The South African Bank of Athens Limited

BASEL III – COMPOSITION OF CAPITAL DISCLOSURE

JUNE 2014

BANK OF ATHENS

Business and Commercial Bank

COMPOSITION OF CAPITAL DISCLOSURE TEMPLATE
Name of Bank/ controlling company ………………….. The South African Bank of Athens
Six months ended ………………………. 2014-06-30

Basel III common disclosure template to be used during the transition of regulatory adjustments (i.e. from 1 June 2013 to 1 January 2018)		
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	277,685
2	Retained earnings	-
3	Accumulated other comprehensive income (and other reserves)	11,898
6	**Common Equity Tier 1 capital before regulatory adjustments** (BA700 line 41 column 1)	289,583
28	**Total regulatory adjustments to Common equity Tier 1** (BA700 lines 42+55+57+58+59+61+63 column 1)	60,881
29	**Common Equity Tier 1 (CET1)** (BA700 line 64 column 1)	228,702
44	**Additional Tier 1 capital (AT1)** (BA700 line 76 column 1)	-
45	**Tier 1 capital (T1 = CET1 + AT1)** (BA700 line 77 column 1)	228,702
50	Provisions	15,228
51	Tier 2 capital before regulatory adjustments (BA700 line 78 column 1)	15,228
57	**Total regulatory adjustments to Tier 2 capital** (BA700 line 86 column 1)	-
58	**Tier 2 capital (T2)** (BA700 line 87 column 1)	15,228
59	**Total capital (TC = T1 + T2)** (BA700 line 88 column 1)	243,930
60	**Total risk weighted assets** (BA700 line 6 column 7)	2,156,448
61	Common Equity Tier 1 (as a percentage of risk weighted assets) (BA700 line 17 column 1)	10.6055
62	Tier 1 (as a percentage of risk weighted assets) (BA700 line 17 column 2)	10.6055
63	Total capital (as a percentage of risk weighted assets) (BA700 line 17 column 3)	11.3116
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	15,228
77	Cap on inclusion of provisions in Tier 2 under standardised approach	23,681

The South African Bank of Athens Limited

PILLAR 3 REGULATORY REPORT

JUNE 2014

BANK OF ATHENS

Business and Commercial Bank

CONTENTS

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 99,74% 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 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 by ALCO, 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 June 2014 with a total capital adequacy of 11.31% and a Tier 1 capital adequacy of 10.61%, 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, property revaluation reserve, 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: collective impairment allowances.

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-14
Ordinary Share Capital	18,458
Share Premium	259,227
Revaluation Reserves	11,898
Total common equity tier 1 capital and unimpaired reserve funds	**289,583**
Retained Earnings/(Loss)	-34,211
Regulatory deductions against primary capital	-26,670
Total common equity tier 1 capital after regulatory adjustments	**228,702**
Tier 2 capital	
General Provisions	15,228
Total qualifying capital and reserve funds	**243,930**
Risk Weighted Assets	**2,156,448**
Total Capital adequacy ratio	11.31%
Tier 1 Capital adequacy ratio	10.61%

Composition of risk weighted assets and required regulatory capital- Table 2.2	Composition of Risk Weighted Assets	Required Regulatory Capital
	R'000	R'000
Credit Risk *	1,889,571	200,510
Credit Concentration Risk *	20,048	
Counterparty Credit Risk**	4,902	515
Operational Risk ***	184,742	19,398
Market Risk ****	6,993	734
Other Assets	50,177	5,268
Equity Risk	15	2
Total	**2,156,448**	**226,427**

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

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-14
	R'000
Authorised	
20 000 000 ordinary shares of R1 each (par value)	20,000
Issued	
Ordinary Share Capital	18,458
Share Premium	
Share Premium	259,227

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. 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.

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 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, trucks and other equipment are 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 monthly basis.

Gross credit exposure per product type- Table 4.1	Jun-14
	R'000
Category analysis	
Overdrafts	198,889
Property, commercial and other loans	741,913
Home loans	453,822
Instalment credit and lease agreements	459,380
Non-Performing Loans	165,519
	2,019,523
Less: Credit Impairment	**-58,055**
Overdrafts	-7,328
Property, commercial and other loans	-7,607
Home loans	-8,404
Instalment credit and lease agreements	-34,716
Net Loans and Advances	**1,961,468**

Gross credit exposure per asset class - Table 4.2	Jun-14
	R'000
Category analysis 2	
Corporate exposure	
Corporate	103,839
SME corporate	829,075
Retail exposure	
Retail	461,583
SME retail	625,026
Gross credit exposure excluding sovereigns and Banks	**2,019,523**
Less: Credit Impairment	**-58,055**
Corporate	-2,985
SME Corporate	-23,833
Retail	-13,269
SME retail	-17,968
Net Loans and Advances	**1,961,468**
Sovereign (including central government and central Bank)	116,700
Banks	173,704
Total	**2,251,872**

Gross credit exposure per Sectorial analysis - Table 4.3	Jun-14
	R'000
Agriculture	-
Building and property development	752,856
Individuals	420,086
Manufacturing and commerce	454,755
Transport and communication	340,777
Electricity & Water	-
Mining	35,581
Other services	15,468
Gross credit exposure	**2,019,523**

Gross credit exposure per Geographical distribution - Table 4.4	Jun-14
	R'000
South Africa	**2,019,523**
	2,019,523

Maturity Analysis of gross credit exposure as at 30 June 2014 – 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	32,497	82	30,353	40,907	103,839
SME corporate	73,034	11,991	198,786	545,264	829,075
Retail	25,016	1,262	57,742	377,563	461,583
SME retail	98,772	9,674	245,194	271,386	625,026
Gross credit exposure excluding sovereigns and banks	**229,319**	**23,009**	**532,075**	**1,235,119**	**2,019,523**
Sovereigns and Banks					
Sovereign	116,700	-	-	-	116,700
Banks	173,704	-	-	-	173,704
Total	**519,723**	**23,009**	**532,075**	**1,235,119**	**2,309,927**

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	11,919	-	5,695
Commercial and property loans	27,404	28,585	1,514
Instalment sale	96,286	63,696	30,942
Home loans	29,910	29,841	4,676
Total	**165,519**	**122,122**	**42,827**

Gross credit exposure per Sectorial analysis - Table 4.7	Credit Risk	Securities and other expected recoveries	Specific provision
	R'000	R'000	R'000
Agriculture	-	-	-
Building and property development	24,612	18,159	6,368
Individuals	12,574	9,277	3,254
Manufacturing and commerce	94,403	69,652	24,426
Transport and communication	24,059	17,751	6,225
Electricity & Water	-	-	-
Mining	9,871	7,283	2,554
Other services	-	-	-
Gross credit exposure	**165,519**	**122,122**	**42,827**

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	2,531	5,354	13,692	1,846	**23,423**
Past due 31 - 60 days	176	2,410	5,456	-	**8,042**
Past due 61 - 90 days	-	871	26,040	-	**26,911**
Past due 91 - 180 days	-	-	8,427	-	**8,427**
Past due 180 - 365 days	-	-	-	-	**-**
Past due 1 - 2 years	-	-	-	-	**-**
Past due over 2 years	-	-	-	-	**-**
Total	**2,707**	**8,635**	**53,615**	**1,846**	**66,803**

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 up to 30	-	-	-	-	-
Past due 31 - 60 days	-	-	-	-	-
Past due 61 - 90 days	-	-	-	-	-
Past due 91 - 180 days	247	1,814	10,983	39,975	**53,019**
Past due 180 - 365 days	42	1,560	13,029	41,165	**55,796**
Past due 1 - 2 years	185	6,589	24,372	9,585	**40,731**
Past due over 2 years	-	4,471	9,230	2,272	**15,973**
Total	**474**	**14,434**	**57,614**	**92,997**	**165,519**

Credit Impairment For Loans And Advances - Table 4.10	Jun-14
	R'000
Category analysis	
Balance at 1 January 2014	**43,871**
Interest in abeyance	**10,943**
Interest in abeyance prior year	**-6,567**
Amounts written off against provisions	**-82**
	48,165
Charge to the income statement	**9,890**
Specific impairment	**11,665**
Portfolio impairment	**-**
Recoveries of balances raised in current year	**-1,775**
Recoveries of Balance previously written off	**-105**
Recoveries of Balance previously written off	**105**
Balance	**58,055**
Analysis	
Specific impairment	**42,827**
Portfolio impairment	**15,228**
Balance	**58,055**

Outstanding amounts in respect of rated exposures as at the 30 June 2013 - Table 4.11 (As per BA210)	Gross Exposure	Risk Weighted Exposure
AAA to AA-	4,364	873
A+ to A-	29,422	5,884
BBB+ to BBB-	2,226,801	1,886,017
BB+ to B-	3,388	1,694
Below B-	0	0
Unrated	24	5
Total	**2,263,999**	**1,894,473**

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 2014.

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-14**
	R'000
Gross positive fair value of derivative assets	7,248
Gross positive fair value of derivative liabilities	3,578
Net exposure	**3,670**

Notional value of derivatives - Table 4.14	**Jun-14**
	R'000
Foreign Exchange Contract	
Assets	589,747
Liabilities	325,110

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 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 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

Interest Rate Risk as at 30 June 2014 – Table 6.1	Fixed	Floating	Non-interest sensitive	Total
Assets	**R'000**	**R'000**	**R'000**	**R'000**
Cash and cash equivalents	-	-	63,693	**63,693**
Due from other Banks	-	108,088	65,284	**173,372**
Derivative financial assets	-	-	7,248	**7,248**
Short-term negotiable assets	116,700	-	-	**116,700**
Other investments	-	-	15	**15**
Advances	-	2,019,856	-58,056	**1,961,800**
Other accounts receivable	-	-	21,207	**21,207**
Property and equipment	-	-	27,870	**27,870**
Intangible assets	-	-	26,671	**26,671**
	116,700	**2,127,944**	**153,932**	**2,398,576**

Liabilities	Fixed	Floating	Non-interest sensitive	Total
	R'000	R'000	R'000	R'000
Deposits, current and other accounts	1,160,055	928,580	2,299	**2,090,934**
Derivative financial liabilities	-	-	3,578	**3,578**
Other liabilities	-	-	48,725	**48,725**
Total	**1,160,055**	**928,580**	**54,602**	**2,143,237**

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 R8,769 million and decrease by 8,769 million.

Interest rate Sensitivity Analysis – Table 6.2	Up to 1 month	1 to 31 months	3 to 12 months	1 to 2 years	2 to 5+ years	Non-Interest Bearing	Total
Assets	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**
Cash and cash equivalents	-	-	-	-	-	63,692	**63,692**
Due from other Banks	108,088	-	-	-	-	65,284	**173,372**
Derivative financial assets	-	-	-	-	-	7,248	**7,248**
Short-term negotiable assets	28,099	59,328	29,273	-	-	-	**116,700**
Other investments	-	-	-	-	-	15	**15**
Advances	2,019,856	-	-	-	-	-58,055	**1,961,801**
Other accounts receivable	-	-	-	-	-	21,207	**21,207**
Property and equipment	-	-	-	-	-	27,870	**27,870**
Intangible assets	-	-	-	-	-	26,671	**26,671**
Total	**2,156,043**	**59,328**	**29,273**	-	-	**153,932**	**2,398,576**

Liabilities	Up to 1 month	1 to 31 months	3 to 12 months	1 to 2 years	2 to 5+ years	Non-Interest Bearing	Total
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Due to other Banks	371,594	359,365	-	-	-	38	**730,997**
Due to customers	943,874	352,098	61,704	-	-	2,261	**1,359,937**
Derivative financial liabilities	-	-	-	-	-	3,578	**3,578**
Other liabilities	-	-	-	-	-	48,725	**48,725**
Total	**1,315,468**	**711,463**	**61,704**	**-**	**-**	**54,602**	**2,143,237**

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	8,769
Interest Rate Decrease	-8,769

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	**ZAR**	**USD**	**EURO**	**Other**	**Total**
	R'000	**R'000**	**R'000**	**R'000**	**R'000**
Assets					
Cash and cash equivalents	63,692	-	-	-	**63,692**
Derivative financial assets	-	6,569	580	99	**7,248**
Short-term negotiable assets	116,700	-	-	-	**116,700**
Other investments	15	-	-	-	**15**
Advances	2,027,992	51,064	46,747	9,369	**2,135,173**
Other accounts receivable	21,207		-	-	**21,207**
Property and equipment	27,870				**27,870**
Intangible assets	26,671	-	-	-	**26,671**
Total Assets	**2,284,147**	**57,632**	**47,328**	**9,469**	**2,398,576**
Liabilities					
Deposits, current and other accounts	1,288,380	57,347	14,204	-	1,359,931
Due to other Banks	47,518	683,508	-	-	731,026
Derivative financial liabilities	-	2,937	564	53	3,555
Other liabilities	48,725				48,725
Long term liabilities	-	-	-	-	-
Total Liabilities	**1,384,623**	**743,792**	**14,769**	**53**	**2,143,237**

7. Liquidity Risk

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

Ultimate responsibility for liquidity risk management rests with the board of directors, which has established an appropriate liquidity risk management framework for the management of the Bank's short-, medium- and long-term funding and liquidity management requirements. The Bank manages liquidity risk by maintaining adequate reserves, Banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities. Liquidity and interest rate risk management are essentially inseparable from the core Banking activities of advances growth and profitability management. Liquidity and interest rate risk management form an integral part of proactive asset and liability management, which is managed by the Bank's Asset and Liability Committee (ALCO).

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.

8. 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.