Credit Risk:

Credit risk is the risk of loss to the Bank arising from the failure of a customer or counterparty to fulfil its payment obligations. Credit risk arises mainly from lending and related banking activities, dealing in traded products such as derivative contracts and lending products. The Bank has a well-defined Credit Risk Management Policy and this has been explicitly in place since 1997. Over the years, our policy & procedures in this regard have been enunciated, practiced and refined as a result of evolving concepts and actual experience.

Qualitative Disclosures

The Bank's credit risk management objectives are:

- maintaining an appropriate credit risk structure based on the principle of liquidity, profitability and safety of assets.
- operating under a sound credit-granting process,
- maintaining an appropriate credit administration, measurement and monitoring process;
- ensuring adequate and operationally effective controls over credit risk;
- optimising the use of available credit bureau data to make informed decisions and to build robust models (risk and reward);
- proactively managing credit risk through the economic cycle and ensuring the desired return/economic profit is maintained;
- managing credit risk and the mitigation thereof within the risk appetite boundaries of the Bank;
- Developing and refining the credit risk assessment models used for 'Commercial Banking' and 'Retail Banking' exposures.

Strategies and processes:

- The loan policy recognizes the need for measures aimed at better risk management and avoidance of concentration of credit risks. Hence, Bank exposures are to be within the framework of the guidelines of regulators as well as internal guidelines on prudential exposure norms in respect of individual companies, group companies, Banks, individual borrowers, non-corporate entities etc
- The assessment of credit risk relies on quantitative models and tools developed internally.
- The Credit Risk Assessment (CRA) models adopted by the Bank takes into account the various risks categorized broadly into financial, business, industrial and management risks. These risks are rated separately. The minimum score under various parameters and hurdle rate are laid down .
- Information used in the calculation of customer ratings includes:
    - financial statements
    - projected cash flows
    - external rating agency grades and
    - conduct of account scorecards.
- The actual models used, the minimum scores under each head, the hurdle rates, etc. are reviewed at regular intervals.

Policies for mitigating risk and monitoring the effectiveness of the mitigants:

The Bank employs a number of techniques to mitigate credit risk, such as:

- strengthening its position as a lender in a range of transactions, from retail mortgage lending to large wholesale financing, and by structuring a security interest in a physical or financial asset (collateral),
- Selective hedging through credit derivatives.
- In certain circumstances, depending on the Bank's assessment of a customer's financial capacity, financing may be granted on an unsecured basis.
- Generally one or more forms of security are sought in the credit approval process. The use and approach to credit risk mitigation (CRM) varies by product type, portfolio, customer and business strategy. Minimum standards, as prescribed in the applicable policies and business processes, are applied across the Bank and cover:
- general requirements including acceptable risk mitigation types, and any conditions or restrictions applicable to these mitigants;
- the maximum LTV ratios, minimum haircuts or other volatility adjustments applicable to each type of mitigant, including, where appropriate, adjustments for currency mismatch, obsolescence and any time sensitivities on asset values;
- the means by which legal certainty is to be established, including required documentation and necessary steps required to establish legal rights;
- acceptable methodologies for initial and any subsequent valuations of collateral and the frequency with which they are to be revalued;
- actions to be taken in the event of the current value of mitigation falling below required levels;
- Management of concentration risks, for example, setting thresholds and controls on the acceptability of credit risk mitigants and/or lines of business that are characterised by a specific collateral type or structure; and
- The Bank's policies with respect to assessing, acquiring and managing collateral for capital calculation purposes are aligned with regulatory requirement.

Loans past due and Impaired: The Bank has policy based on the prudential norms applied for income recognition, asset classification and provisioning, to classify an exposure as Overdue, Special mention and Non Performing/Impaired.

(i) Quantitative Disclosures

(a) Total Gross Credit Risk Exposure

31.03.2017	Amount (in ZAR'000)
Particulars	
Fund Based Exposure	7015911
Non-Fund Exposure	1054203
Total Gross Credit Exposure	8070114

(b)Geographic distribution of Exposure:

Exposures	Amount (in ZAR'000)
	31.03.2017
Domestic Operations	4478412
Cross Border Operations	3591702
Total	8070114

(c) Major Industry Type Distribution of Exposures

31.03.2017	**(In ZAR'000)**	
Row Labels	**Non- Fund based**	**Fund Based**
CONSTRUCTION	290,908	169,108
ELECTRICITY	--	147,666
FINANCE/INSURANCE	181,816	3,031,417
HOSPITAL	--	200,000
MANUFACTURING	71,865	1,097,045
MINING/QUARRYING	133,976	102,164
TRANSPORT/WAREHOUSE/COMMUNICATION	241,668	432,945
WHOLESALE/TRADE	120,007	907,184

(d**)** Non-Performing Assets

S.No	Items	Amount (in ZAR'000)
		31.03.2017
(a)	Gross NPAs	1756
	➢ Sub Standard	--
	➢ Doubtful 1	1756
	➢ Doubtful 2	--
	➢ Doubtful 3	--
	➢ Loss	--
(b)	Net NPAs	--
(c)	NPA Ratios	1317
	➢ Gross NPAs to Gross Advance (%)	0.02%
	➢ Net NPAs to Net Advances (%)	0.016%