier 1 |
| Base minimum (2) | 4.50% | 79,378 |
| Add-on: systemic risk add-on (Pillar 2A) | 1.50% | 26,459 |
| Add-on: conservation buffer (6) | 1.25% | 22,049 |
| | 8.00% | 141,116 |

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

| 31-Dec-17 | | |
|------------------------|-------------------------------------|--|
| Risk weighted exposure | Composition of Risk Weighted Assets | Base Minimum Required Regulatory Capital |
| | R'000 | R'000 |
| Credit Risk * | 1,475,433 | 140,166 |
| Counter party risk**** | 31,660 | 3,008 |
| Operational Risk ** | 215,497 | 20,472 |
| Market Risk *** | 2,007 | 191 |
| Other Assets | 39,341 | 3,737 |
| Equity Risk | 15 | 1 |
| Total | 1,763,953 | 167,576 |

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

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

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

**** RWA and required regulatory capital in terms of counterparty risk are measured using the current exposure method under the standardised approach.

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

| | 31-Dec-17 |
|--|-----------|
| | R'000 |
| Authorised | |
| 100 000 000 ordinary shares of R1 each (par value) | 100,000 |
| Issued | |
| Ordinary Share Capital | 31,781 |
| Share Premium | |
| Share Premium | 406,404 |
| Term-debt instruments | |
| Debentures | 50,000 |

3. 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.

Gross credit exposure per product type - Table 4.1

| | 31-Dec-17 |
|--|------------------|
| | R'000 |
| Category analysis | |
| Overdrafts | 133,099 |
| Property, commercial and other loans | 644,621 |
| Home loans | 710,741 |
| Instalment credit and lease agreements | 211,558 |
| Non-Performing Loans | 123,694 |
| | 1,823,713 |
| Less: Credit Impairment | (51,160) |
| Overdrafts | (7,229) |
| Property, commercial and other loans | (14,227) |
| Home loans | (13,930) |
| Instalment credit and lease agreements | (15,774) |
| Net Loans and Advances | 1,772,553 |

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

| | 31-Dec-17 |
|---|------------------|
| | R'000 |
| Category analysis 2 | |
| Corporate exposure | |
| Corporate | 84,110 |
| SME corporate | 648,674 |
| Retail exposure | |
| Residential Mortgages | 761,500 |
| Retail Other | 42,767 |
| Retail SME | 286,662 |
| Gross credit exposure excluding sovereigns and banks | 1,823,713 |
| Less: Credit Impairment | (51,160) |
| Corporate | (970) |
| SME Corporate | (12,546) |
| Residential Mortgages | (18,488) |
| Retail Other | (2,934) |
| Retail SME | (16,221) |
| Net Loans and Advances | 1,772,553 |
| Sovereign (including central government and central bank) | 135,788 |
| Banks | 157,654 |
| Total | 2,065,995 |

***Asset classification as per BA 200 Regulation**

Gross credit exposure per Sectorial analysis - Table 4.3

| | 31-Dec-17 |
|--|------------------|
| | R'000 |
| Agriculture | 77 |
| Financial, Building and property development | 802,919 |
| Individuals | 542,114 |
| Manufacturing and commerce | 128,708 |
| Transport and communication | 80,823 |
| Electricity and Water | 2,369 |
| Mining | - |
| Other services | 266,703 |
| Gross credit exposure | 1,823,713 |

Gross credit exposure per Geographical distribution - Table 4.4

| | 31-Dec-17 |
|--------------|------------------|
| | R'000 |
| South Africa | 1,823,713 |
| | |
| | 1,823,713 |

Maturity Analysis of gross credit exposure as at 30 Dec 2017 – 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 | 38,485 | 4,154 | 30,976 | 10,496 | 84,110 |
| SME Corporate | 106,961 | 41,271 | 305,906 | 194,536 | 648,674 |
| Residential Mortgage | 18,535 | 16,119 | 152,529 | 574,316 | 761,500 |
| Retail | 13,768 | 4,645 | 21,648 | 2,705 | 42,767 |
| SME retail | 113,280 | 33,528 | 121,028 | 18,825 | 286,662 |
| Gross credit exposure excluding sovereigns and banks | 291,029 | 99,717 | 632,087 | 800,879 | 1,823,713 |

| Sovereigns and Banks | | | | | |
|-----------------------------|----------------|---------------|----------------|----------------|------------------|
| Sovereign | 135,788 | - | - | - | 135,788 |
| Banks | 157,654 | - | - | - | 157,654 |
| Total | 584,472 | 99,717 | 632,087 | 800,879 | 2,117,155 |

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 | 7,137 | 2,471 | 4,666 |
| Commercial and property loans | 55,073 | 45,178 | 9,895 |
| Instalment sale | 9,910 | 4,500 | 5,410 |
| Home loans | 51,574 | 41,381 | 10,193 |
| Total | 123,694 | 93,530 | 30,164 |

Non performing lending by sector - Table 4.7

| | Credit Risk | Securities and other expected recoveries | Specific provision |
|---------------------------|----------------|--|--------------------|
| | R'000 | R'000 | R'000 |
| Individuals | 33,071 | 24,495 | 8,576 |
| Manufacturing | 45,911 | 36,915 | 8,996 |
| Transport | 454 | - | 454 |
| Financial and Real Estate | 32,937 | 26,822 | 6,115 |
| Other services | 11,321 | 5,298 | 6,023 |
| | 123,694 | 93,530 | 30,164 |

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 | 1,254 | 12,093 | 49,592 | - | 62,939 |
| Past due 31 - 60 days | - | 3,221 | 4,326 | - | 7,547 |
| Past due 61 - 90 days | 1,146 | - | 7,204 | - | 8,350 |
| Total | 2,400 | 15,314 | 61,122 | - | 78,836 |

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 61 - 90 days | | | | | |
| Past due 91 - 180 days | 316 | 8,429 | 6,909 | - | 15,654 |
| Past due 180 - 365 days | - | 2,985 | 38,195 | - | 41,180 |
| Past due 1 - 2 years | 3,110 | 7,723 | 10,577 | - | 21,410 |
| Past due over 2 years | 1,962 | 8,546 | 19,383 | 15,559 | 45,450 |
| Total | 5,388 | 27,683 | 75,064 | 15,559 | 123,694 |

Credit Impairment For Loans And Advances - Table 4.10

| | 31-Dec-17 |
|---|----------------------|
| | R'000 |
| Category analysis | |
| Balance at 1 January | 130,895 |
| Amounts written off against provisions | <u>(91,849)</u> |
| | 39,046 |
| Charge to the income statement | 11,181 |
| Specific impairment | 20,115 |
| Portfolio impairment | - |
| Recoveries of balances raised in current year | (8,001) |
| Recoveries of Balance previously written off | (933) |
| Recoveries of Balance previously written off | 933 |
| Balance as at 31 Dec 2017 | <u>51,160</u> |
| | |
| Analysis | |
| Specific impairment | 30,166 |
| Portfolio impairment | 20,994 |
| Balance | <u>51,160</u> |

IFRS 9 'Financial Instruments'

In July 2014, the IASB issued IFRS 9 'Financial Instruments', which is the comprehensive standard to replace IAS 39 'Financial Instruments: Recognition and Measurement', and includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

Impairment

The impairment requirements apply to financial assets measured at amortised cost and FVOCI, lease receivables and certain loan commitments and financial guarantee contracts. At initial recognition, an impairment allowance (or provision in the case of commitments and guarantees) is required for expected credit losses ('ECL') resulting from default events that are possible within the next 12 months ('12-month ECL'). In the event of a significant increase in credit risk, an allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL'). Financial assets where 12-month ECL is recognised are considered to be 'stage 1'; financial assets which are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment so are considered to be in default or otherwise credit impaired are in 'stage 3'.

The assessment of credit risk and the estimation of ECL are required to be unbiased and probability-weighted, and should incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. As a result, the recognition and measurement of impairment is intended to be more forward-looking than under IAS 39 and the resulting impairment charge will tend to be more volatile. It will also tend to result in an increase in the total level of impairment allowances, since all financial assets will be assessed for at least 12-month ECL and the population of financial assets to which lifetime ECL applies is likely to be larger than the population for which there is objective evidence of impairment in accordance with IAS 39.

Transition

The requirements of IFRS 9 'Financial Instruments' will be 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. The Bank does not intend to restate comparatives.

For the financial statements of the Bank, adoption is expected to increase net assets at 1 January 2018 by approximately R3million due to impairment being reduced by R3 million.

Sectorial Analysis – Non-performing Table 4.11

| | R '000 |
|-----------------------------|---------------|
| Individuals | 14,862 |
| Manufacturing | 9,998 |
| Transport and communication | 1,447 |
| Financial and real estate | 15,525 |
| Mining | - |
| Electricity and water | 29 |
| Other Services | 9,299 |
| TOTAL NPL | 51,160 |

Outstanding amounts in respect of rated exposures as at the 31 Dec 2017 - Table 4.12

| | Gross Exposure | | | Risk Weighted Exposure | | |
|---------|---------------------------|----------------------------|----------------------|---------------------------|----------------------------|------------------------------|
| | On-Balance Sheet Exposure | Off-Balance Sheet Exposure | Total gross exposure | On-Balance Sheet Exposure | Off-Balance Sheet Exposure | Total risk weighted exposure |
| | R'000 | R'000 | | R'000 | R'000 | |
| A | 12,675 | | 12,675 | 2,695 | | 2,695 |
| A- | 58,096 | | 58,096 | 20,287 | | 20,287 |
| AA- | 17,005 | | 17,005 | 3,601 | | 3,601 |
| AAA | | | - | | | - |
| B | | | - | | | - |
| BB+ | 201,222 | | 201,222 | 23,578 | | 23,578 |
| BBB+ | 2,521 | | 2,521 | 619 | | 619 |
| CCC | 1,923 | | 1,923 | 3,981 | | 3,981 |
| Unrated | 1,823,713 | 83,743 | 1,907,457 | 1,348,597 | 72,074 | 1,420,672 |
| | 2,117,155 | 83,743 | 2,200,899 | 1,403,359 | 72,074 | 1,475,433 |

Fair Value of derivatives - Table 4.13

| | 31-Dec-17 |
|---|------------------|
| | R'000 |
| Gross positive fair value of derivative assets | 22,380 |
| Gross positive fair value of derivative liabilities | 20,400 |
| Net exposure | 1,980 |

Notional value of derivatives - Table 4.14

| | 31-Dec-17 |
|---|------------------|
| | R'000 |
| Gross positive fair value of derivative assets | 273,810 |
| Gross positive fair value of derivative liabilities | 277,249 |
| Net exposure | (3,439) |

4. 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

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

Interest Rate Risk as at 31-Dec-2017 – Table 6.1

| Assets | Fixed | Floating | Non-interest sensitive | Total |
|------------------------------|----------------|------------------|-------------------------------|------------------|
| | R'000 | R'000 | R'000 | R'000 |
| Cash and cash equivalents | - | 66,898 | 233,793 | 300,691 |
| Derivative financial assets | - | - | 22,380 | 22,380 |
| Short-term negotiable assets | 135,788 | - | - | 135,788 |
| Other investments | - | - | 15 | 15 |
| Advances | - | 1,772,553 | - | 1,772,553 |
| Other accounts receivable | - | - | 13,339 | 13,339 |
| Investment property | - | - | 9,500 | 9,500 |
| Property and equipment | - | - | 16,767 | 16,767 |
| Intangible assets | - | - | 83,730 | - |
| | 135,788 | 1,839,451 | 379,524 | 2,354,763 |

| 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 | 231,668 | 1,709,895 | - | 1,941,563 |
| Derivative financial liabilities | - | - | 20,400 | 20,400 |
| Other liabilities | - | - | 66,365 | 66,365 |
| | 231,668 | 1,759,895 | 86,765 | 2,078,328 |

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 | 66,898 | - | - | - | - | 233,793 | 300,691 |
| Derivative financial assets | - | - | - | - | - | 22,380 | 22,380 |
| Short-term negotiable assets | 4,995 | 87,361 | 43,432 | - | - | - | 135,788 |
| Other investments | - | - | - | - | - | 15 | 15 |
| Advances | 1,772,553 | - | - | - | - | - | 1,772,553 |
| Other accounts receivable | - | - | - | - | - | 13,339 | 13,339 |
| Investment property | - | - | - | - | - | 9,500 | 9,500 |
| Property and equipment | - | - | - | - | - | 16,767 | 16,767 |
| Intangible assets | - | - | - | - | - | 83,730 | 83,730 |
| | 1,844,446 | 87,361 | 43,432 | - | - | 379,524 | 2,354,763 |

| 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 | 14,727 | - | 701,000 | - | - | - | 715,727 |
| Due to customers | 1,103,254 | 57,102 | 65,480 | - | - | - | 1,225,836 |
| Long-term debt instruments | - | - | 50,000 | - | - | - | 50,000 |
| Derivative financial liabilities | - | - | - | - | - | 20,400 | 20,400 |
| Other liabilities | - | - | - | - | - | 66,365 | 66,365 |
| | 1,117,981 | 57,102 | 816,480 | - | - | 86,765 | 2,078,328 |

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-17 |
|------------------------|--|
| | R'000 |
| | Cumulative change in NII over 12 months |
| Interest Rate Increase | 7,834 |
| Interest Rate Decrease | -8,792 |

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-2017 – Table 6.4

| Assets | ZAR | USD | EURO | Other | Total |
|------------------------------|------------------|---------------|---------------|---------------|------------------|
| | R'000 | R'000 | R'000 | R'000 | R'000 |
| Cash and cash equivalents | 200,318 | 50,770 | 28,767 | 20,836 | 300,691 |
| Derivative financial assets | - | 16,840 | 3,633 | 1,907 | 22,380 |
| Short-term negotiable assets | 135,788 | - | - | - | 135,788 |
| Other investments | 15 | - | - | - | 15 |
| Advances | 1,772,553 | - | - | - | 1,772,553 |
| Other accounts receivable | 13,339 | - | - | - | 13,339 |
| Investment property | 9,500 | - | - | - | 9,500 |
| Property and equipment | 16,767 | - | - | - | 16,767 |
| Intangible assets | 83,730 | - | - | - | 83,730 |
| | 2,232,010 | 67,610 | 32,400 | 22,743 | 2,354,763 |

Liabilities

| | | | | | |
|--------------------------------------|------------------|---------------|---------------|--------------|------------------|
| Deposits, current and other accounts | 1,828,676 | 77,901 | 27,389 | 7,597 | 1,941,563 |
| Long-term debt instruments | 50,000 | - | - | - | 50,000 |
| Derivative financial liabilities | - | 16,822 | 3,482 | 96 | 20,400 |
| Other liabilities | 66,364 | - | - | - | 66,364 |
| | 1,945,040 | 94,723 | 30,871 | 7,693 | 2,078,327 |

6. Liquidity risk

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.

Liquidity risk as at 31-Dec-2017 – Table 7.1

| | Up to 1 month | 1 - 3 months | 3 - 6 months | 7 - 12 months | 1- 5 years | Over 5 years | Total |
|----------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|------------------|
| | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 |
| ASSETS | | | | | | | |
| Cash and cash equivalents | 300,691 | - | - | - | - | - | 300,691 |
| Derivative financial assets | 5,727 | 13,471 | 2,980 | 203 | - | - | 22,380 |
| Short-term negotiable securities | 4,995 | 87,361 | 43,432 | - | - | - | 135,788 |
| Other investments | 15 | - | - | - | - | - | 15 |
| Advances | 190,438 | 47,031 | 53,561 | 99,717 | 632,087 | 800,879 | 1,823,713 |
| Other accounts receivable | 11,015 | 755 | 179 | 316 | 1,075 | - | 13,340 |
| Property and equipment | - | - | - | - | - | 16,767 | 16,767 |
| Investment property | - | - | - | - | 9,500 | - | 9,500 |
| Intangible assets | - | - | - | - | - | 83,730 | 83,730 |
| | 512,880 | 148,618 | 100,152 | 100,235 | 642,662 | 901,376 | 2,405,924 |

| | Up to 1 month | 1 - 3 months | 3 - 6 months | 7 - 12 months | 1- 5 years | Over 5 years | Total |
|--------------------------------------|----------------|----------------|---------------|----------------|---------------|---------------|------------------|
| | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 |
| LIABILITIES | | | | | | | |
| Long term debt instruments | - | - | - | - | 50,000 | - | 50,000 |
| Deposits, current and other accounts | 841,158 | 333,925 | 33,114 | 733,366 | - | - | 1,941,563 |
| Derivative financial liabilities | 3,936 | 13,392 | 2,870 | 202 | - | - | 20,400 |
| Other liabilities | 29,385 | 953 | 2,670 | 9,001 | 2,434 | 21,923 | 66,365 |
| | 874,479 | 348,270 | 38,654 | 742,568 | 52,434 | 21,923 | 2,078,328 |

| | | | | | | | |
|----------------------|-----------|-----------|-----------|-------------|-----------|---------|---------|
| Contractual mismatch | (361,598) | (199,651) | 61,498 | (642,333) | 590,228 | 879,453 | 327,597 |
| Cumulative mismatch | - | (561,249) | (499,751) | (1,142,084) | (551,856) | 327,597 | - |