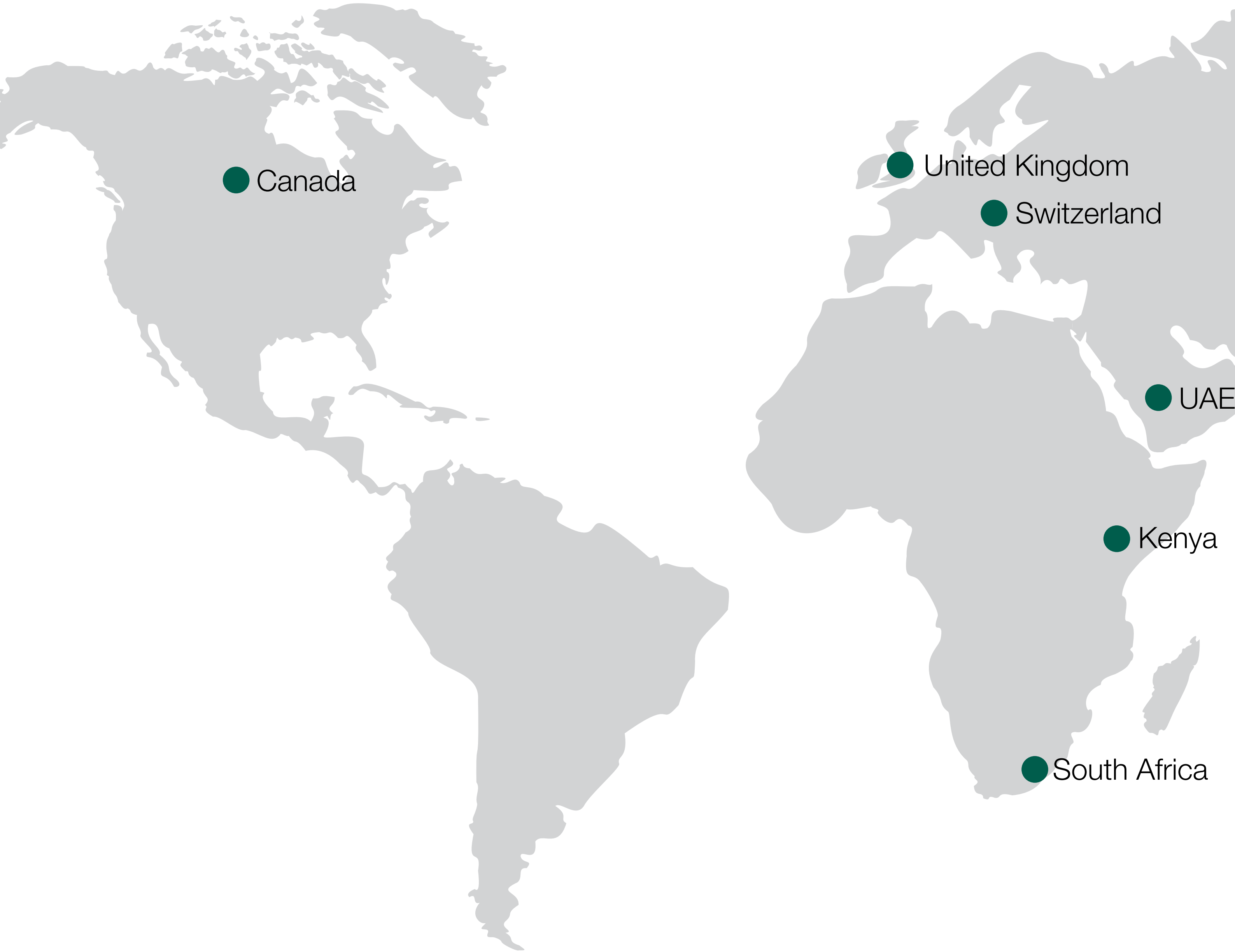
HBZ Bank Limited

(A subsidiary of Habib Bank AG Zurich)

South Africa

Annual Report

2018


Canada
United Kingdom
Switzerland
UAE
Kenya
South Africa

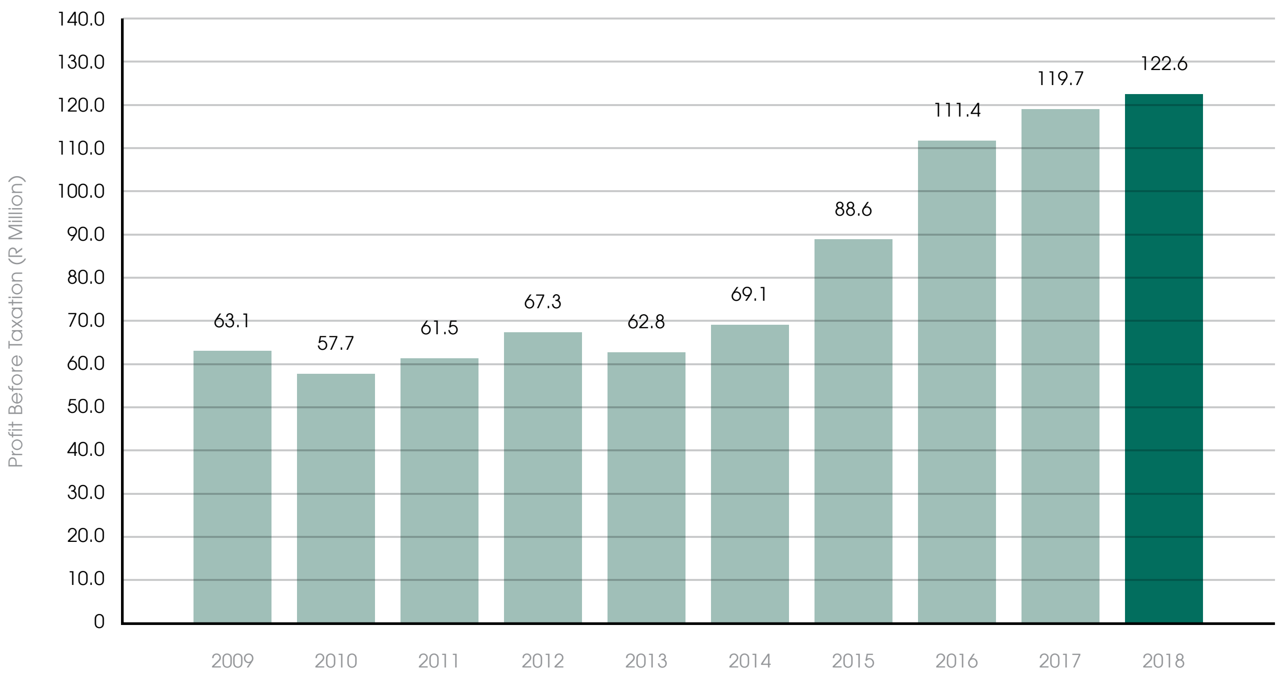
CONTENTS

TEN YEAR REVIEW

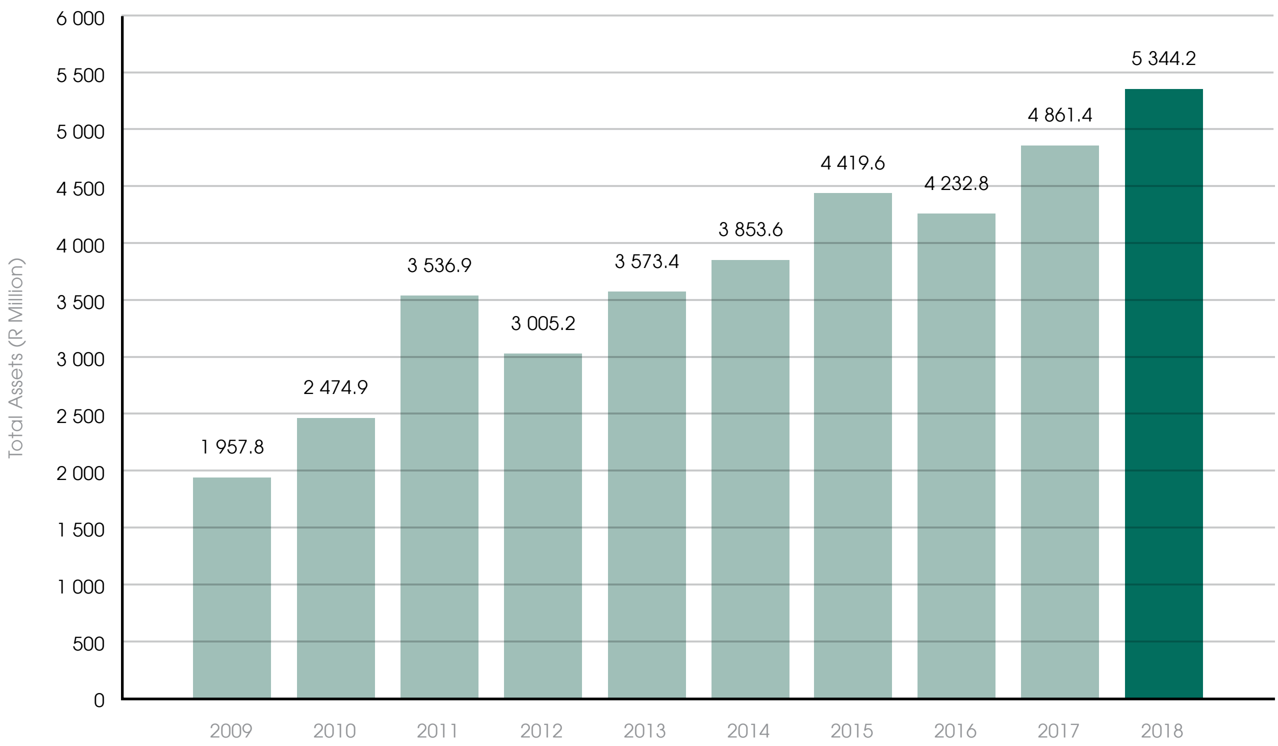
For the year ended 31 December 2018

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
PROFITS (R MILLION)										
Profit before taxation	63,1	57,7	61,5	67,3	62,8	69,1	88,6	111,4	119,7	122,6
BALANCE SHEET (R MILLION)										
Advances	755,7	851,4	1185,4	992,4	1170,0	1 347,8	1 619,0	1 537,9	1 468,1	1 714,3
Advances growth %	14,8%	12,7%	39,2%	-16,3%	17,9%	15,2%	20,1%	-5,0%	-4,5%	16,8%
Deposits	1 746,2	2 236,7	3 304,1	2 739,8	3 255,2	3 514,2	4 049,4	3 820,5	4 369,7	4 856,2
Deposits growth %	4,7%	28,1%	47,7%	-17,1%	18,8%	8,0%	15,2%	-5,7%	14,4%	11,1%
Total assets	1 957,8	2 474,9	3 536,9	3 005,2	3 573,4	3 853,6	4 419,6	4 232,8	4 861,4	5 344,2
Total assets growth %	5,5%	26,4%	42,9%	-15,0%	18,9%	7,8%	14,7%	-4,2%	14,9%	9,9%
PERSONNEL										
Number of employees	109	111	113	125	128	141	136	141	133	146
Net contribution per employee (R `000)	579	520	544	538	491	490	651	790	900	840

PROFIT SUMMARY



TOTAL ASSETS



BOARD OF DIRECTORS AND BOARD COMMITTEES

NON EXECUTIVE DIRECTORS

Muhammad H Habib (59)# - Chairman
Bus. Admin (USA)
President, Habib Bank AG Zurich
Appointed to the Board in 1995

Oscar D Grobler (65) – Vice Chairman
Executive MBA (UCT); Executive Master's Degree (France)
Chairman, Nouwens Carpets (Pty) Ltd and
Ex- Lead Executive –ABSA Group
Appointed to the Board in 2015

M Yakoob Chowdhury (76)^
Ex-Chief Executive Vice President, Habib Bank AG Zurich
Appointed to the Board in 1995

Hendrik F Leenstra (70)
Institute of Bankers SA C.A.I.B. (SA)
Ex-Regional Executive, Nedcor Group, KZN
Appointed to the Board in 2005

Dheven Dharmalingam (53)
B. Acc, Dip Acc, CA(SA)
Ex-CFO of Mutual & Federal Limited
Appointed to the Board in 2011

Anjum Iqbal (66) ^
B.Com, MBA
General Management, Habib Bank AG Zurich
Appointed to the Board in 2016

EXECUTIVE DIRECTORS

Zafar A Khan (66) – CEO and
Chief Executive Vice President
B.A.
Appointed to the Board in 2005

Christopher d T Harvey (62) – Corporate Governance,
Compliance and Executive Vice President
B.Com, Dip Acc, Dip Corp Gov
Appointed to the Board in 1998

AUDIT COMMITTEE

Dheven Dharmalingam – Chairman
M Yakoob Chowdhury
Hendrik F Leenstra
Oscar D Grobler
Anjum Iqbal

DIRECTORS AFFAIRS COMMITTEE

Muhammad H Habib – Chairman
M Yakoob Chowdhury
Hendrik F Leenstra
Dheven Dharmalingam
Oscar D Grobler
Anjum Iqbal

RISK COMMITTEE

M Yakoob Chowdhury – Chairman
Zafar A Khan
Christopher d T Harvey
Hendrik F Leenstra
Dheven Dharmalingam
Oscar D Grobler
Anjum Iqbal

 # Swiss ^ British * Canadian * By invitation

REMUNERATIONS COMMITTEE

Muhammad H Habib – Chairman

M Yakoob Chowdhury

Dheven Dharmalingam

SOCIAL AND ETHICS COMMITTEE

Oscar D Grobler – Chairman

M Yakoob Chowdhury

Zafar A Khan

Christopher d T Harvey

EXECUTIVE MANAGEMENT

Zafar A Khan (66)
Chief Executive Officer

Yusuf Dockrat (39)
Chief Financial Officer

Hassan Zia (66)
Head of Credit and Risk

Christopher d T Harvey (62)
Head of Corporate Governance & Compliance

Rohinton L Meherjina (55)
Area Manager - KwaZulu-Natal

CORPORATE

Mohanpersadh Somaroo (49)
Treasury Manager

Asad Bashir (52)
Operations & Technology Manager

Soobramoney Gounden (53)
Human Resources Manager

Zaakir Mitha (31)
Head of Internal Audit

COMPANY SECRETARY

Christopher d T Harvey

REGISTERED OFFICE

135 Jan Hofmeyr Road
Westville
3629

REGISTRATION NUMBER

1995/006163/06

BRANCH NETWORK

KwaZulu-Natal:

Rohinton L Meherjina (55)
Senior Vice President & Area Manager
Kwa-Zulu Natal

M Mohsin Ahmed (51)
Assistant Vice President – Westville

Zakariya Badat (32)
Manager - Pietermaritzburg

Gauteng:

M Ali Chaudhry (50)
Senior Vice President & Area Manager Gauteng

Aasif Abba (37)
Senior Manager - Fordsburg

Yusuf Shamsoodin (49)
Manager - Lenasia

Farhaan Ballim (37)
Manager - Boksburg

M Raashid Faiyaz (43)
Senior Manager - Vereeniging

Tshwane / Polokwane:

S Babur H Zaidi (58)
Senior Vice President & Area Manager Tshwane / Polokwane

Ryan Morgan (32)
Senior Manager - Polokwane

CHAIRMAN'S REVIEW

I am delighted to present the 2018 annual report for HBZ Bank Limited. By the Grace of God, HBZ Bank continues to show good profits and a strong balance sheet.

ECONOMIC FACTORS

The 2018 year began with the election by the African National Congress (ANC) of Mr C Ramaphosa to the presidency of South Africa. There was initially a surge in business confidence that boded well for foreign investment and local economic growth. GDP was expected to grow at 1.8% during the year. However, the economy remained constrained due to continued weak job creation, subdued household borrowing and the large increases in taxes, especially the increase in VAT. This together with rising Brent crude oil prices, the uncertainty around electricity tariffs and a weaker Rand placed upward pressure on core inflation which rose to 4.5%, on the very edge of the SARB targeted range of 3 - 6%.

The SARB Monetary Policy Committee (MPC) continued its conservative approach but based on the positive sentiment in the economy, it reduced the Repo rate by 0.25% on 29 March 2018. This resulted in the Prime Lending Rate of banks reducing to 10.0%. As the expected upsurge in economic growth did not materialise and with inflation rising, the SARB MPC then increased the Repo rate by 0.25% on 22 November 2018.

On 8 May 2019 general elections will be held, the outcome of which will be critical to South Africa's growth prospects. Under the leadership of Mr Ramaphosa a lot of progress has been made in rolling back state capture and important changes have been implemented in the cabinet and within the Boards and management of the various state owned enterprises. I am confident that South Africa will experience a peaceful general elections.

OPERATING PERFORMANCE

I am pleased to note that the Bank has achieved strong results. Profit before tax increased to R 122.6 million (2017: R119.7 million) whilst total assets ended the year at R 5.3 billion (2017: R4.8 billion). Advances increased by 16.8% to end the year at R 1.7 billion whilst deposits increased by 11.2% to R 4.9 billion. The hard work of our committed team and the continued support of our clients contributed to these strong results.

In November 2018 we opened our 10th branch and new regional office in Rosebank, Gauteng. The central location has been positively acknowledged by the community and I look forward to positive results during 2019. During quarter 4 of 2018, we also launched SIRAT, our global Islamic banking brand. Islamic banking continues to be an important strategic initiative and SIRAT enables us to leverage off our global expertise in this field.

LOOKING FORWARD

I expect South Africa's fiscal and macroeconomic outlook to remain under pressure due to the uncertainty around the results of the national elections, the intermittent electricity supply by the national power utility, Eskom and the possibility of South Africa's credit rating being downgraded by ratings agency, Moody's.

As a consequence, I expect economic growth for 2019 to be a modest 1.3%. Managing inflation will be key to improving growth, so I do not foresee the SARB MPC making any material changes to interest rates in the short term.

Although growth will be sluggish in 2019, the Bank remains positive and will continue to build its franchise in South Africa. In this regard, we plan on opening our 11th branch in Umhlanga Arch, Durban during 2020. We continue to enhance our strategic plan, enabling us to grow the business and build on our core strength of relationship banking and high touch customer service, at the same time becoming more efficient at everything we do.

The Bank will continue to lend cautiously and maintain high liquidity and at the same time leverage its trust in the business community. I am confident that our strong business culture together with our entrepreneurial spirit will help us achieve our targeted growth levels for 2019.

APPRECIATION

I am thankful to all our customers and well-wishers, without whom we would not have been able to achieve our good results.

Our staff is our biggest asset and we are fortunate to have their commitment, loyalty and dedication to help the Bank achieve its strategic objectives. On behalf of the Board, I would like to express our appreciation towards their valuable contribution.

At the same time, I would like to thank my fellow Directors and the South African Reserve Bank for their guidance and look forward to their continued patronage.

Muhammad Habib

Chairman

RISK MANAGEMENT PHILOSOPHY

An effective and robust Risk and Control Framework is a prerequisite to the success and stability of a bank. HBZ Bank recognises that effective risk management is fundamental to the sustainability of business to generate sustainable profits, safeguard its reputation, create a competitive edge and achieve an optimal risk-reward profile.

The risk philosophy of the Bank is to keep risks to a minimum through a clear policy of broad diversification in terms of geography and product mix, and by spreading the Bank's credit and trade financing activities over a wide range of customers, with the emphasis on secured, short-term, self-liquidating lending.

The Bank defines risk as any factor, which could cause the Bank not to achieve its desired business objectives or result in adverse outcomes, including reputational damage. In fact, all actions that the Bank takes have an element of risk. The Bank recognises that it is an unavoidable consequence of banking to take calculated business risks with the objective of creating attractive returns and thus HBZ Bank does not seek to avoid risk, but to manage it in a controlled manner and in the context of the reward that is being earned.

The Bank's risk management process is to ensure that all risks are identified and understood, evaluated and quantified, and then managed to achieve the desired returns by eliminating, reducing and controlling the impact of adverse occurrences on performance to within acceptable parameters. Risk mitigation is an integral part of this process.

Risk management at HBZ Bank is guided by the following important principles:

- Protection of the Bank's financial strength by controlling risk exposures and avoiding potential risk concentrations;
- Protection of the Bank's reputation through a sound risk culture, and through full compliance with regulatory requirements, acceptable ethical standards and principles;
- Continuous and active management of all risk exposures to ensure that risk and reward are balanced;
- A strongly defined risk management structure;
- Independent review and oversight of the risk process;
- Continuous evaluation of the risk appetite of the Bank through clearly defined limits; and
- Communication and coordination between the Committees, executive management and other role-players in the risk management framework, without compromising segregation of duties, controls or review.

The Board enforces a conservative culture with respect to its overall appetite for risk and fully endorses and supports efforts at the Bank to attain international best practice in risk management.

COMBINED ASSURANCE

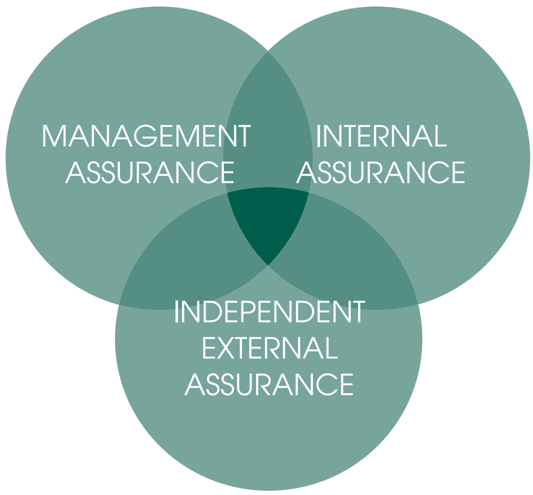
The "three lines of defence" model forms the basis of the combined assurance approach required under the King Code. It aims to provide a coordinated approach to all assurance activities. We continue to make significant progress with the integration and alignment of assurance processes to optimise governance oversight, risk management and control.

The 3 main elements of the Bank's Combined Assurance Model are:

1. Management assurance - including strategy implementation, performance measurements, control self-assessments and continual monitoring mechanisms and systems (finance, credit, treasury, operations and trade services, IT, HR.) These include line functions that own and manage risk and opportunity as well as specialist functions.

2. Internal assurance - risk management, regulatory compliance, internal audit, company secretary and health and safety departments.

3. Independent external assurance - external audit and other assurance providers.



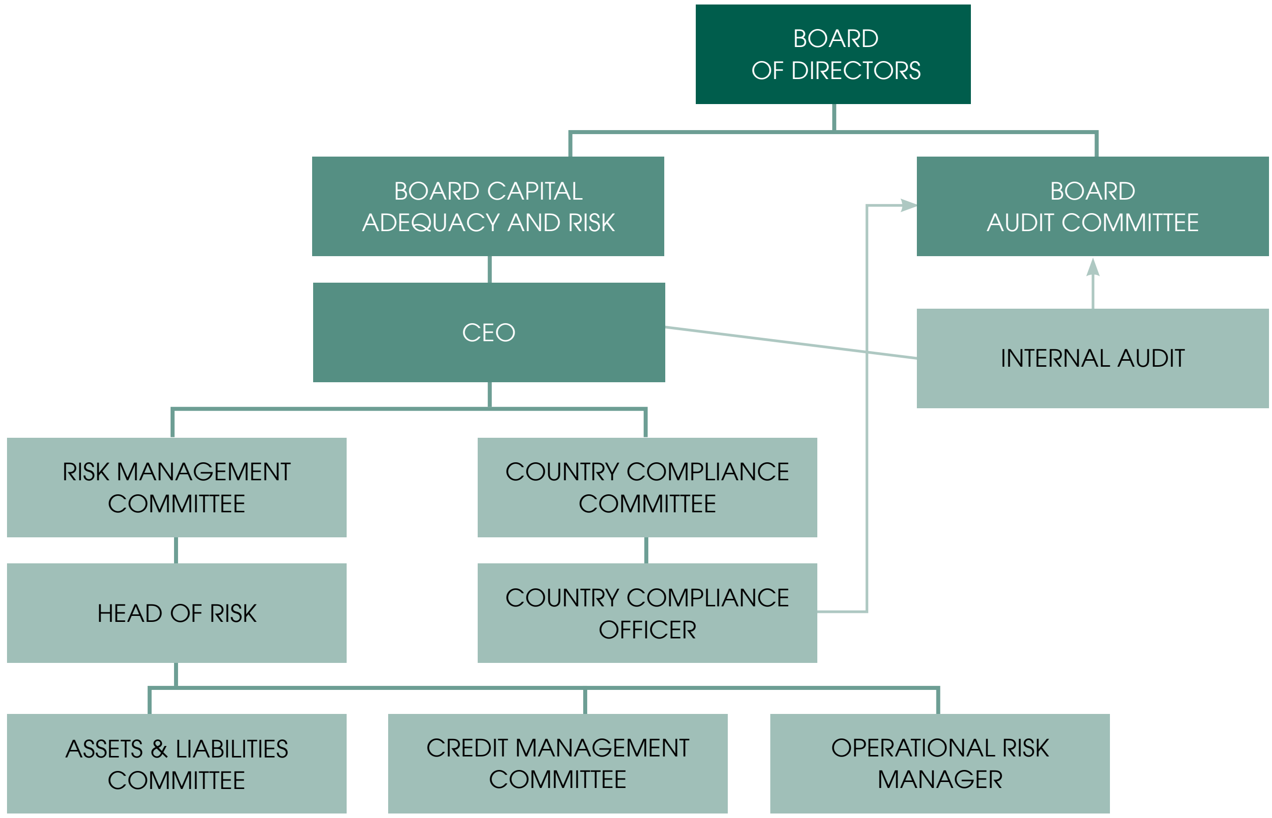
RISK MANAGEMENT FRAMEWORK

The Board is ultimately responsible for any financial loss or reduction in shareholder value suffered by the Bank. It is therefore responsible for the total process of risk management, recognising all the risks to which the Bank is exposed and ensuring that the proper mandates, policies, authority levels, risk frameworks, internal controls and systems are in place and functioning effectively.

The Bank's risk framework includes direct senior management and Board involvement to determine quantitative and qualitative risk measurement, policies and procedures, control structures, and compliance with regulations. The executive and non-executive Directors are widely represented on the various risk management Committees and processes. At every Board meeting, the Capital Adequacy and Risk Committee reports on the effectiveness of the Bank's risk management and control framework.

In line with international best practice, various Board Committees oversee policy formulation and implementation, and monitor the risk management processes and exposures. The main Board Committees are the Audit Committee and the Capital Adequacy and Risk Committee. The Risk Management Committee (RMC), the Assets and Liabilities Committee (ALCO) and various Credit Committees have been appointed by Management to enhance the risk framework.

RISK MANAGEMENT FRAMEWORK



RISKS ASSESSMENT

The Board of Directors (BOD) reviews the relevant risk areas on an annual basis. The risk assessment is based on exposure data and risk analysis, which are provided by the risk department of the Bank. This covers liquidity risk, market risk, credit risk, concentration risk, operational risk and other risk types as are relevant. For its risk assessment the Board takes into consideration mitigating factors such as the effectiveness of the system of controls.

COMMITTEES THAT MANAGE RISK

Board Capital Adequacy and Risk Committee

This Board Committee comprises at least five members with a minimum of three being non-executive directors. The Chairman of the Committee is a non-executive director appointed by the Board. The Committee has the power to investigate any activity within the scope of its terms of reference. In the fulfilment of its responsibilities, the Committee may call upon the Chairmen of the other Board Committees, any of the executive directors, officers or bank secretary to provide it with information, subject to following a Board approved process.

The Committee has reasonable access to the Bank's records, facilities and any other resources necessary to discharge its responsibilities. It has the right to obtain independent outside professional advice to assist with the execution of its duties, at Bank's cost, subject to following a Board approved process.

The main responsibilities of the Capital Adequacy and Risk Committee are to:

- Annually evaluate the capital management strategy via the Internal Capital Adequacy Assessment.
- Manage the Bank's capital requirements to ensure capital is maintained to meet future growth taking into account stress-testing scenarios.
- Evaluate the adequacy and efficiency of the risk policies, procedures, practices and controls applied in the day-to-day management of its business;
- Manage the risk mitigation strategy to ensure the Bank manages the risks in an optimal manner;
- Ensure a formal risk assessment is undertaken at least annually;
- Identifying and regularly monitoring all key risks and key performance indicators to ensure that its decision-making capability and accuracy of its reporting is maintained at a high level;
- Establish a process of internal controls and reviews to ensure the integrity of the overall risk and capital management process;
- Ensure the establishment of an independent risk management function;
- Introduce such measures as may serve to enhance the adequacy and efficiencies of the risk management policies, procedures, practices and controls applied within that Bank.

Four meetings were held during 2018 with attendance in accordance with requirements. Minutes were kept and filed as per the charter. The charter is reviewed on an annual basis.

Risk Management Committee

The Risk Management Committee is a management appointed committee that has a written charter clearly setting out its responsibility, authority and functions. The charter is reviewed on an annual basis. The RMC reviews the Risk Management framework of the Bank and oversees the control and enhancement of systems, policies, practices and procedures to ensure effectiveness of risk identification and compliance with internal guidelines and external requirements in support of the Bank's strategy. A typical meeting of the RMC will:

- Ensure risks are identified, measured, controlled, monitored and reported.
- Review the Bank's risk profile and appetite.
- Set and review policies, control standards, risk exposure limits or other control levers.
- Initiate stress tests and scenario plans, and review their results.
- Review the credit risk regulations, policies, procedures and credit impairment provisions.
- Review the operational risk regulations, policies, procedures, IT and third-party application systems, key risk indicators, and events.
- Review the risks associated with material outsourced services that are provided to the Bank.
- Ensure that all risk reports that are presented to management and the Board are in compliance with the Bank's Risk Data Aggregation and Risk Reporting framework.
- Review all risks individually and anticipate any resulting risk issues.
- Review all issues raised by the Group and Bank's Internal and External Audit Departments.

In performing its duties, the RMC maintains an effective working relationship with the Capital Adequacy and Risk Committee and the ALCO Committee.

The RMC is chaired by the Head of Risk and is made up of the Chief Executive Officer (CEO), Chief Financial Officer (CFO) and Head of Compliance. The Heads of Corporate Governance, Internal Audit and the Operational Risk manager attend as observers. A Branch or Area Manager is invited to attend as and when decided by the Committee. During 2018 the RMC met as per the requirements.

Credit Management Committee

This Management Committee is chaired by the CEO and comprises the Head of Risk, an Area Manager and a senior Branch Manager. The Committee may request any other Senior Manager of the Bank to attend the meeting. The CMC is the credit decision making body within the Bank and approves all credit proposals and reviews and monitors all credit risks which fall within their Board approved competency.

The Committee met as per requirements and minutes were kept in line with the Board approved charter.

Assets and Liabilities Committee (ALCO)

An integral element in managing risk is the overall management of the assets and liabilities of the Bank. The ALCO was set up by Management with a written charter to oversee the arrangement of both sides of the Bank's statement of financial position, to maintain profitability, to minimise interest rate risk, to maintain adequate liquidity and manage the capital adequacy requirements of the Bank. The Committee presents a report at each Risk Management Committee meeting on the effectiveness of the management of the risks it monitors. The charter is reviewed on an annual basis.

The main responsibilities of this Committee are to:

- Review the liquidity and interest rate risk process.
- Consider the maturity of assets on the statement of financial position
- Review and monitor capital risk and the capital adequacy process.
- Assess the various liquidity and interest-rate shock scenarios and their impact on earnings and capital.
- Allocate the assets and liabilities to reduce risk and increase profitability.
- Monitor the Bank's exposure to currency risk.

The Committee is chaired by the CFO and is made up of the CEO, Head of Corporate Governance, Head of Risk, Financial Manager, Treasury Manager and Area Manager. During 2018 the ALCO met as per the requirements and minutes were kept and filed as per the charter.

Country Compliance Committee

This management Committee is chaired by the Country Compliance Officer, and comprises the CEO, Senior Branch or Area Manager, CFO, Head of Risk and the Operations & Technology Manager. The Committee has a written charter noting that it is responsible for overseeing the compliance function in the Bank. The charter is reviewed on an annual basis.

It has the authority to consider any matters relating to compliance and the combating of money laundering and terrorist financing risks that it deems necessary. In this regard the Committee has the authority to seek any information it requires from any officer or employee of the Bank, and such officers or employees shall respond to these inquires.

The main functions of this committee are to:

- Ensure compliance with regulatory requirements affecting the Bank.
- Identify the money laundering and terrorist financing risks that are relevant to the Bank,
- Review the compliance monitoring process.
- Ensure that any recommendations above are incorporated into the Bank's procedures and monitoring infrastructure.
- Review the compliance and combating of money laundering and terrorist financing training requirements.
- Review the list of high risk countries, the list of high risk accounts, the list of frozen accounts, the list of accounts that are under investigation by any regulatory body (SARS, FIC, National Prosecuting Authority and SA Police Services),
- Review the account opening procedures to ensure they meet local regulatory requirements.
- Review a list of new Acts or Regulations promulgated since the last meeting, assess their impact on the Bank and ensure the Bank is in compliance with them if they do impact the Bank.

The Committee met as required in 2018 and minutes were kept and filed as per the charter.

RISKS DIRECTLY IMPACTING THE BANK AND THE MANAGEMENT THEREOF

The Board has appointed the Capital Adequacy and Risk Committee to oversee the Risk Framework of the Bank. Management has in turn determined that the following risks materially impact the Bank and allocated various bodies to manage them:

RISK CLASS	RISK TYPE
Strategic & Business risk	Strategic risk
	Business risk
	Concentration risk
	Capital adequacy risk
Liquidity risk	Liquidity funding risk
Market risk	Interest rate risk
Credit risk	Credit risk - general
	Counterparty risk
	Settlement risk
Operational risk	Operational risk (incl. IT risk)
	Cyber risk
	Fraud risk
	Physical security risk
Legal, compliance & tax risk	Legal risk
	Compliance risk (incl. AML)
	Tax risk
Reputation risk	Reputation (including Shariah risk)
Systemic risk	Systemic risk

STRATEGIC AND BUSINESS RISK

1. Strategic Risk

Strategic risk is the current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes.

The Bank pro-actively manages this risk by ensuring that:

- Strategic risks are determined by Board decisions about the objectives and direction of the organisation;
- Board strategic planning and decision-making processes, is thorough;
- The Board has sufficient information about how the business is performing, and about relevant aspects of the economic, commercial, and technological environments.
- The Board is balanced in skills, knowledge, and experience to assess the variety of strategic risks the organisation faces;
- The Bank has the ability to respond to abrupt changes or fast-moving conditions;
- The Bank only accepts short-term strategic risks if it can reduce or eliminate those risks over a longer time-frame;
- Strategic risks are avoided or not accepted if the possible impacts are too great, or where the probability of success is so low that the returns offered are insufficient to warrant taking the risk.

2. Business Risk

Business risk is the possibility that a business will have lower than anticipated profits, or that it will experience a loss rather than a profit.

The Bank mitigates this risk as follows:

- Acknowledging that business risk is influenced by numerous factors including sales volume, pricing, overhead costs, competition, overall economic climate, and government regulations.
- The Board makes decisions about the objectives and direction of the Bank;
- The Board strategic planning and decision-making processes are thorough;
- The Board has sufficient information about prevailing market and economic conditions;
- The Board is balanced in skills, knowledge and experience to assess the variety of factors that may impact its performance;
- The Bank has the ability to speedily respond to internal and external changes

3. Concentration Risk

Concentration risk is the risk of losses arising that are large enough to threaten the Bank's existence due to a single exposure or group of exposures to a counterparty, industry, geographic area or with one type of security.

The fundamental principles that the Bank applies in the management of concentration risk include:

- Clearly defined rules for the grouping together of exposures;
- Clearly defined per party exposure limits;
- Continual monitoring of industry and geographic exposures at Board level;
- Retaining capital where the cumulative per party exposure is above 25% of the capital of the Bank not secured by cash deposited at the Bank or guarantees from Habib Bank AG Zurich;
- Reviewing concentration risk at each RMC meeting.

4. Capital Adequacy Risk

Capital Adequacy risk is the risk that the Bank will not have adequate capital to support all the risks in the business.

The Bank's capital management process is intended to develop and use effective risk management techniques in monitoring and managing its risks to ensure it has adequate capital to support all the risks. A relationship exists between the amount of capital held by the Bank against its risks and the strength and effectiveness of the Bank's risk management and internal control processes.

It is the Board's view that increasing capital should not be the only option for addressing increased risks confronting the Bank. Other means of addressing risk, such as strengthening risk management, applying internal limits, strengthening the level of provisions and reserves, and improving internal controls, must also be considered. Furthermore, capital should not be regarded as a substitute for addressing fundamentally inadequate controls or risk management processes.

The Board has developed an Internal Capital Adequacy Assessment Process (ICAAP) and set capital targets that are commensurate with the Bank's risk profile and control environment, to ensure the Bank has adequate capital to support its risks beyond the core minimum requirements. During 2018 the Board reviewed the capital management and capital adequacy processes and confirmed that it achieved the objectives specified..

LIQUIDITY RISK

1. Liquidity Risk

Liquidity risk results from being unable to meet commitments, repayments and withdrawals timeously and cost effectively.

The Bank controls liquidity at source by having strong internal controls, ensuring a wide deposit base, simplifying the product range and centralising the treasury function. The Bank is conservative in its management of liquidity risk. The Bank directly matches all major deposits with inter-bank placements and maintains a large proportion of the funds on a short-term basis to mitigate the risk of unexpected cash flow requirements. This is enhanced through an ALCO and an Assets and Liabilities Management (ALM) process which addresses liquidity risk pro-actively. The focused range of products offered by the Bank facilitates the management of this risk. There is an effective computerized system in place to monitor the Bank's liquidity and reports are received by the Bank's executive management.

The liquidity management process includes a Contingency Funding Plan and Recovery Plan which takes into account various stress test scenarios and funding sources. The Bank does comprehensive stress test scenarios for cases where an intra-day liquidity shortfall is predicted and where a sudden drain in funds occurs resulting from a run on the Bank or a single large Bank placement becoming irrecoverable.

The Bank has the following sources of funding in a stress situation:

- Use available interbank lines,
- Sell government stock and
- Approach the market to raise funds

The Bank complies with Basel III principles relating to liquidity risk management, specifically the liquidity coverage ratio and the net stable funding ratio. As with interest rate risk the focused range of products offered by the Bank facilitates the management of liquidity risk

MARKET RISK

1. Interest Rate Risk

Interest rate risk arises when losses occur due to adverse variations in interest rates.

The Bank takes active measures to limit potential interest rate losses by:

- Ensuring that all assets and liabilities must match over time;
- Ensuring that the majority of the Bank's borrowings and lending activities are at variable rates allowing for relatively stable interest rate margins;
- The ALCO reviewing and monitoring the interest rate matching at every meeting;
- Matching rate-sensitive assets and liabilities over various time horizons and various economic and environmental scenarios at every ALCO meeting;
- Review the interest rate matching process at each Capital Adequacy and Risk Committee meeting.

The focused range of products offered by the Bank facilitates the management of interest rate risk.

CREDIT RISK

1. Credit Risk

Credit risk is the risk of financial loss arising from the possibility that commitments by counter-parties are not honoured either in part or totally.

The Board acknowledges that credit risk management is critical to the Bank and has appointed a Head of Credit Risk to manage the Bank's credit risk process.

In line with the requirements of the South African Reserve Bank (SARB), the Bank applies the Standardised Approach to calculate regulatory credit risk capital as stipulated in the Basel III Accord.

The fundamental principles that the Bank applies in the management of credit risk include:

- A clear definition and in-depth understanding of the Bank's client base;
- A centralised credit department to manage proposals, security and exposures;
- Appointment of a Head of Credit Risk;
- Detailed credit granting procedures including rigorous assessment of the creditworthiness of all parties;
- Detailed and documented account opening procedures, know-your-customer and due diligence requirements;
- An emphasis on diversification of the Bank's client base limiting single party exposure as well as exposures to certain industries;
- Formation of credit committees with clearly defined limits;
- Periodic and routine review of facilities against updated customer financial information;
- Detailed credit inspections, quality reviews and prompt follow-up by senior management;
- Executive and Non-Executive Directors involvement in decision making and review;
- Emphasis on security-based lending and conservative security values;
- Strict adherence to the regular revaluation of collateral held as security;
- Stress testing of exposures to ensure affordability under abnormal circumstances;
- Continual monitoring of all large exposures by the Board;
- Diversification of the inter-bank placements to manage concentration risk;
- Early detection of potentially non-performing loans through monthly Watch-list reports;
- Structured procedure for recovery of non-performing loans;
- A clear policy on the appropriate provisioning in respect of the estimated loss inherent in the advances book.

The Board approves and monitors all large exposures that are in excess of 10% of the Bank's capital. To augment the prudent assessment of advances and determination of appropriate provisioning, the Bank has a credit risk classification system.

2. Counterparty Risk

Counterparty risk is the risk that a counterparty will not honour their commitment in a contract.

The Bank pro-actively manages this risk by:

- Implementing limits for inter-bank placements and investments.
- Limiting purchase of Forward Exchange Contracts (FEC's) from Board approved banks.
- Dealing with banks and sovereigns situated in countries that have a well-regulated banking industry.

3. Settlement Risk

Settlement risk is the risk that a 3rd party bank may fail to settle or honour a trade. The three main risks associated with such transactions are principal risk, replacement cost risk and liquidity risk, which arise due to the possibility that a counter-party may fail to settle a trade.

The Bank pro-actively manages this risk by:

- Prohibiting staff from foreign exchange speculation and having uncovered forward positions.
- Allowing only short-term open positions on nostro accounts within conservative limits stipulated by the Board for each currency.

- Monitoring on a daily basis the overbought and oversold positions to ensure all forward positions are covered.
- Monitoring on a monthly basis the open position of the Bank to ensure it is within the limit stipulated by the SARB.
- Setting Board approved counter-party exposure limits for trading and settlement.
- Implementing Board approved policies and procedures that are comprehensive, consistent with relevant laws, regulations and supervisory guidance and provide an effective system of internal controls.
- Ensuring that all foreign exchaneg deals are settled via payment-versus-payment (PVP) settlement. PVP is a mechanism that ensures the final transfer of a payment in one currency if and only if, a final transfer of a payment in another currency occurs, thereby removing principal risk.
- Signing a legally enforceable collateral arrangement (International Swaps and Derivatives Association (ISDA) credit support annexes) to mitigate its replacement cost risk.

OPERATIONAL RISK

1. Operational Risk (including IT Risk)

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This excludes strategic risk, legal risk and reputation risk. Operational risk is further divided into the following risk types:

- Internal fraud
- External fraud
- Employment practices and workplace safety
- Clients, products and business practices
- Damage to physical assets
- Business disruption and system failure
- Execution, delivery and process management

Management has appointed an Operational Risk Manager whose role is to develop and maintain the Operational Risk Management Policy of the Bank.

In line with the requirements of the SARB, the Bank uses the Basic Indicator Approach to calculate regulatory operational risk capital as stipulated in the Basel II Accord.

The Bank takes active measures to limit potential operational risk losses by:

- Instilling in employees a sound culture, work ethic and values ethos;
- Providing a healthy, safe and secure operating environment for staff, data and information;
- Regularly rotating, ensuring annual leave is taken timeously and motivating staff;
- The preparation and continual upgrading of clear procedure manuals;
- Correct and meaningful staff training;
- Maintaining adequate and effective internal controls;
- Ensuring timeous and accurate processing of transactions and monitoring unauthorised ones;
- Ensuring appropriate investment in computer technology to support operations;
- Ensuring an adequate business continuity and disaster management process in the event of disruption;
- Monitoring of Key Risk Indicators (KRIs);
- Conducting risk event management, issue management and action tracking;
- Conducting risk self-assessments and change risk assessments for existing and new products and processes respectively;
- Monitoring exposure to critical and material outsourced services providers;
- Controling of IT and third-party software application systems users;
- Internal and external independent audit checks and internal control reviews;
- Ensuring as an additional counter to potential operational risk that the Bank has extensive insurance cover for any material losses.

The Bank has an internal operational risk loss reporting mechanism to identify and quantify operational losses. Significant loss events and incidences are reported to the Board immediately when they occur.

2. Cyber Risk

Cyber Risk is the risk of financial loss, disruption or damage to the reputation of the Bank from some sort of failure of its information technology systems, network and transaction sites.

Cyber risk is a key focus area, with global and local reports of the increasing incidents and sophistication of cyber-attacks on organisations. Advanced cyber and malware attacks, distributed denial of service (DDoS) and ransomware attacks are also an increasing threat to financial institutions.

Relating to cyber risk, the Group possesses an established formal governance framework which outlines the risk-based approach pursued, and sets out how the Group responds to cyber risk threats. HBZ Bank has adopted the cyber security plan in line with the Group's risk approach.

The Bank actively manages this risk through the following measures:

- Systems designed and engineered to the best levels of security
- Staff awareness and training on cyber risk related matters
- Communication with customers to validate critical transactions
- Regular updates on external events at other institutions and organisations such as scams, hacking of email, e-banking breaches, etc.
- In depth assessment of incidents affecting the Bank, reporting of events to senior management to minimize financial and reputational damage

- Wherever possible insurance cover for financial losses caused by cyber risks
- Responsibility for managing cyber risk is clearly defined
- Policies and procedure manual covering information security and access control
- Implementation of cyber security activity plans and controls
- Assessing risks, implement mitigation measures and test controls
- Identifying weak points that can lead to cyber-attacks
- Monitoring and review of cyber risk at the periodic Risk Management Committee meeting

3. Fraud Risk

Fraud risk is the risk of regulatory sanction and reputational and financial losses due to fraud, crime and misconduct from staff and or external third parties.

The Bank's fundamental principles of managing fraud risk are to:

- Instil in employees a sound culture and an ethical and values driven ethos;
- Correct and meaningful staff training on internal and external fraud, including sharing best practices;
- The preparation and continual upgrading of Code of Conducts and Ethics manual;
- Ensure there is an effective Complaints and Whistle Blowers process installed, supported by well documented manuals:
- Regularly rotating and motivating staff;
- Ensuring immediate and effective action is taken against any persons implicated in fraudulent activities;
- Maintaining adequate and effective internal controls;
- Ensuring timeous and accurate processing of transactions;
- Reviewing of suspicious transactions including eliminating transactions with blacklisted companies and individuals;
- Ensuring appropriate investment in computer technology to support operations;
- Independent internal and external audit to check and review controls;
- Ensuring an independent Risk Management Committee, made up of senior management, that meets quarterly with a detailed agenda including fraud risk issues;
- Ensuring that the Bank has extensive insurance cover for any material losses.

4. Physical Security Risk

Physical security risk is the risk of financial loss from damage to the physical assets of the bank or the injury to staff or customers.

To manage this risk the Bank has ensured that:

- Branches have adequate fire and smoke alarms and access alarms linked directly to a response company;
- Each branch has an effective CCTV monitoring system with functioning back up and these systems are tested regularly;
- Each department or branch has a Health and Safety Officer appointed who performs monthly inspections and produces reports to branch management and head office;
- There is extensive insurance cover for any material losses;
- There is adequate medical aid, life and disability cover for staff.

This risk is reviewed at each Capital Adequacy and Risk Committee meeting.

LEGAL, COMPLIANCE AND TAX RISKS

1. Legal Risk

Legal risk is the risk that the Bank will conduct activities or carry out transactions in which it is inadequately covered or is left exposed to potential litigation. It is the possibility that a failure to meet legal requirements may result in unenforceable contracts, litigation, fines, penalties or claims for damages or other adverse consequences.

Legal risk sub types include:

- Inadequate documentation or technical defects in the manner in which transactions are carried out
- Infringements of laws or regulations or the commission of a tort such as negligence or some other act giving rise to civil or criminal liability

In line with our established policies the Bank ensures that new / changed activities, products, systems and organizational structures do not create unnecessary, unacceptable or unavoidable legal risk.

The Bank outsources potential litigation matters to an approved panel of attorneys.

2. Compliance & Regulatory Risk

Compliance risk is the risk of financial loss due to the procedures implemented to ensure compliance to relevant statutory, regulatory and supervisory, industry codes of conduct and internal control requirements not being adhered to, or such controls are inefficient and ineffective.

Compliance risk includes Regulatory risk which arises when the Bank does not comply with applicable laws and regulations or supervisory requirements. As the number of statutory regulations and directives from Central Banks' increase there is a continual need to monitor the Bank's adherence to these laws. The Bank identifies compliance risk as a separate risk within its risk management framework.

The Bank has a Compliance department appointed to oversee the management of Compliance Risk. To make certain this department is effective in managing this risk the Bank has ensured that:

- The compliance department is headed by a senior executive who has the appropriate qualifications, training and skills;
- An independent Country Compliance Committee, made up of senior management, has been set up, that meets quarterly with a detailed agenda addressing all major compliance and AML issues;
- The compliance function operates independently from internal audit and branch operations;
- An effective computer system is in place to monitor high risk transactions and reports are escalated to the relevant compliance officials;
- The compliance function confirms that the bank complies with all relevant statutory, regulatory and supervisory requirements;
- The compliance department is adequately staffed and is represented in each branch by Branch Compliance Officers;
- The Head of Compliance presents a report at each Board meeting on any non-compliance with laws and regulations or supervisory requirements.

When new acts, regulatory requirements and codes of conduct are introduced, compliance addresses these by providing training and advice on these issues, developing policies and procedures affecting regulatory issues and regularly monitoring adherence to these policies and procedures. Education and practical workshops form an important part of this process.

The Head of Compliance attends the annual International Compliance Conference hosted by the holding company and is a member of the Compliance Institute of South Africa.

3. Tax Risk

Tax risk is the risk of non-compliance with tax laws, unintended consequences of company transactions, and financial reporting risks.

The Bank has mitigated this risk through the following measures:

- Appointment of a Chief Financial Officer and Financial Manager with relevant tax experience;
- Audit of tax compliance by the Bank's external auditors

REPUTATIONAL RISK (INCLUDING SHARIAH RISK)

Reputational risk is the risk of adverse publicity should the Bank contravene applicable statutory, regulatory and supervisory requirements or by providing a service that does not comply with proper industry standards.

The Bank pro-actively manages this risk by ensuring that:

- There are strong internal values that are regularly and pro-actively reinforced;
- The Bank subscribes to sound corporate governance practices, which require that activities, processes and decisions are based on carefully considered principles;
- The Bank's policies and practices are regularly updated and reinforced through transparent communication, accurate reporting, continuous performance assessment, internal audit and regulatory compliance review;
- The Bank has clearly defined risk management practices, to effectively monitor these risks;
- The internal controls are effective;
- There is an internal audit function that operates independently and effectively;
- The Bank has a clear policy on privacy issues regarding the use of customer information which complies with the relevant rules and regulations.

SYSTEMIC RISK

Systemic risk is the risk of disruption to financial services that is caused by an impairment of all or parts of the financial system and has the potential to have serious negative consequences for the real economy.

It refers to the risks imposed by inter-linkages and inter-dependencies in a system, where the failure of a single entity or cluster of entities can cause a cascading failure, which could potentially bankrupt or bring down the entire system.

The fundamental principles of managing systemic risk are:

- To ensure exposure to other banks is diversified;
- To set limits for dealings with other banks approved by the Board;
- To monitor the macroeconomic situation.

ETHICAL RESPONSIBILITY

Conducting our business with high standard of ethics and integrity is essential to building on our reputation and reinforcing our values keeping up a long tradition established by the Habib Group. This goes beyond compliance with applicable laws and regulations and requires a high regard for principles of morality, humility, humanity, good behaviour and justice.

The Board has appointed a Social and Ethics Committee to manage its social and ethical responsibilities.

ENVIRONMENTAL PLAN

The plan approved by the Board requires that:

- All operations of the Bank be in full compliance with the environmental legislation or accepted Codes of Conduct that impact it,
- Management report at each Social and Ethics Committee meeting on specific actions taken to improve the Bank's Environmental bottom line,
- All internal business practices be conducted in an environmentally friendly manner,
- The Bank's suppliers, where applicable, have their own environmental activities,
- The Banks advances process considers whether clients adhere to environmental legislation that impacts them.

HEALTH AND SAFETY

To ensure a healthy office environment for staff and clients the Bank has implemented a Health and Safety Plan that includes:

- A detailed policy,
- The formation of a committee,
- The appointment of a health and safety representative and two first aiders at each branch,
- Approval of a training plan and budget,
- Detailed procedures for monthly inspections and reporting.

During 2018 there was no inspection by the Department of Labour nor where there any H&S incidents.

INTERNAL SOCIAL INVESTMENT

It is paramount to the success of any business that internal empowerment programmes for staff are in place. The Bank is conscious of this fact and has implemented internal employment equity, training and skills development initiatives. These initiatives focus on providing all employees with an environment that is free from any form of discrimination while ensuring opportunities exist to obtain the necessary skills for career.

SKILLS DEVELOPMENT

The Bank has a Skills Development Facilitator who is registered with BANKSETA, the Banking Industries Training Authority. A Workplace Forum comprising of equal numbers of staff and management meets to monitor and enhance the Bank's Workplace Skills Plan.

The Plan monitored by the Forum commits the Bank and employees to various training projects that include:

- focused on-the-job training;
- external training; and
- access to tertiary, college and university education.

All staff has access to this plan and is entitled to benefit from the plan. During 2018 all the goals and objectives of the plan were achieved. To encourage continuity of the plan the Bank has set aside a separate budget to give full effect to the Workplace Skills Plan.

EMPLOYMENT EQUITY

The Bank's Employment Equity Plan as submitted to the Department of Labour is continually monitored and updated to ensure it meets the changing needs of the Bank and its employees. As a member of an international banking group, the Bank is proactive and has, for a number of years had a sound employment equity process. The Bank is currently training and recruiting staff from previously disadvantaged groups to ensure employment equity at the Bank remains ahead of the plan.

EXTERNAL CORPORATE SOCIAL INVESTMENT

At HBZ, caring for our communities is as important to us as being great bankers. In fact, we see the two as being interlinked. We believe that through caring for our neighbours, we develop a better appreciation for people and, in so doing we are better able to understand and serve our clients. HBZ recognises that social giving is not enough in its own right for Corporate Social Investment (CSI) to be truly effective and to make an on-going and meaningful difference in the lives of underprivileged people and to the overall economic wellbeing of the country, it needs to be well-managed and underpinned by the driving principle of sustainability that encompasses all the Group's stakeholders. This approach ensures the effective and balanced management of the Bank's economic, social and environmental relationships.

The Bank's CSI funding in South Africa focuses primarily in the following areas:

- Education, with an emphasis on female education;
- Health;
- Relief in case of natural disasters;
- Local community causes or projects within our niche market;
- Environmental causes and projects.

The Corporate Governance framework and Corporate Governance plan, both reviewed by the Board annually, ensures the strategic guidance of the Bank, the effective monitoring of management by the Board, and the Board's accountability to our shareholder.

In recognition of the need to conduct the affairs of the Bank according to the highest standards of Corporate Governance and in the interests of stakeholders' protection, the Board endorse the Code of Corporate Practices and Conduct recommended in the King Reports on Corporate Governance. The Directors are of the opinion that the Bank has, in all material aspects, observed and applied these Codes, where they are applicable to the Bank, during the year under review.

The salient features of the Bank's Corporate Governance policy are built on the characteristics of:

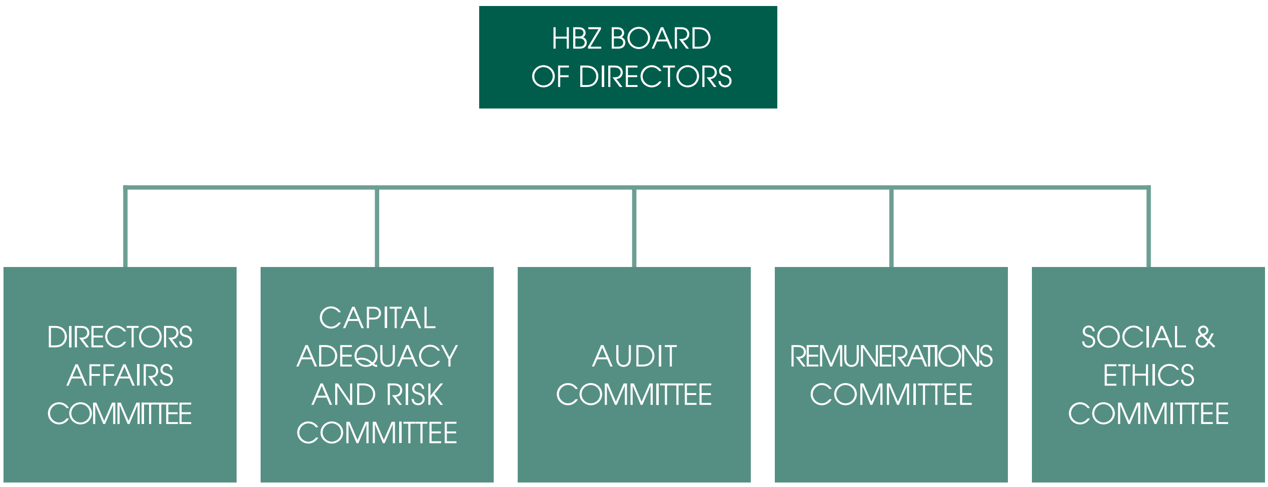
- Building and sustaining an ethical corporate culture in the Bank
- Enable discipline, independence, and transparency and social integrity
- Enable effectiveness, efficiency, responsibility and accountability
- Identifying and mitigating significant risks, including capital risk
- Promoting informed, fair and sound decision making
- Facilitating legal and regulatory compliance
- Ensuring sustainable business practices, including social and environmental activities
- Disclosing timely and accurate information to enable all stakeholders to make a meaningful analysis of the Banks performance, financial position, and governance.

BOARD OF DIRECTORS

Charter

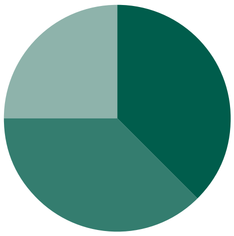
The Board has a Charter that includes the directors' code of conduct. The Board is fully committed to infusing the standards of integrity, accountability and transparency required to achieve effective corporate governance. The Charter confirms the board's accountability, fiduciary duties, conflict of interest process, appointments and tenure. The Charter is reviewed by the Board on an annual basis.

Board of Directors governance framework:



Structure and Composition

During 2018 the structure of the Board remained unchanged. The Board comprises eight Directors, six non-executive Directors and two executive Directors. Non-executive Directors comprise persons of high caliber with diverse international and local backgrounds and expertise that enable them to bring objectivity and independent judgement to the Board deliberations and decisions. Both the Chairman and Vice Chairman are non-executive members. The roles of the Chairman and the Chief Executive Officer (CEO) are separate with responsibilities clearly defined. Details of the Directorate are listed on page 4 of this annual report.



Board of Directors

- Independent Non-Executive
- Non-Executive
- Executive

The Chairman of the Board is an employee of the Banks holding company, Habib Bank AG Zurich. As a result he is not classified independent in terms of Kings IV, and so the Vice Chairman has been appointed as the lead independent non-executive director.

The independent non-executive directors of the Bank:

- Are not representatives of the shareholder,
- Do not have a direct or indirect interest in the Bank or its holding company,
- Have not been employed by the Bank or the Group in any capacity,
- Have not been appointed as the designated auditor or partner in the Group`s external audit firm, or senior legal adviser for the preceding three financial years,
- Are not a members of the immediate family of an individual who is, or has during the preceding three financial years, been employed by the Bank or the Group,
- Are not professional advisers to the Bank or the Group, other than as a director,
- Are free from any business or other relationship (contractual or statutory) which could be seen to interfere materially with their capacity to act in an independent manner,
- Do not receive remuneration contingent upon the performance of the Bank.

Meetings and Attendance

The Board met four times during 2018 with Director's attendance in accordance with requirements. No additional Board meetings, apart from those planned, were convened during the year under review. Where Directors are unable to attend a meeting personally, teleconferencing is made available to include them in the proceedings and allow them to participate in the decisions and conclusions reached. The Board is supplied with full and timely information with a typical Board agenda including:

- A report from the CEO.
- A Report on the performance and developments of the Bank.
- Reports from the various sub-committees
- Report from the Compliance Officer
- A strategic review
- Report on large exposures.
- Report on IT issues.
- Report on significant regulatory issues.

Minutes are maintained of each meeting, signed by the Chairman of the meeting and kept in a minute book by the Board Secretary. On a monthly basis all Directors receive financial information that include a statement of comprehensive income and a statement of financial position. The Board meets annually with management for a to agree on the proposed strategy and to consider long-term issues facing the Bank, prior to formulation of the annual financial budgets. All Directors are regularly kept abreast of statutory, regulatory, accounting, non-financial and industry developments that may affect the Bank. Furthermore, all Directors have full access to management, the Bank secretary and independent professionals as well as unrestricted access to all relevant documentation required to discharge their duties.

Appointments and Retirements

One-third of Directors retire by rotation annually. The Board does not believe that the length of service of any Director could materially interfere with the Director's ability to act in the best interests of the Bank. All Directors are regarded as fit and proper.

Board Evaluations

During the year the Board performed an annual self-assessment evaluation. The self-assessments were collated by the Chairman and the results tabled at a meeting. The self-assessments displayed no weakness in the Board structure, member's attendance at meetings or the expertise, knowledge and valued input of individual directors. The Board agreed that there would be a continued focus on monitoring progress against strategic plan.

Committees

The Board is supported by various internal committees and functions in executing its responsibilities. These are elaborated on below while the details of the committee members are listed on page 4 of this annual report.

AUDIT COMMITTEE

The Audit Committee, established by the Board has a written charter that clearly sets out its responsibility, authority and functions. The charter is reviewed annually by the Committee. The majority of the Committee consists of independent non-executive Directors. The Chairman is elected by the Board and is present at the Annual General Meeting. The Bank's Audit Committee members are suitably skilled and experienced non-executive directors.

The Compliance Officer, internal and external auditors and the banking supervision department of the South African Reserve Bank have full access to this Committee. In addition, the Chairman may call in any other employee who is able to assist the Committee on an ad hoc basis. Four meetings were held during 2018 with the Chief Executive Officer (CEO), Chief Financial Officer (CFO), Compliance Officer, internal and external auditors invited to attend when necessary.

The Committee's primary responsibilities for 2018 are detailed in the Audit Committee report.

CAPITAL ADEQUACY AND RISK COMMITTEE

The Board established the Capital Adequacy and Risk Committee with a written charter that clearly sets out its responsibility, authority and functions. The charter is reviewed annually by the Committee. The Board appointed the Chairman of the Committee. The Committee is made up of both non-executive and executive Directors with the Chairman a non-executive Director. Four meetings were held during 2018 with attendance in accordance with requirements.

A comprehensive risk management framework is in place that formalises the management of risk. This framework, including the role of the Assets and Liabilities Committee and Risk Management Committee and the application and reporting on risk, are detailed in the risk management section.

DIRECTORS' AFFAIRS COMMITTEE

The Directors' Affairs Committee, established by the Board has a written charter that clearly sets out its responsibility, authority and functions. The charter is reviewed annually. The Board appointed the Chairman of the Committee. The Committee consists of non-executive Directors. In terms of the charter two meetings were held during 2018, with the CEO and CFO invited to attend. Attendance at these meetings was in accordance with requirements.

The Committee's primary responsibilities are:

- To assist the Board in its determination and evaluation of the adequacy, efficiency and appropriateness of the Corporate Governance structure and practices of the Bank;
- To establish and maintain a Board Directorship continuity programme including planning for succession, regularly reviewing the skills and experience of the Board, and an annual self-assessment of the Board as a whole and of the contribution of each individual Director;
- To assist the Board in the nomination of successors to key management positions and ensure that a management succession plan is in place;
- To assist the Board in determining whether the services of any Director should be terminated; and
- Assist the Board in ensuring that the Bank is at all times in compliance with all applicable laws, regulation and codes of conduct and practices.

SOCIAL AND ETHICS COMMITTEE

The Board of Directors established the Social and Ethics Committee with a written charter that clearly sets out its responsibility, authority and functions. The charter is reviewed annually. The Board appointed the Chairman of the Committee who is an independent non-executive Director. The Committee is made up of Directors and management. In terms of the charter two meetings were held during 2018 with attendance in accordance with requirements.

The responsibilities and duties of the Social and Ethics Committee include the following:

- To monitor the Bank's activities, regarding relevant legislation, other legal requirements or prevailing codes of best practice, with regard to matters relating to:
  - social and economic development;
  - good corporate citizenship, including
  - the environment, health and public safety, including the impact of the Bank's activities;
  - consumer relationships, including the Bank's public relations and compliance with consumer protection laws; and
  - labour and employment;
- To monitor the Bank's activities with regard to ensuring the Banks ethics code is implemented effectively. This will include monitoring that:
  - the Bank's management demonstrates support for ethics;
  - ethical standards are articulated in a code of conduct;
  - structures, systems and processes are in place to ensure the Board and employees are familiar with and adhere to the Bank's ethical standards;
  - ethics are embedded in the corporate culture of the Bank.
- To draw matters within its mandate to the attention of the Board; and
- To report to the shareholders at the Bank's AGM on the matters within its mandate.

The Bank has a strong culture of entrenched values that commit it to the highest standards of integrity, behavior and ethics in dealing with all its stakeholders. These values apply to all personnel at the Bank, with personnel expected at all times to observe their ethical obligation in such a way as to carry on business through fair commercial competitive practices.

REMUNERATION COMMITTEE

The Board of Directors established this Committee with a written Charter that sets out its responsibility, authority and functions. The Charter is reviewed annually. The Board appointed the Chairman of the Committee. The Bank's Remuneration Committee comprises of non-executive Directors. The Committee met once during 2018 to determine salary structures and staff policies that ensure the Directors, executive management and staff are rewarded fairly for their individual contributions to the Bank's overall performance.

The main responsibilities of the Remunerations Committee are:

- Overseeing the setting and administering of remuneration at all levels in the Bank;
- Overseeing the establishment of a remuneration policy;
- Exercising competent and independent judgment on compensation policies, processes and practices created for managing risk, capital and liquidity;
- Ensuring that an annual compensation review is conducted independently of management;
- Ensuring that all benefits, including retirement benefits and other financial arrangements, are fair and justified;
- Ensuring that the remuneration of employees in the risk control and compliance functions is determined independently of all relevant business areas, and is adequate to attract qualified and experienced staff;
- Determining the remuneration of the CEO and other executive staff;
- Advising on the remuneration of non-executive Directors;
- Overseeing the preparation for submission to the Board of the remuneration report.

Remuneration is normally reviewed annually, in November, and market data is used to benchmark competitive pay levels. The Bank does not have an incentive scheme based on performance, nor does it offer share options or deferred bonus schemes.

COMPANY SECRETARY

The Company Secretary, Mr. Christopher d T Harvey, is suitably qualified and experienced and was appointed by the Board in 1996. The Company Secretary is responsible for the duties as stipulated in Section 88(2)(e) of the Companies Act 71 of 2008 as amended. The Board recognises the pivotal role the Secretary plays in the Corporate Governance process and is thus empowered by them to ensure these duties are properly fulfilled.

In addition to his statutory duties the Company Secretary is required to:

- Provide the Directors with guidance on how their responsibilities should be properly discharged in the best interests of the Bank.
- Induct new Directors appointed to the Board.
- Assist the Chairman and Vice Chairman in determining the annual Board plan.
- Ensure that the Directors are aware of legislation relevant to the Bank.

All Directors have access to the advice and services of the Company Secretary whose appointment is a matter for the Board as a whole. The contact details of the Company Secretary are provided in the Director's report.

CREDIT MANAGEMENT COMMITTEES

Credit Committees comprising senior management as well as executive Directors operate at various levels within the Bank. These Committees, operating within clearly defined exposure limits and rules stipulated by the Board, review and approve all exposures to clients and potential clients.

EXECUTIVE COMMITTEES

Other executive committees vital to the application of sound governance principles within the Bank are:

- The Executive Committee (EXCO) is chaired by the CEO and made up of the CFO, Area Manager, Head of Risk, Head of Compliance and the Head of Corporate Governance as an attendee.
- The Assets and Liabilities Committee (ALCO) is chaired by the CFO.
- The Risk Management Committee (RMC) is chaired by the Head of Credit and Risk.
- Credit Committees: these committees are chaired by various directors, the CEO and senior Group personnel.
- The Compliance Committee is chaired by the Head of Compliance.
- The Operations & Technology Committee (OTCO) is chaired by the Operations and Technology Manager.
- The Human Resources Committee is chaired by the CEO.
- Corporate Social Investment (CSI) Committee is chaired by a non-executive Director.

All these Committees are made up of skilled persons who can add value to the Committee's affairs. They all have charters that are reviewed annually. Each Committee meets at least quarterly with minutes kept of all meetings.

COMPLIANCE

The Bank has an independent compliance function responsible for guiding management to ensure that the Bank complies with the letter and spirit of all statutes, regulations, supervisory requirements and industry codes of conduct, which apply to the Bank's businesses. The compliance department has implemented and developed effective processes to address compliance issues within the Bank and has unrestricted access to the Chairman of the Audit Committee and Chairman of the Board. The role of the compliance department is elaborated on in the Risk Management section of this annual report.

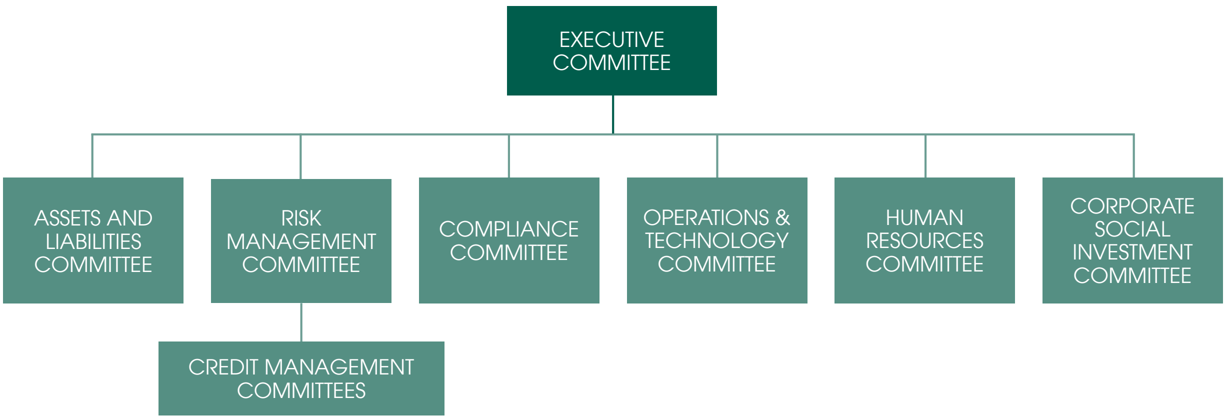
INTERNAL CONTROL

The Directors of the Bank are responsible for ensuring that the Bank maintains accounting records and implements effective systems of control. Management is responsible for the implementation and maintenance of these controls.

The Directors report that the Bank's internal controls are designed to provide assurance regarding the:

- integrity, accuracy and reliability of the accounting records,
- accountability for the safeguarding and verification of assets,
- detection and prevention of risks associated with fraud, potential liability, loss and material misstatement,
- effectiveness and efficiency of operations,
- compliance with applicable laws and regulations.

Processes are in place to monitor the effectiveness of internal controls, to identify material breakdowns and to ensure that corrective action is taken. These on-going processes were in place throughout the year under review.



INTERNAL AUDIT

The Bank's independent internal audit function exists to assist management in discharging their responsibility effectively. This department has senior suitably qualified and experienced staff whose functions comply with international standards.

Internal audit operates independently from Executive Management and has unrestricted access to the Chairman of the Audit Committee, all other staff and information needed by them in the execution of their duties.

REGULATION AND SUPERVISION

The Bank is subject to external regulation and supervision by various statutory bodies and regulators. The Bank strives to achieve open and active communication with these bodies, specifically the Supervision and Exchange Control Departments of the South African Reserve Bank, the National Credit Regulator, the Payments Association of South Africa and the Financial Intelligence Centre.

Where appropriate the Bank participates in discussion groups with the various regulators to ensure that knowledge and insight is gained to maintain sound internal controls to operate within the regulatory framework.

PUBLIC DISCLOSURE OBLIGATIONS

The Bank has a disclosure policy in place to ensure that the Bank complies with all relevant public disclosure obligations as required by regulation. Both quarterly and half yearly disclosures are published on the Banks website. In addition, the annual report of the Bank and its holding company, Habib Bank AG Zurich, are published on the website.

EMPLOYEE PARTICIPATION AND SKILLS

The Bank recognises the importance of employee participation in the maintenance of standards and general well-being of the Bank, as ultimately our success depends on our employees working together in the interest of our clients.

REPORT OF THE AUDIT COMMITTEE

This report is provided by the Audit Committee, in respect of the 2018 financial year of HBZ Bank Limited, in compliance with section 94(7)(f) of the Companies Act 71 of 2008 and section 64 of the Banks Act 94 of 1990, as amended.

Details on the composition of the Audit Committee are listed on page 4 of this annual report, while the Corporate Governance report on pages 19 to 23 provides further information on the workings of the Committee.

EXECUTION OF FUNCTIONS

During the year the Audit Committee has conducted its affairs in compliance with, and discharged its responsibilities in terms of its charter as they relate to the Bank's accounting, internal and external audit, internal control and financial reporting practices. The terms of reference were reviewed and approved during the year.

During the year under review the Committee, amongst other matters, considered the following:

1. In respect of the Integrated Assurance Model:
   - the process of implementing an integrated assurance model to provide a coordinated approach to all assurance activities.
2. In respect of the external auditors and the external audit:
   - approved the reappointment of KPMG as external auditors for the year ended 31 December 2018;
   - approved the external auditor's terms of engagement and audit fees;
   - held meetings with the external auditors;
   - reviewed the audit plan and evaluated the effectiveness of the audit;
   - reviewed significant issues raised in the external audit report and the adequacy of management's corrective action in response to such findings;
   - obtained assurance from the auditors that their quality standards were not impaired;
   - obtained assurances from KPMG that adequate accounting records were maintained;
   - considered the external audit report section on the Bank's systems of internal control;
   - confirmed that no reportable irregularities were identified and reported by the external auditors in terms of the Auditing Professions Act 26 of 2005.
3. In respect of internal controls and internal audit:
   - ensured that the Bank's internal audit function is independent and had the necessary resources and authority to enable it to discharge its duties;
   - held meetings with the local and Group internal auditors and reviewed the audit plan;
   - reviewed the internal audit plan, approved the internal audit charter and evaluated the effectiveness of the audit
   - considered reports of the internal auditors on the Bank's systems of internal control;
   - reviewed significant issues raised by internal audit and the adequacy of management's corrective action in response to such findings;
   - noted that there were no significant differences of opinion between the internal audit function and management;
   - assessed the adequacy of the performance of the internal audit function and adequacy of the available internal audit resources and found them to be satisfactory; and
   - received assurance that proper and adequate accounting records were maintained and that the systems safeguarded the assets against unauthorised use or disposal thereof.

Based on the above, the Committee is of the opinion that at the date of this report there was no material breakdown in internal control that resulted in a material loss to the Bank.

4. In respect of the financial statements:
   - confirmed the going concern principle as the basis of preparation of the annual financial statements;
   - received assurance from the finance function that the internal financial controls are effective;
   - reviewed the annual financial statements prior to approval by the Board;
   - reviewed reports on the adequacy of the portfolio and specific bad debt impairments;
   - ensured that the annual financial statements fairly present the financial position of the Bank as at the end of the financial year;
   - considered the appropriateness of accounting treatments and the accounting policies adopted;
   - reviewed and discussed the external auditors' audit report;
   - considered and made recommendations to the Board on the dividend payment to shareholders;
   - noted that there were no material adverse reports or complaints received concerning accounting practices, internal audit, internal financial controls, content of annual financial statements, internal controls and related matters.

5. In respect of legal and regulatory requirements to the extent that they may have an impact on the financial statements:
   - reviewed with management matters that could have a material impact on the Bank;
   - monitored compliance with the Companies Act, Banks Act, all other applicable legislation and governance codes;
6. In respect of risk management and IT:
   - considered and reviewed reports from management on risk management, including IT risks as they pertain to financial reporting and the going-concern assessment;
   - the Chairman is a member of and attended the Risk and Capital Adequacy Committee and attended all meetings held during the year under review.
7. In respect of the finance function:
   - considered the expertise, resources, experience and succession plan of the members of the finance function and concluded that these were appropriate;
   - considered the appropriateness of the experience and expertise of the chief financial officer and concluded that these were appropriate.

INDEPENDENCE OF THE EXTERNAL AUDITORS

The Audit Committee is satisfied that KPMG Inc. is independent of the Bank after taking into account the following factors:

- the representations made by KPMG to the Audit Committee;
- KPMG do not render non-audit services, receive any remuneration or other benefits from the Bank;
- the criteria specified for independence by the Independent Regulatory Board for Auditors and international regulatory bodies were met.

The Audit Committee recommended the annual report to the Board for approval.

On behalf of the Audit Committee

Dheven Dharmalingam
Chairman
29 April 2019

DIRECTORS' APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

RESPONSIBILITY FOR THE ANNUAL FINANCIAL STATEMENTS

The Directors are responsible for the preparation and fair presentation of the annual financial statements of HBZ Bank Limited, comprising the statement of financial position at 31 December 2018, the statements of comprehensive income, changes in equity and cash flows for the 2018 year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, and the Directors' report, in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

The Directors are also responsible for such internal control as the Directors deem necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management as well as the preparation of the supplementary schedules included in these financial statements.

The Directors are of the opinion that:

- Appropriate accounting policies have been consistently applied;
- Adequate accounting records have been maintained;
- Internal control systems are adequate to the extent that no material breakdown in the operation of these systems occurred during the year under review; and
- The financial statements fairly present the financial position of HBZ Bank Limited at 31 December 2018 and its financial performance and cash flows for the year then ended.

The auditor is responsible for reporting on whether the annual financial statements are fairly presented in accordance with the applicable financial reporting framework.

GOING CONCERN

The Directors have made an assessment of the Bank's ability to continue as a going concern and have no reason to believe the business will not be a going concern in the year ahead.

FINANCIAL STATEMENTS

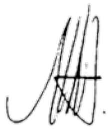
The annual financial statements of HBZ Bank Limited and the Directors' report appearing on pages 29 to 71 were approved by the Board of Directors on 29 April 2019 and are signed on its behalf by:

Muhammad H. Habib
Chairman

Oscar D Grobler
Vice-chairman

COMPANY SECRETARY'S CERTIFICATE

In terms of Section 88(2)(e) of the Companies Act 71 of 2008 as amended, I hereby certify to the best of my knowledge and belief, that the Bank has lodged with the Registrar of Companies all such returns as are required of the Bank in terms of the Act and that all such returns are true, correct and up to date.



Christopher dT Harvey

Company Secretary

Durban

29 April 2019

NOTICE IN TERMS OF SECTION 29 OF THE COMPANIES ACT

These financial statements have been audited in compliance with the requirements of Section 30 of the Companies Act 71 of 2008 and have been prepared under the supervision of the Chief Financial Officer, who is a qualified Chartered Accountant.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of HBZ Bank Limited

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of HBZ Bank Limited (the company) set out on pages 30 to 71, which comprise the statement of financial position as at 31 December 2018, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of HBZ Bank Limited as at 31 December 2018, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the company in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The directors are responsible for the other information. The other information comprises the Directors' Report as required by the Companies Act of South Africa. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that KPMG has been the auditor of HBZ Bank Limited for 24 years.

KPMG Inc.
Registered Auditor

Per Jay Datadin
Chartered Accountant (SA)
Registered Auditor
30 April 2019

KPMG Inc.

6 Nokwe Avenue

Umhlanga Ridge

Durban

4319

REPORT OF THE DIRECTORS

The Board of Directors takes pleasure in presenting the Annual Financial Statements for the year ended 31 December 2018.

HOLDING COMPANY

HBZ Bank Limited is a wholly owned subsidiary of Habib Bank AG Zurich, which is incorporated in Switzerland.

NATURE OF BUSINESS

HBZ Bank Limited is a registered Bank that specialises in trade finance.

AUTHORISED AND ISSUED SHARE CAPITAL

No additional shares were authorised or issued during the year.

FINANCIAL RESULTS

The results of the Bank are set out in the accompanying financial statements and notes. Profit for the year after tax is R87 688 565 (2017: R86 072 962).

DIVIDENDS AND GENERAL RESERVE

The following appropriations were made during the year:

	2018	2017
GENERAL RESERVE		
Transfer made	R 64,500,000	R 20,000,000
DIVIDEND		
Dividend distributed	R 50,000,000	R 38,500,000

EVENTS AFTER REPORTING PERIOD

Subsequent to year end, the Bank's authorised share capital has been increased by 10 million ordinary shares of no par value. On 2 April 2019, the Board declared a dividend of R 40,000,000 (2018: R 50,000,000).

DIRECTORS AND SECRETARY

Details of the directors are reflected on page 4 of this report. In accordance with the Bank's articles of association, Section 85, Messrs C Harvey, H Leenstra and ZA Khan retire by rotation but, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting. The Secretary of the Bank is Mr C Harvey whose business and postal address is 135 Jan Hofmeyr Road, Westville, 3630, P O Box 1536, Wandsbeck, 3631.

DIRECTORS' EMOLUMENTS

Emoluments in respect of the Bank's Directors are disclosed in note 20 to the annual financial statements.

Muhammad H. Habib
Chairman

Oscar D. Grobler
Vice-chairman

STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Notes	2018	2017
		R	R
ASSETS			
Cash and cash equivalents	2	2 314 825 769	2 006 288 662
Investment securities	3	1 272 301 299	1 312 808 188
Other assets	4	9 913 854	4 053 177
Derivative assets held for risk management	5	7 787 157	44 363 118
Deferred taxation	6	4 400 475	1 279 115
Advances	7	1 714 259 158	1 468 115 043
Property and equipment	9	20 730 414	24 498 765
TOTAL ASSETS		5 344 218 126	4 861 406 068
EQUITY AND LIABILITIES			
Capital and reserves		460 476 941	428 586 226
Ordinary share capital	10	10 000 000	10 000 000
Share premium	10	40 000 000	40 000 000
Regulatory reserve	11	-	5 614 807
General reserve	11	366 616 957	302 300 000
Retained earnings		43 859 984	70 671 419
LIABILITIES		4 883 741 185	4 432 819 842
Deposits and borrowings	12	4 856 191 744	4 369 707 744
Provisions	13	7 618 246	6 033 072
Other liabilities	14	12 613 421	13 616 446
Derivative liabilities held for risk management	15	7 317 774	43 462 580
TOTAL EQUITY AND LIABILITIES		5 344 218 126	4 861 406 068

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 R	2017 R
Interest income calculated using the effective interest method	16	389 295 099	354 655 722
Interest expense	17	(153 131 605)	(134 840 059)
Net interest income		236 163 494	219 815 663
Commissions and fees		46 622 780	42 661 185
Other operating income	18	17 588 230	17 064 706
Net interest and non-interest income		300 374 504	279 541 554
Impairment losses on financial instruments	8.3	(4 002 056)	(3 852 516)
		296 372 448	275 689 038
Operating expenses	19	(173 799 630)	(155 989 577)
Profit before taxation		122 572 818	119 699 461
Taxation	21.1	(34 884 253)	(33 626 499)
Profit for the year		87 688 565	86 072 962
Other comprehensive income		-	-
Total comprehensive income for the year		87 688 565	86 072 962
Dividends per share (cents)	22	500	385
Earnings per share (cents)	23	877	861
Diluted earnings per share (cents)	23	877	861

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Notes	Ordinary share capital	Share premium	Regulatory reserve	General reserve	Retained earnings	Total
		R	R	R	R	R	R
Balance at 31 December 2016		10 000 000	40 000 000	9 058 109	282 300 000	39 655 155	381 013 264
Total comprehensive income for the year		-	-	-	-	86 072 962	86 072 962
Decrease in regulatory reserve		-	-	(3 443 302)	-	3 443 302	-
Ordinary dividends	22	-	-	-	-	(38 500 000)	(38 500 000)
Transfer to general reserve		-	-	-	20 000 000	(20 000 000)	-
Balance at 31 December 2017		10 000 000	40 000 000	5 614 807	302 300 000	70 671 419	428 586 226
Adjustment on initial application of IFRS 9, net of tax		-	-	-	(5 797 850)	-	(5 797 850)
Restated balance at 1 January 2018		10 000 000	40 000 000	5 614 807	296 502 150	70 671 419	422 788 376
Total comprehensive income for the year		-	-	-	-	87 688 565	87 688 565
Decrease in regulatory reserve		-	-	(5 614 807)	5 614 807	-	-
Ordinary dividends	22	-	-	-	-	(50 000 000)	(50 000 000)
Transfer to general reserve		-	-	-	64 500 000	(64 500 000)	-
Balance at 31 December 2018		10 000 000	40 000 000	-	366 616 957	43 859 984	460 476 941

STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	2018 R	2017 R
Cash flows from operating activities			
Cash receipts from customers	24.1	453 506 109	414 381 613
Cash paid to customers, employees and suppliers	24.2	(328 391 256)	(287 037 310)
Cash available from operating activities	24.3	125 114 853	127 344 303
Increase in advances		(252 980 810)	66 414 354
Increase in deposits and borrowings		486 484 000	549 206 398
Taxation paid	24.4	(36 160 343)	(33 303 760)
Dividends paid	22	(50 000 000)	(38 500 000)
Net cash inflow from operating activities		272 457 700	671 161 295
Cash flow from financing activities			
Increase in income-earning funds			
and other assets	24.5	72 516 150	(350 174 009)
Decrease in other liabilities	24.6	(36 623 830)	31 822 831
Net increase in financing activities		35 892 320	(318 351 178)
Cash utilised in investing activities			
Capital expenditure on property and equipment		(3 512 068)	(9 029 396)
Proceeds on disposal of property and equipment		3 699 155	113 442
Cash utilised in investing activities		187 087	(8 915 954)
Increase in cash and cash equivalents		308 537 107	343 894 163
Cash and cash equivalents at the beginning of year		2 006 288 662	1 662 394 499
Cash and cash equivalents at end of year		2 314 825 769	2 006 288 662

For the year ended 31 December 2018

1. REPORTING ENTITY

HBZ Bank Limited is a company domiciled in the Republic of South Africa and is wholly-owned by Habib Bank AG Zurich. The financial statements were authorised for issue by the Directors on 29 April 2019.

2. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB), and the requirements of the Companies Act of South Africa of 2008.

This is the first set of the Bank's annual financial statements in which IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have been applied. Changes to significant accounting policies are described in Note 1.

(b) Use of estimates and judgements

The preparation of financial statements, in conformity with IFRS, requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. Actual results will not differ materially from these estimates.

The estimates and underlying judgements are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

Estimates and assumptions predominantly relate to impairment of loans and advances and the determination of useful lives and residual values for property and equipment.

Judgements:

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes:

Note 27: Classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principle and interest (SPPI) on the principal amount outstanding.

Note 27: Establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining methodology for incorporating forward-looking information into measurement of Expected Credit Loss (ECL) and selection and approval of models used to measure ECL.

Assumptions and estimation uncertainties:

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2018 is included in the following notes.

Note 27: Impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information

These estimates and assumptions are explained in the notes below.

(c) Basis of measurement

The financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value or amortised cost. The amounts disclosed are rounded to the nearest Rand, with the exception of the disclosure of compliance with the South African Reserve Bank (SARB) regulatory ratios which are disclosed to the nearest Rand Thousands (note 32).

3. CHANGE IN ACCOUNTING POLICIES

The Bank has adopted IFRS 9 and IFRS 15 from 1 January 2018.

Due to the transition method adopted by the Bank in applying IFRS 9, comparative information has not been restated. This treatment is allowed under IFRS 9." suggest – comparative information to these financial statements has not been restated as this is allowed by the new standard.

The adoption of IFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognised by the Bank.

The effect of initially applying these standards is mainly limited to the following:

- An increase in impairment losses recognised on financial assets and
- Additional disclosures related to IFRS 9

Except for the policy changes described in this note , the Bank has consistently applied the accounting policies as set out below to all periods presented in these financial statements.

(a) IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and certain contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

Additionally, the Bank has adopted consequential amendments to IFRS 7 Financial Instruments. These disclosures have been applied for 2018, but have not been applied to the comparative information.

The key changes to the Bank's accounting policies resulting from its adoption of IFRS 9 are summarised below and the full financial impact of adopting the standard is set out in Note 27.

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the previous IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. For an explanation of how the Bank classifies financial assets under IFRS 9, refer to the notes below.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, under IAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, whilst under IFRS 9 fair value changes are generally presented as follows:

- The amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- The remaining amount of change in the fair value is presented in profit or loss

For an explanation of how the Bank classifies financial liabilities under IFRS 9, refer to the notes below.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how the Bank applies the impairment requirements of IFRS 9, refer to the notes below.

Transition

Comparative periods generally have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

The Bank used the exemption not to restate comparative periods.

For more information and details on the changes and implications resulting from the adoption of IFRS 9, refer to the notes below.

(b) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

The Bank initially applied IFRS 15 on 1 January 2018 retrospectively in accordance with IAS 8 without any practical expedients. The timing or amount of the Bank's fee and commission income from contracts with customers was not impacted by the adoption of IFRS 15.

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements exceptsave for the matters referred in 3 above.

(a) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Bank (South African Rands) at exchange rates on the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate on that date.

(b) Interest

Interest received and paid is recognised in the statement of comprehensive income using the effective interest rate method. The effective interest rate is the rate that discounts the estimated future cash receipts and payments through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability.

The calculation of the effective interest rate includes all fees paid or received, transaction costs and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2018).

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Presentation

Interest received and paid, presented in the statement of comprehensive income includes interest on financial assets and liabilities at amortised cost on an effective interest rate basis. Included in interest received is the profit received on Islamic Banking advances. Interest paid includes profit payable on Islamic Banking deposits.

(c) Non-interest income

Non-interest income comprises commissions and fee income, which is recognised as the related services are performed.

Also included in non-interest income is other operating income (refer to note 18).

(d) Financial assets and liabilities

(i) Initial recognition and measurement

The Bank initially recognises loans and advances and deposits, on the date at which they originated. All other financial assets and liabilities are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus transaction costs. Subsequent to initial recognition, financial liabilities (deposits and borrowings) are measured at their amortised cost using the effective interest method except where the Bank designates liabilities at fair value through profit or loss.

(ii) Classification

The Bank classifies its financial assets in the following categories: amortised cost; financial assets at fair value through profit or loss (FVTPL) and financial assets at fair value through other comprehensive income (FVOCI). Management determines the classification of its investments at initial recognition.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

Advances, investments and placements with banks are classified as held at amortised costs.

Foreign exchange forward and spot contracts are classified as FVTPL. They are marked to market and are carried at their fair value. Fair values are obtained from discounted cash flow models which are used in the determination of the foreign exchange forward and spot contract rates. Gains and losses on foreign exchange forward and spot contracts are included in foreign exchange income as they arise.

Business model assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management.

The information considered includes the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue or realising cash flows through the sale of the assets;

Financial assets that are held for trading and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets

Assessment of whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

Financial assets – Policy applicable before 1 January 2018

(iii) Classification

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition

- **Financial assets at fair value through profit or loss**
  A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management

- **Advances**
  Advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money directly to a debtor with no intention of trading the receivable. Advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at amortised cost using the effective interest method

  Advances include Islamic advances in terms of Murabaha and Musharakah arrangements.

- **Held to maturity**
  Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. A sale or reclassification of more than an insignificant amount of held to maturity investments would result in the reclassification of the entire category as available for sale and would prevent the Bank from classifying investment securities as held to maturity for the current and the following two financial years. Held to maturity investments includes treasury bills and bonds. They are subsequently measured at amortised cost using the effective interest method.

- **Available-for-sale**
  Available-for-sale financial investments are those non derivative financial assets that are designated as available-for-sale or are not classified as any other category of financial assets. Available-for-sale financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein are recognised in other comprehensive income and presented in the available-for-sale fair value reserve in equity. When an investment is derecognised, the gain or loss accumulated in equity is re-classified to profit or loss.

(iv) Initial recognition and measurement

The Bank initially recognises loans and advances, deposits and investment securities on the date at which they originated. Regular purchases and sales of financial assets are recognised on the trade date at which the Bank commits to purchase or sell the asset. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus transaction costs. Subsequent to initial recognition, financial liabilities (deposits and borrowings) are measured at their amortised cost using the effective interest method except where the Bank designates liabilities at fair value through profit or loss.

Financial liabilities

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVTPL.

(v) Derecognition

The Bank derecognises a financial asset when:

- The contractual rights to the receipt of cash flows arising from the financial assets have expired or,
- It has transferred its rights to receive the contractual cash flows from the financial asset and has substantially transferred all the risks and rewards of ownership of the financial asset.

Any interest retained in the financial assets is recognised separately

- The entity neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset

The Bank derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

(vi) Modifications of financial assets and financial liabilities

Policy applicable from 1 January 2018

Financial assets

If the terms of a financial asset are modified, then the Bank evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- Fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- Other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If such a modification is carried out, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

Financial liabilities

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

(vii) Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, the Bank has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

(viii) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in a transaction between market participants at the measurement date.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available) and reference to the current fair value of other instruments that are substantially the same.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique where variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument.

(ixi) Impairment

Policy applicable from 1 January 2018

The Bank recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- Placements with other banks;
- Investment in sovereign debt;
- Advances and
- Off balance sheet items (financial guarantees and commitments)

The Bank measures loss allowances at an amount equal to lifetime ECL, except for financial instruments on which credit risk has not increased significantly since their initial recognition for which they are measured as 12-month ECL

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and financial assets carried at FVOCI, are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- The disappearance of an active market for a financial asset because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a loan that is overdue for 90 days or more is considered credit-impaired.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- Off balance sheet items: generally, as a provision;

Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and OCI.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

Policy applicable before 1 January 2018

At each reporting date the Bank assesses whether there is objective evidence that financial assets, not carried at fair value through profit or loss, are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

The Bank considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant financial assets found not to be specifically impaired are then collectively assessed for any impairment that may have been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter Bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the Bank, or economic conditions that correlate with defaults in the Bank.

In assessing collective impairment, the Bank uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

Specific impairment

The Bank creates a specific impairment against advances when there is objective evidence that it will not be able to collect all amounts due. The amount of such impairment is the difference between the carrying amount and the recoverable amount, calculated as the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the effective interest rate at the inception of the advance.

Portfolio impairment

The Bank creates a portfolio impairment against advances where there is objective evidence that the advances portfolio contains probable losses at the reporting date, which will only be identified in the future, or where there is insufficient data to reliably determine whether such losses exist. The estimated probable losses are based on historical information and take into account historical patterns of losses and the current economic climate in which the borrowers operate.

Calculation of recoverable amount

The recoverable amount of the Bank's investments in held-to-maturity securities is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit (CGU) to which the asset belongs.

(x) Other assets

Other receivables are measured at their cost less impairment losses.

(xi) Other liabilities

Other payables are measured at cost.

(xii) Derivative financial instruments

The Bank uses derivative financial instruments to hedge its exposure to foreign currency risk arising from operational activities.

Derivative financial instruments are recognised initially at cost. Subsequent to initial recognition, derivative financial instruments are measured at fair value. The gain or loss on re-measurement to fair value is recognised immediately in the statement of comprehensive income through profit and loss.

(xiii) Share capital

Share issue costs

Costs directly attributable to issue of ordinary shares are recognised as a deduction from equity.

(e) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and placements with other banks.

Cash and cash equivalents are measured at amortised cost in the statement of financial position.

(f) Advances

Advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term.

Advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest rate method. Included in advances are Islamic Advances in terms of Murabaha and Musharakah arrangements.

(g) Investment securities

Investment securities are initially measured at fair value plus incremental direct transaction costs and subsequently at their amortised cost using the effective interest method;

(h) Property and equipment

(i) Recognition and measurement

Items of property and equipment are initially measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Where parts of an item of property and equipment have different useful lives, they are accounted for as separate items of property and equipment.

(ii) Subsequent costs

The Bank recognises, in the carrying amount of an item of property and equipment, the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied in the item will flow to the Bank and the cost of the item can be measured reliably. All other costs are recognised in the statement of comprehensive income as an expense as incurred.

For the year ended 31 December 2018

(iii) Depreciation

Depreciation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Land is not depreciated although is subject to impairment testing. The depreciation rates are as follows:

Leasehold improvements	20% per annum
Furniture	15% per annum
Computer and office machines	25% per annum
Motor vehicles	20% per annum

Depreciation methods, useful lives and residual values are reassessed annually at the reporting date.

The Bank has estimated the residual value on buildings and found that it is greater than cost. Depreciation has therefore not been raised on these assets.

Gains and losses on disposal of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment and are recognised in profit or loss in the year in which they arise.

(i) Leased assets

The Bank classifies leases as operating leases where the lessor retains the risks and rewards of ownership. Payments made under operating leases are recognised in the statement of comprehensive income on a straight-line basis over the term of the lease. Lease incentives received are recognised in the statement of comprehensive income as an integral part of the total lease expense.

(j) Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or Cash Generating Unit (CGU) is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU

An impairment loss is recognised whenever the carrying amount of an asset or its CGU exceeds its recoverable amount. A CGU is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the statement of comprehensive income.

Impairment losses are recognised in respect of CGU's to reduce the carrying amount of other assets in the unit on a pro rata basis.

Reversals of impairment

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indication that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(k) Deposits and borrowings

Deposits and borrowings are the Bank's sources of debt funding. Deposits and borrowings are measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest rate method. Included in deposits are Islamic deposits in terms of Mudaraba agreements.

(l) Provisions

A provision is recognised if, as a result of a past event the Bank has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Included in provisions are loss allowances for off balance sheet ECLs and leave pay provisions.

(m) Financial guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the debt instrument.

Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable).

Liabilities arising from financial guarantees and loan commitments are included within provisions.

(n) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the statement of comprehensive income as incurred.

(ii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision for leave pay is raised for leave which has accrued to staff, and for which the Bank is liable.

(o) Income tax

Income tax expense comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the statement of financial position method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

In determining the amount of current and deferred tax, the Bank takes into account the impact of uncertain tax positions and whether additional tax and interest may be due. This assessment relies on estimates and assumptions and may involve series of judgements about future events. New information may become available that causes the bank to change its judgement regarding the adequacy of existing liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made

(p) Earnings per share

The Bank presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

(q) Contingencies and commitments

Transactions are classified as contingencies where the Bank's obligations depend on uncertain future events and principally consist of third party obligations underwritten by banking operations.

Items are classified as commitments where the Bank commits itself to future transactions or if the items will result in the acquisition of assets.

(r) Related party transactions

Related parties include the holding company of HBZ Bank Limited, Habib Bank AG Zurich, its fellow subsidiaries and associate companies and Directors of HBZ Bank Ltd, as well as their close family members. All related party transactions have taken place in the ordinary course of business. Balances with related parties are included under note 30.

For the year ended 31 December 2018

1. CHANGE IN ACCOUNTING POLICY

The Bank has adopted IFRS 9 as issued by the International Accounting Standards Board in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Bank did not early adopt any parts of IFRS 9 in previous years.

As permitted by the transitional provisions of IFRS 9, the Bank elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in general reserves of the current year.

As a result, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied in the current year. The comparative period notes disclosures are consistent with that of the prior year.

The adoption of IFRS 9 has resulted in changes in accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 Financial Instruments: Disclosures.

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Bank.

Statement of financial position impact	**2018** **R**
Assets	
Cash and cash equivalents	
Opening balance in terms of IAS 39 on 1 January 2018	2 006 288 662
Adjustment as a result of IFRS 9 ECL	(2 648 612)
Restated opening balance in terms of IFRS 9 on 1 January 2018	2 003 640 050
Investment securities	
Opening balance in terms of IAS 39 on 1 January 2018	1 312 808 188
Adjustment as a result of IFRS 9 ECL	(311 980)
Restated opening balance in terms of IFRS 9 on 1 January 2018	1 312 496 208
Advances	
Opening balance in terms of IAS 39 on 1 January 2018	1 468 115 043
Adjustment as a result of IFRS 9 ECL	(1 221 733)
Restated opening balance in terms of IFRS 9 on 1 January 2018	1 466 893 310
Deferred taxation	
Opening balance in terms of IAS 39 on 1 January 2018	1 279 115
Adjustment as a result of IFRS 9 ECL	4 094 747
Restated opening balance in terms of IFRS 9 on 1 January 2018	5 373 862
Equity	
General Reserve	
Opening balance in terms of IAS 39 on 1 January 2018	302 300 000
Adjustment as a result of IFRS 9 ECL	(5 797 850)
Restated opening balance in terms of IFRS 9 on 1 January 2018	296 502 150
Off Balance Sheet	
Financial guarantees	
Opening balance in terms of IAS 39 on 1 January 2018	679 030 955
Adjustment as a result of IFRS 9 ECL	(1 183 955)
Restated opening balance in terms of IFRS 9 on 1 January 2018	677 847 000

		2018	2017
		R	R
2.	CASH AND CASH EQUIVALENTS		
	Balances with central bank other than the mandatory reserve deposits	-	13 917 120
	Cash on hand	4 695 459	4 282 258
	Mandatory reserves with central banks	63 485 000	61 826 000
	Balances with other banks	2 250 434 499	1 926 263 284
	Less: ECL on performing cash and cash equivalents (Stage 1)	(3 789 189)	-
	Cash and cash equivalents after ECL	2 314 825 769	2 006 288 662
	Maturity analysis		
	On demand to one month	1 017 730 769	1 194 518 662
	One month to six months	923 500 000	497 000 000
	Six months to one year	373 595 000	314 770 000
	Greater than one year	-	-
		2 314 825 769	2 006 288 662

		2018 R	2017 R
3.	INVESTMENT SECURITIES		
	Treasury bills	1 273 256 799	1 312 808 188
	Less: ECL on performing investment securities (Stage 1)	(955 500)	-
		1 272 301 299	1 312 808 188
	Maturity analysis		
	On demand to one month	191 627 214	99 403 420
	One month to six months	985 352 044	868 435 300
	Six months to one year	95 322 041	344 969 468
	Greater than one year	-	-
		1 272 301 299	1 312 808 188

		2018 R	2017 R
4.	OTHER ASSETS		
	Prepayments	1 941 817	1 324 144
	Sundry debtors	5 722 560	2 729 033
	Income tax receivable	2 249 477	-
		9 913 854	4 053 177

		2018 R	2017 R
5.	DERIVATIVE ASSETS HELD FOR RISK MANAGEMENT		
	Forward exchange contracts	7 787 157	44 363 118
		7 787 157	44 363 118

For the year ended 31 December 2018

		2018	2017
		R	R
6.	DEFERRED TAXATION		
	Tax effect of timing differences between tax and book values of		
	- provisions for doubtful advances	3 039 237	114 594
	- other accruals and provisions	953 515	1 432 260
	- fixed asset allowances	407 723	(267 739)
	Deferred taxation asset	4 400 475	1 279 115
	Deferred taxation reconciliation		
	Balance at beginning of year	1 279 115	1 471 739
	Initial application of IFRS 9	4 094 747	-
	Current year temporary differences	(973 387)	(192 624)
	- provision for doubtful advances	1 237 902	26 404
	- other accruals and provisions	(2 320 197)	(90 880)
	- fixed asset allowances	108 908	(128 148)
	Balance at the end of the year	4 400 475	1 279 115
7.	ADVANCES		
	Overdrafts	355 152 265	370 395 697
	Loans	1 375 163 864	1 105 294 820
	Staff loans	3 724 235	3 879 541
	Commercial loans	1 257 863 823	1 054 512 082
	Trust receipts	113 575 806	46 903 197
	Bills receivable	450 000	2 094 802
		1 730 766 129	1 477 785 319
	Stage 3 Expected Credit Losses	(9 467 759)	-
	Stage 2 Expected Credit Losses	(949 278)	-
	Stage 1 Expected Credit Losses	(6 089 934)	-
	Specific impairment	-	(9 261 011)
	Portfolio impairment	-	(409 265)
		1 714 259 158	1 468 115 043
	Maturity analysis		
	On demand to one month	402 516 169	447 396 043
	One month to six months	337 007 050	195 585 000
	Six months to one year	161 277 000	148 043 000
	Greater than one year	813 458 939	677 091 000
		1 714 259 158	1 468 115 043

Interest rates charged on clients advances range between 6% and 15.25% during 2018.
Islamic Banking advances are included in advances.

		2018	2017
		R	R
8.	ECLs BY STAGE		
8.1	Stage 3 Expected Credit Losses		
	Balance at beginning of year	9 261 011	5 984 197
	Transitional adjustments in terms of IFRS 9	(117 042)	-
	Impairment raised (See note 8.4)	419 095	7 460 879
	Recoveries	(95 305)	(3 702 665)
	Write-offs against impairment	-	(481 400)
	Balance at end of year	9 467 759	9 261 011
8.2	Stage 2 Expected Credit Losses		
	Balance at beginning of year	409 265	314 963
	Transitional adjustments in terms of IFRS 9	2 026 735	-
	Impairments raised	-	94 302
	Recoveries (see note 8.4)	(1 486 722)	-
	Balance at end of year	949 278	409 265
8.3	Stage 1 Expected Credit Losses		
	Balance at beginning of year	-	-
	Transitional adjustments in terms of IFRS 9	7 928 500	-
	Impairment raised during the year	3 817 623	-
	Balance at end of year	11 746 123	-
8.4	Statement of Comprehensive Income charge		
	Impairments raised during the year		
	- Stage 3	419 095	-
	- Stage 2	-	-
	- Stage 1	3 817 623	-
	Specific Impairment	-	7 460 879
	Portfolio Impairment	-	94 302
		4 236 718	7 555 181
	Write-offs during the year	1 252 060	-
	Recoveries	(1 486 722)	(3 702 665)
		4 002 056	3 852 516

For the year ended 31 December 2018

9. PROPERTY AND EQUIPMENT

	Cost	Accumulated depreciation	Closing carrying value
	R	R	R
2018			
Land and buildings	7 447 989	-	7 447 989
Furniture & fittings	19 215 613	(12 458 486)	6 757 127
Office equipment	6 674 105	(5 733 294)	940 811
Motor vehicles	4 718 099	(3 270 306)	1 447 793
Computers	14 103 562	(9 966 868)	4 136 694
	52 159 368	(31 428 954)	20 730 414

	Cost	Accumulated depreciation	Closing carrying value
	R	R	R
2017			
Land and buildings	9 682 091	-	9 682 091
Furniture & fittings	17 887 304	(10 453 680)	7 433 624
Office equipment	6 609 830	(5 346 825)	1 263 005
Motor vehicles	5 083 235	(3 008 415)	2 074 820
Computers	12 386 583	(8 341 358)	4 045 225
	51 649 043	(27 150 278)	24 498 765

	Opening carrying value	Additions	Disposals	Depreciation	Closing carrying value
	R	R	R	R	R
2018 movements					
Land and buildings	9 682 091	42 097	(2 276 199)	-	7 447 989
Furniture & fittings	7 433 603	1 585 564	(166 314)	(2 095 747)	6 757 106
Office equipment	1 263 004	214 878	(3 642)	(533 430)	940 810
Motor vehicles	2 074 818	-	-	(627 027)	1 447 791
Computers	4 045 249	1 669 529	-	(1 578 060)	4 136 718
	24 498 765	3 512 068	(2 446 155)	(4 834 264)	20 730 414

	Opening carrying value	Additions	Disposals	Depreciation	Closing carrying value
	R	R	R	R	R
2017 movements					
Land and buildings	9 682 091	-	-	-	9 682 091
Furniture & fittings	4 969 431	4 381 545	-	(1 917 373)	7 433 603
Office equipment	922 082	740 779	-	(399 857)	1 263 004
Motor vehicles	1 205 087	1 448 070	-	(578 339)	2 074 818
Computers	3 077 846	2 459 002	(13 442)	(1 478 157)	4 045 249
	19 856 537	9 029 396	(13 442)	(4 373 726)	24 498 765

Land and buildings comprise the following:	Acquisition date:
1. Erf no. 1246, Jan Hofmeyr Road, Westville.	13 December 2004
2. Section numbers 15 and 28, Cedar Ridge, Jan Hofmeyr Road, Westville.	16 January 1996
3. Section 22, Berkley Close, Houghton, Johannesburg	14 March 2001

Details of the above land and buildings are available in the Bank's fixed asset register.

	2018	2017
	R	R
10. ORDINARY SHARE CAPITAL		
Authorised		
10 000 000 Ordinary shares of R1 each	10 000 000	10 000 000
Issued		
10 000 000 Ordinary shares at a par value of R1 each issued at R5 each		
- 10 000 000 Ordinary shares of R1 each	10 000 000	10 000 000
- Share premium on 10 000 000 Ordinary shares	40 000 000	40 000 000

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		2018 R	2017 R
11.	NON-DISTRIBUTABLE RESERVES		
	Regulatory reserve	-	5 614 807

The regulatory reserver relates to a general allowance for credit impairment that is in excess of the portfolio impairment disclosed in note 8.2. From 1 January 2018 credit impairments are calculated in terms of IFRS 9 and hence no regulatory reserve is required.

		2018 R	2017 R
	General reserve	366 616 957	302 300 000

The reserve has been created specifically for the retention of capital.

		2018 R	2017 R
12.	DEPOSITS AND BORROWINGS		
	Deposits and loans from banks	86 994 547	5 817 104
	Demand deposits	1 894 146 993	1 908 162 127
	Savings deposits	310 940 298	283 179 083
	Fixed deposits	1 718 440 732	1 457 837 219
	Notice deposits	845 669 174	714 712 211
		4 856 191 744	4 369 707 744
	Maturity analysis		
	On demand to one month	3 674 276 693	3 543 112 182
	One month to six months	821 620 596	417 019 950
	Six months to one year	360 294 455	409 575 612
	Greater than one year	-	-
		4 856 191 744	4 369 707 744

Islamic Banking deposits are included in deposits and other borrowings.

		2018 R	2017 R
13.	PROVISIONS		
	Provision for leave pay		
	Balance at beginning of year	6 033 072	5 876 682
	Provisions made during the period	524 001	156 390
	Balance at end of year	6 557 073	6 033 072

This provision is raised for leave which has accrued to employees and for which the Bank is liable.

	2018 R	2017 R
ECL on Off balance sheet items		
Balance at beginning of year	-	-
Stage 1 impact on transition date	879 000	-
Stage 2 impact on transition date	305 000	-
Recoveries	(122 827)	-
Balance at end of year	1 061 173	-
Total provisions on statement of financial position	7 618 246	6 033 072

		2018	2017
		R	R
14.	OTHER LIABILITIES		
	Creditors	2 692 577	5 423 899
	Other payables	9 920 844	8 192 547
		12 613 421	13 616 446
15.	DERIVATIVE LIABILITIES HELD FOR RISK MANAGEMENT		
	Forward exchange contracts	7 317 774	43 462 580
		7 317 774	43 462 580
16.	INTEREST RECEIVED		
	Balances with other banks	149 933 617	132 987 486
	Advances	159 436 363	149 019 834
	Investment securities	79 925 119	72 648 402
		389 295 099	354 655 722
17.	INTEREST PAID		
	Deposits from banks	2 279 166	2 065 590
	Deposits from customers	150 852 439	132 774 469
		153 131 605	134 840 059
18.	OTHER OPERATING INCOME		
	Foreign exchange income	16 335 194	16 964 706
	Profit on disposal of fixed assets	1 253 036	100 000
		17 588 230	17 064 706

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	2018 R	2017 R
19. OPERATING EXPENSES		
Operating expenses include :		
Directors' remuneration (see note 20)	6 315 763	6 039 524
Auditor's remuneration	2 201 804	1 330 179
Depreciation	4 834 264	4 373 726
Services rendered by group companies	42 328 639	36 043 035
Retirement benefit costs	4 056 671	3 911 603
- key management personnel	138 153	366 238
- other personnel	3 918 518	3 545 365
Operating leases	7 638 569	5 928 224
- premises	6 847 607	5 175 370
- equipment	790 962	752 854
Staff costs	51 020 233	45 797 281

The total amount of services rendered by group companies is paid to Habib Bank AG Zurich, the Bank's holding company.

20. DIRECTORS' REMUNERATION

	2018 R	2017 R
For services as a director and other services		
Non-executive directors	1 170 000	1 170 000
- O Grobler (Vice Chairman)	290 000	290 000
- MY Chowdhury	310 000	310 000
- HF Leenstra	280 000	280 000
- D Dharmalingam	290 000	290 000
- MH Habib	-	-
- A Iqbal	-	-
Executive directors	5 145 763	4 869 524
- ZA Khan - CEO	3 412 104	3 211 183
- C Harvey - Head Of Corporate Governance	1 733 659	1 658 341
Total Directors' remuneration	6 315 763	6 039 524

HBZ Bank does not offer pension benefits to directors. In terms of the Articles of Association the appointment of a director is for a period of three years where-after each director is expected to retire on rotation. Directors are however eligible to offer themselves for reappointment and the Board will consider reappointing them depending on current circumstances.

If there are circumstances necessitating the termination of the contract before the three year period has expired then each party will have the right to terminate the contract by giving the other party three months written notice of termination.

		2018	2017
		R	R
21.	TAXATION		
21.1	South African normal taxation		
	- current	33 910 866	33 433 875
	- deferred	973 387	192 624
	Total taxation	34 884 253	33 626 499

		2018	2017
21.2	Reconciliation of tax charge		
	SA Normal taxation	28,00%	28,00%
	Standard rate affected by:		
	- permanent difference	0,46%	0,09%
	Effective rate - total taxation	28,46%	28,09%

		2018	2017
22.	DIVIDENDS		
	Final dividend of 500 cents per share (2017: 385 cents per share)	50 000 000	38 500 000

23. BASIC EARNINGS AND DILUTED EARNINGS PER SHARE

The calculation of earnings per ordinary share is based on net income attributable to ordinary shareholders of R87 688 565 (2017: R86 072 962) and a weighted average of 10 000 000 (2017: 10 000 000) ordinary shares issued.

The calculation of diluted earnings per ordinary share is based on net income attributable to ordinary shareholders of R87 688 565 (2017: R86 072 962) and a weighted average number of 10 000 000 (2017: 10 000 000) ordinary shares.

		2018	2017
24.	CASH FLOW INFORMATION		
24.1	Cash receipts from customers		
	Interest income	389 295 099	354 655 722
	Other income	64 211 010	59 725 891
		453 506 109	414 381 613

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		2018 R	2017 R
24.2	Cash paid to customers, employees and suppliers		
	Interest expenses	(153 131 605)	(134 840 059)
	Other payments	(175 259 651)	(152 197 251)
		(328 391 256)	(287 037 310)
24.3	Cash available from operating activities		
	Profit before tax	122 572 818	119 699 461
	Adjusted for non-cash items		
	Impairment losses	(1 039 193)	3 371 116
	- Depreciation	4 834 264	4 373 726
	- Profit on disposal of property and equipment	(1 253 036)	(100 000)
		125 114 853	127 344 303
24.4	Taxation paid		
	Amount receivable at beginning of year	-	130 115
	Charge to Statement of Comprehensive Income	(33 910 866)	(33 433 875)
	Less: Amount receivable at end of year	(2 249 477)	-
		(36 160 343)	(33 303 760)
24.5	Increase in income-earning funds and other assets		
	Investment securities	39 551 389	(324 583 086)
	Other assets and derivative assets	32 964 761	(25 590 923)
		72 516 150	(350 174 009)
24.6	Decrease in other liabilities		
	Provisions, Derivatives and Other liabilities	(36 623 830)	31 822 831

25. LETTERS OF CREDIT AND GUARANTEE

	2018 R	2017 R
Letters of credit	38 105 201	58 239 337
Guarantees issued on behalf of customers	189 974 445	250 248 618
Guarantee issued on behalf of the Bank	42 895 751	7 155 000
	270 975 397	315 642 955

Guarantees and letters of credit have fixed expiry dates. Since these commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

The Guarantee issued on behalf of the Bank relates to a guarantee that was issued for the purchase of properties that are still in the development phase.

For details on the other off-balance sheet items, refer to notes 27.1 and 29.

		2018	2017
26.	PRINCIPAL FOREIGN CURRENCY CONVERSION RATES		
	One South African Rand equals		
	- Swiss Franc	0,068	0,079
	- United States Dollar	0,070	0,081
	- Pound Sterling	0,055	0,060

27. RISK MANAGEMENT

27.1 Credit risk management

i. Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

	2018				2017
	Stage 1	Stage 2	Stage 3	Total	Total
Balance with other banks at amortised cost	R	R	R	R	R
Grade 0: low to fair risk	2 250 434 499	-	-	2 250 434 499	1 926 263 284
Loss allowance	(3 789 189)	-	-	(3 789 189)	-
Carrying amount	2 246 645 310	-	-	2 246 645 310	1 926 263 284
Advances at amortised cost					
Grade 0: Low to fair risk	1 511 145 955	-	-	1 511 145 955	1 431 611 706
Grade 1: Monitoring	-	187 605 442	-	187 605 442	2 332 367
Grade 2: Substandard	-	-	4 779 856	4 779 856	-
Grade 3: Doubtful	-	-	6 260 890	6 260 890	-
Grade 4 - 10: Loss	-	-	20 973 986	20 973 986	43 841 246
	1 511 145 955	187 605 442	32 014 732	1 730 766 129	1 477 785 319
Loss allowance	(6 089 934)	(949 278)	(9 467 759)	(16 506 971)	(9 670 276)
Carrying amount	1 505 056 021	186 656 164	22 546 973	1 714 259 158	1 468 115 043
Investment Securities at amortised cost					
Grade 0: Low to fair risk	1 273 256 799	-	-	1 273 256 799	1 312 808 188
Loss allowance	(955 500)	-	-	(955 500)	-
Carrying amount	1 272 301 299	-	-	1 272 301 299	1 312 808 188
Financial Guarantee Contracts					
Grade 0: Low to fair risk	260 764 906	-	-	260 764 906	315 642 955
Grade 1: Monitoring	-	9 310 491	-	9 310 491	-
Grade 2: Substandard	-	-	900 000	900 000	-
Loss allowance	(952 701)	(13 203)	(95 269)	(1 061 173)	-
Carrying amount	259 812 205	9 297 288	804 731	269 914 224	315 642 955

Refer to note 25 for gross contingent liabilities and commitments to which these ECLs relate to.

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The following table shows an analysis of counterparty credit exposures arising from derivative transactions.For further discussion of collateral and other credit enhancements, see notes below.

	Over-the-counter Other bilateral collateralised	
	Notional amount	Fair value
2018		
Derivative assets	283 247 507	302 941 821
Derivative liabilities	282 778 124	288 085 067
2017		
Derivative assets	614 295 420	620 152 310
Derivative liabilities	613 754 183	608 884 360

ii. Collateral held and other credit enhancements

The Bank holds collateral and other credit enhancements against certain of its credit exposures. The general creditworthiness of a customer tends to be the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security and the Bank generally requests that borrowers provide it. The Bank may take collateral in the form of a first charge over real estate, charges over all corporate assets and other liens and guarantees.

At 31 December 2018, the net carrying amount of advances to customers in default amounted to R 32 million (2017: R 43.8 million) and the market value of identifiable collateral (mainly fixed properties) held against those loans and advances amounted to R 82.6 million (2017: R 87 million).

The following table sets out the principal types of collateral held against different types of financial assets.

Type of credit exposure

	Percentage of exposure that is subject to collateral requirements		
Advances	31 Dec 2018	31 Dec 2017	Principal type of collateral held
Mortgage lending	100	100	Commercial/Residential Property/Cash
Commercial lending	96	95	Commercial/Residential Property/Cash/Investments
Auto loans	100	100	Motor vehicles
Staff loans	-	-	None

MORTGAGE LENDING

The following tables stratify credit exposures from mortgage loans and advances to customers by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan or the amount committed for loan commitments to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for mortgage loans is based on the collateral value at origination. For credit-impaired loans the value of collateral is based on the most recent appraisals.

Mortgage lending

	31 December 2018	31 December 2017
LTV ratio		
Less than 50%	35 172 430	43 208 913
51 - 70%	7 547 795	3 981 512
71 - 90%	2 048 665	4 164 600
91 - 100%	-	-
More than 100%	-	-
Total	44 768 890	51 355 025

iii. Amounts arising from ECL

INPUTS, ASSUMPTIONS AND TECHNIQUES USED FOR ESTIMATING IMPAIRMENT

See accounting policy.

SIGNIFICANT INCREASE IN CREDIT RISK

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:
- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure

The Bank uses two criteria for determining whether there has been a significant increase in credit risk:
- quantitative test based on movement in PD;
- qualitative indicators

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CREDIT RISK GRADES

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 0 and 1 is smaller than the difference between credit risk grades 1 and 2.

Each exposure is allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data.

- Information obtained during periodic review of customer files e.g. financial statements, management accounts and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage.
- Data from press articles and SARB communication.
- Payment record - this includes reporting exposures on days past due.

The table below provides an indicative mapping of how the Bank's internal credit risk grades relate to PD.

Inputs, assumptions and techniques used for estimating impairment

Grading	12- month weighted average PD
Grade 0: Low risk	9,034
Grades 1: Monitoring	30,956
Grades 2-10: Substandard, doubtful, loss	100

GENERATING THE TERM STRUCTURE OF PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures by type of product and borrower as well as by credit risk grading. Furthermore, using the default rate data from the Commercial Loans portfolio, a single macroeconomic impact was determined for all the portfolios of the Bank because macroeconomic conditions in the country are expected to influence all portfolios to the same extent considering the Bank's customer base.

The Bank employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time. Development of the macroeconomic overlay to PD and associated scenarios for IFRS 9 was split into three major steps being data preparation, variable selections and Macroeconomic Impact.

DETERMINING WHETHER CREDIT RISK HAS INCREASED SIGNIFICANTLY

The Bank assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower.

The assessment of Significant Increase in Credit Risk (SICR) and subsequent classification of the exposure / asset into Stage 2 and Stage 3 takes into account qualitative criteria and quantitative criteria which could include (but are not limited to) the following:

- Days Past Due (DPD);
- Inability of the customer to service the contractual agreement may result in covenant waivers / amendments (Restructuring);
- Significant increase in the credit risk of other financial instruments of the same customer (cross-product / facility);
- Transition (Downgrade) in the (internal / external) credit rating of the obligor;
- Tagging of exposures as 'Watch' – Internal or External; and
- Tagging of exposures as 'For Adjustment Purpose' (FAP), which corresponds to non- performing.

The following early warning signals can trigger any of the above mentioned criteria and subsequently trigger classification of exposure into Stage 2 or Stage 3 based on the degree of severity of the signal and the judgement of the credit officer:

Significant changes in the terms of an existing financial instrument as on the reporting date compared to its terms at origination;
- A borrower's bank guarantee called upon by the counterparty;
- The movement of an off balance sheet exposure to an on balance sheet exposure;
- A change in the financial position / operational efficiency of the borrower, examples of which could include (but are not limited to) the following:
  - Declining profitability;
  - Tightening liquidity or cash flow; and
  - Increasing leverage and / or weakening net worth; and
  - Changes in Key Management Positions.
- Weakened marketability and / or value of collateral;
- A change in the industry in which the borrower operates; and
- Stressed macro-economic conditions may impact the performance of the borrower and impact its ability to service the debt commitments in full.

Following a significant increase in credit risk on a credit exposure, the Bank will need to monitor whether the exposure subsequently exhibits improvement in credit risk. The Bank will need to assess whether there is sufficient evidence that credit risk has improved sufficiently such that the transfer criterion, which resulted in the exposure being transferred to stage 2 or stage 3 is no longer present at the reporting date. However, the borrower must service its debt obligations for a minimum period before it can be transferred to stage 2 and/or subsequently service its obligations for a minimum period in stage 2 before being transferred to stage 1.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:
- Credit exposures on which the contractual payments are more than or equal to 30 days past due will be regarded as having significantly increased in credit risk.
- Whereas for Investments and placement with Banks on which the contractual payments are more than or equal to 15 days past due will be regarded as having significantly increased in credit risk.
- Additionally, for overdraft exposures, any excess over limit or forced debit will be treated similar to days past due i.e., an overdraft account showing excess over limit for 30 days will become a stage 2 exposure.
- Credit exposures, which are marked as watch (internal or external) by the Bank will warrant a movement to stage 2. This must be based on a credit decision documented in line with the pro- visions outlined in the staging criteria framework of the Bank.
- The rating score of the borrower at the time of loan origination will be compared to the rating (current) of the borrower as of the reporting date to determine significant increase in credit risk.

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DEFINITION OF DEFAULT

A default is considered to have occurred with regard to a particular borrower when either or both of the two following events has taken place:

- The Bank considers that the borrower is unlikely to pay its credit obligations in full, without recourse by the Bank to actions such as realizing collateral (if held).
- The borrower is past due more than 90 days on any material credit obligation to the Bank. Overdrafts will be considered as being past due once the client has breached an advised limit or been advised of a limit smaller than current outstandings.

In assessing whether a borrower is in default, the Bank considers indicators that are both qualitative and quantitative in nature.

INCORPORATION OF FORWARD-LOOKING INFORMATION

The Bank incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

As mentioned in the above notes, a single macroeconomic impact was determined for all the portfolios of the Bank because macroeconomic conditions in the country are expected to influence all portfolios to the same extent considering the Bank's customer base.

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. Development of the macroeconomic overlay to PD and associated scenarios for IFRS 9 was split into three major steps being data preparation, variable selection and macroeconomic impact.

The key drivers for credit risk for all portfolios are: Real Gross Domestic Product Growth (Real GDP Growth), Unemployment Rate , Debt to Gross Domestic Product (Debt to GDP), Inflation, Current Account Balance and Government Expenditures, Benchmark interest rates and new vehicle sales

The macroeconomic variables identified above were sourced keeping in mind IFRS 9 requirements around obtaining reliable and supportable information, without incurring undue cost or effort. As a result, macroeconomic information was aggregated from the following reputable external sources:

- World Economic Outlook (WEO), a division of the International Monetary Fund

With regards to the model, it was observed that the variables Real GDP Growth, Debt to GDP and Current Account Balance were not highly correlated to each other. Hence, these variables were selected as the final independent variables for model development.

The economic scenarios used as at 31 December 2018 included the following key indicators for the years ending 31 December 2019 to 2022.

Scenario Probability	
Baseline	67,00%
Upturn	17,10%
Downturn	15,90%

Probability Weighted Macroeconomic Variable Forecasts

Year	Real GDP Growth	Debt to GDP	Current Account Balance
2019	1,72%	1,00	-11,00
2020	1,63%	1,00	-12,00
2021	1,98%	1,00	-12,00
2022	2,20%	1,00	-13,00

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data.

The forecasts were weighted by the probability associated with each scenario.

MODIFIED FINANCIAL ASSETS

A restructuring of a credit agreement generally is defined to be a breach of contract under the initially agreed terms and conditions. Regardless of the interest and amortization payments it is only possible in exceptional cases to keep restructured advances in stage 1 status. A change in the form of the credit facility - for example conversion from an overdraft facility to a trade-related facility - does not constitute a restructuring.

Restructuring a credit facility, based on urgent request from the client, enables the client to continue servicing interest and amortization payments. Without restructuring the client would not be able anymore to meet the conditions of the contract. A restructuring therefore can be defined as the in-ability of the borrower to continue servicing the debt without any relief in the terms and conditions.

Restructuring is not referring to a normal - business as usual – rescheduling request by the client to amend credit facilities according to the changing economic environment. This could be due to expansion of the business or reallocation of resources and therefore changing financing needs in view of a different expectation of the future economic environment.

Restructured cases are flagged as restructured from the start until they have resumed their initial terms and conditions as well as complied with the conditions backward transitioning and can be moved to stage 1 again. This flagging is an additional earmark besides the classification.

Any credit exposure that is tagged as restructured in line with the Bank's policy as of the reporting date, will be classified as stage 2 for the purpose of computation of expected credit losses. This excludes rescheduled exposures based on non-credit risk related reasons.

IMPROVEMENT IN CREDIT RISK PROFILE:

Following a significant increase in credit risk on a credit exposure, the bank monitors whether the exposure subsequently exhibits improvement in credit risk. The bank assesses whether there is sufficient evidence that credit risk has improved sufficiently such that the transfer criterion which resulted in the exposure being transferred to stage 2 or stage 3 is no longer present at the reporting date. However, the borrower must service the debt obligations for a minimum period before it can be transferred to stage 2 and / or subsequently service its obligations for a minimum period in stage 2 before being transferred to stage 1.

The bank has defined below criteria to assess any improvement in the credit risk profile which will result into upgrading of customers moving from stage 3 to stage 2 and from stage 2 to stage 1.

Stage 2 to 1: An exposure in stage 2 is subject to a cooling period of 3 months / 3 instalments (whichever is longer) given that credit risk has improved sufficiently such that the transfer criterion which resulted in the exposure being transferred to stage 2 is no longer present at the reporting date.

Stage 3 to 2: An exposure in stage 3 is subject to a cooling period of 3 months / 3 instalments (whichever is longer) given that credit risk has improved sufficiently, such that the transfer criterion which resulted in the exposure being transferred to stage 3 is no longer present at the reporting date.

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MEASUREMENT OF ECL

ECL is measured as a probability-weighted estimate of the present value of cash shortfalls (i.e., the weighted average of credit losses, with the respective risks of a default occurring in a given time period used as the weights). When measuring ECL, the following would be taken into account:
- The probability-weighted outcome;
- The time value of money so that ECLs are discounted to the reporting date; and
- Reasonable and supportable information (especially forward looking information) that is available without undue cost or effort.

ECL measurement will be undertaken by considering a range of macroeconomic scenarios (at least more than 2) for computation of unbiased ECL estimates.

The general model for computation of ECL is based on the four components as follows:
- Probability of Default (PD) – This is an estimate of the likelihood of default over a given time horizon.
- Exposure at Default (EAD) – This is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities.
- Loss Given Default (LGD) – This is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral. It is usually expressed as a percentage of the EAD.
- Discount Rate – This is used to discount an expected loss to a present value at the reporting date using the effective interest rate (EIR) at initial recognition.

For term products, the Bank may estimate EIR by converting a facility's contractual rate into its effective reducing rate. The contractual interest rate for a facility may be used as a substitute for the EIR when the Bank is not able to reliably estimate cash flows or expected life.

For off balance sheet non-funded exposures / non-term products, since, the expected cash flows do not exist, the swap rate of the currency of the contractual exposure plus the credit risk premium of the contractual exposure may be used as a substitute for EIR. Alternatively, the Bank also uses the portfolio level yield as the discounting factor for ECL. If the counterparty has a term product with the Bank, then the contractual interest rate of that exposure may be used as a proxy for EIR for non-funded exposures.

ECL can be defined as the present value of the difference between all principal and interest cash flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive. Accordingly, the ECL will be computed as - Probability of Default (PD) x Loss Given Default (LGD) x Exposure at Default (EAD), discounted by the EIR under the different macro- economic scenarios defined by the Bank based on the macroeconomic forecasts and scenario prob- abilities and weights.

The Bank computes impairment of financial assets based on 12-month and Lifetime ECL. The measurement of ECL is based on the risk of default over one of two different time horizons, depending on whether the credit risk of the borrower has increased significantly since the exposure was first recognized. The loss allowance for those exposures that have not increased significantly in credit risk (`stage 1' exposures) is based on 12-month ECL. The allowance for those exposures that have suffered a significant increase in credit risk (`stage 2' and `stage 3' exposures) is based on lifetime ECL.

LOSS ALLOWANCE

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument. Comparative amounts for 2017 represent the allowance account for credit losses and reflect the measurement basis under IAS 39.

	2018				2017
	Stage 1	Stage 2	Stage 3	Total	Total
ECL on Advances					
Balance as at 1 January 2018	4 088 444	2 131 000	4 671 497	10 890 941	-
Transfer to Stage 1	2 001 490	-	-	2 001 490	-
Transfer to/(from) Stage 2	-	(1 181 722)	-	(1 181 722)	-
Transfer to/(from) Stage 3	-	-	(1 355 830)	(1 355 830)	-
Specific Impairment	-	-	-	-	9 261 011
Portfolio Impairment	-	-	-	-	409 265
Interest in Suspense	-	-	6 152 091	6 152 091	-
Balance as at 31 December 2018	6 089 934	949 278	9 467 759	16 506 971	9 670 276
ECL on Balance with Other Banks					
Balance as at 1 January 2018	2 649 000	-	-	2 649 000	-
Transfer to Stage 1	1 140 189	-	-	1 140 189	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Balance as at 31 December 2018	3 789 189	-	-	3 789 189	-
ECL on Investment Securities					
Balance as at 1 January 2018	311 792	-	-	311 792	-
Transfer to Stage 1	643 708	-	-	643 708	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	-	-	-	-	-
Balance as at 31 December 2018	955 500	-	-	955 500	-
Financial Guarantee Contracts					
Balance as at 1 January 2018	879 000	305 000	-	1 184 000	-
Transfer to Stage 1	73 701	-	-	73 701	-
Transfer to/(from) Stage 2	-	(291 797)	-	(291 797)	-
Transfer to Stage 3	-	-	95 269	95 269	-
Balance as at 31 December 2018	952 701	13 203	95 269	1 061 173	-

For the year ended 31 December 2018

iv. Concentration of credit risk

The Bank monitors concentration of credit risk by industry and geographical location. An analysis of concentration of credit risk at the reporting date is shown below:

	Advances to customers		Balances with banks		Investment securities	
	2018	2017	2018	2017	2018	2017
	R	R	R	R	R	R
Concentration by location						
America	-	-	50 997 118	37 180 460	-	-
Europe	-	-	9 965 840	96 302 597	-	-
Asia	-	-	629 208	788 309	-	-
South Africa	1 714 259 158	1 468 115 043	2 253 233 603	1 872 017 296	1 272 301 299	1 312 808 188
Other African countries	-	-	-	-	-	-
	1 714 259 158	1 468 115 043	2 314 825 769	2 006 288 662	1 272 301 299	1 312 808 188

	Advances - Gross	
	2018	2017
	R	R
Concentration by industry		
Finance & insurance	15 255 048	8 563 904
Manufacturing	323 972 321	333 303 809
Transportation	66 270 044	84 791 787
Commercial real estate	606 542 651	373 279 242
Retailers & wholesalers	568 858 686	499 162 606
Other	149 867 379	178 683 971
	1 730 766 129	1 477 785 319

27.2 Derivative instruments

	2018	2017
	R	R
Nominal value of forward exchange contracts sold to customers	263 506 614	601 260 775
Nominal value of forward exchange contracts sold to banks	19 740 893	13 034 645
	283 247 507	614 295 420
Nominal value of forward exchange contracts purchased from customers	19 729 951	(13 026 065)
Nominal value of forward exchange contracts purchased from banks	263 048 173	(600 728 118)
	282 778 124	(613 754 183)

27.3 Liquidity risk management

	On demand	1-6 months	6-12 months	< 12 months	Total
	R	R	R	R	R
2018					
Assets					
Investment securities	191 627 214	985 352 044	95 322 041	-	1 272 301 299
Advances	402 516 169	337 007 050	161 277 000	813 458 939	1 714 259 158
Other assets (incl. derivatives and deferred taxation)	14 314 329	7 787 157	-	-	22 101 486
Cash and short term funds	1 017 730 769	923 500 000	373 595 000	-	2 314 825 769
	1 626 188 481	2 253 646 251	630 194 041	813 458 939	5 323 487 712
Liabilities					
Deposits and other accounts	(3 674 276 693)	(821 620 596)	(360 294 455)	-	(4 856 191 744)
Other liabilities (incl. derivatives)	(12 613 421)	(7 317 773)	-	-	19 931 194
Provisions	-	(7 618 246)	-	-	(7 618 246)
	(3 686 890 114)	(836 556 615)	(360 294 455)	-	(4 883 741 184)
Net liquidity gap	(2 060 701 633)	1 417 089 636	269 899 586	813 458 939	439 746 528
2017					
Assets					
Investment securities	99 403 420	868 435 300	344 969 468	-	1 312 808 188
Advances	447 396 043	195 585 000	148 043 000	677 091 000	1 468 115 043
Other assets (incl. derivatives)	24 285 267	23 520 153	308 762	302 113	48 416 295
Cash and short term funds	1 194 518 662	497 000 000	314 770 000	-	2 006 288 662
	1 765 603 392	1 584 540 453	808 091 230	677 393 113	4 835 628 188
Liabilities					
Deposits and other accounts	(3 543 112 182)	(417 019 950)	(409 575 612)	-	(4 369 707 744)
Other liabilities (incl. derivatives)	(33 046 705)	(23 042 712)	(302 494)	(687 115)	(57 079 026)
Provisions	-	(6 033 072)	-	-	(6 033 072)
	(3 576 158 887)	(446 095 734)	(409 878 106)	(687 115)	(4 432 819 842)
Net liquidity gap	(1 810 555 495)	1 138 444 719	398 213 124	676 705 998	402 808 346

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27.4 Interest rate risk management

The Bank is exposed to interest rate cash flow risk on its cash and short-term funds, investment securities, advances and deposits and other accounts. The Bank is exposed to floating and fixed rates as follows:

	Short-term	Medium-term		Long-term		
	0 - 31 days	**32 - 91 days**	**92 - 181 days**	**182 - 365 days**	**Other**	**Total**
	R'000	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**
2018						
Fixed rate items						
Assets	774 695	688 702	1 347 116	627 628	-	3 438 141
Liabilities	(1 052 515)	(195 649)	(412 661)	(146 210)	-	(1 807 035)
	(277 820)	493 053	934 455	481 418	-	1 631 106
Variable items						
Assets	1 750 238	-	-	-	-	1 750 238
Liabilities	(844 069)	-	-	-	-	(844 069)
	906 169	-	-	-	-	906 169
Net repricing gap	628 349	493 053	934 455	481 418	-	2 537 275
2017						
Fixed rate items						
Assets	629 887	685 802	782 216	746 360	232	2 844 497
Liabilities	(1 017 653)	(247 508)	(116 045)	(86 711)	-	(1 467 917)
	(387 766)	438 294	666 171	659 649	232	1 376 580
Variable items						
Assets	1 794 490	-	-	-	-	1 794 490
Liabilities	(710 449)	-	-	-	-	(710 449)
	1 084 041	-	-	-	-	1 084 041
Net repricing gap	696 275	438 294	666 171	659 649	232	2 460 621

27.5 Sensitivity analysis

In managing interest rate risk the Bank aims to reduce the impact of short-term fluctuations on the Bank's earnings. Over the longer term however, permanent changes in interest rates would have an impact on earnings. It is estimated that as at 31 December 2018, a general increase of 1% in the interest rate would increase the Bank's monthly profit by R2 114 000 (2017: R2 050 320) and a general decrease of 1% in the interest rate would decrease the Bank's monthly profit by R2 114 000 (2017: R2 050 320). The sensitivity analysis assumes that all variables including capital amounts remain consistent.

27.6 Currency risk management

The Bank did not have any significant foreign currency exposure at 31 December 2018.

27.7 Financial assets and liabilities

	Fair Value through Profit and Loss	Amortised Costs			Total carrying amount
31 December 2018	R	R			R
Cash and short-term funds	-	2 314 825 769			2 314 825 769
Investment securities	-	1 272 301 299			1 272 301 299
Derivative assets held for risk management	7 787 157	-			7 787 157
Advances	-	1 714 259 158			1 714 259 158
	7 787 157	5 301 386 226			5 309 173 383
Deposits and loans from banks	-	(86 994 547)			(86 994 547)
Deposits from customers	-	(4 769 197 197)			(4 769 197 197)
Derivative liabilities held for risk management	(7 317 774)	-			(7 317 774)
	(7 317 774)	(4 856 191 744)			(4 863 509 518)

	Non trading derivatives	Held-to -maturity	Loans and receivables	Other amortised cost	Total carrying amount
31 December 2017	R	R	R	R	R
Cash and short-term funds	-	-	2 006 288 662	-	2 006 288 662
Investment securities	-	1 312 808 188	-	-	1 312 808 188
Derivative assets held for risk management	44 363 118	-	-	-	44 363 118
Advances	-	-	1 468 115 043	-	1 468 115 043
	44 363 118	1 312 808 188	3 474 403 705	-	4 831 575 011
Deposits and loans from banks	-	-	-	(5 817 104)	(5 817 104)
Deposits from customers	-	-	-	(4 363 890 640)	(4 363 890 640)
Derivative liabilities held for risk management	(43 462 580)	-	-	-	(43 462 580)
	(43 462 580)	-	-	(4 369 707 744)	(4 413 170 324)

The fair value of non trading derivatives is classed as a level 1 financial instrument in terms of the hierarchy requirements per IFRS 13.
The fair value of advances and deposits cannot be reliably measured as they are unquoted.
Effective interest rates on investment securities vary between 7.02% and 7.60%.

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28. RETIREMENT BENEFIT COSTS

All full-time permanent employees are members of the Alexander Forbes Retirement Fund, which is a defined contribution fund, and is governed by the Pension Funds Act of 1956. Membership to the fund has been compulsory since the incorporation of the Bank in November 1995.

29. OPERATING LEASE COMMITMENTS

	Buildings	Equipment	Total
	R	**R**	**R**
2018			
Not later than 1 year	5 972 231	503 664	6 475 895
Between 2 and 5 years	10 722 125	899 073	11 621 198
	16 694 356	1 402 737	18 097 093
2017			
Not later than 1 year	4 959 106	394 402	5 353 508
Between 2 and 5 years	6 249 459	731 556	6 981 015
	11 208 565	1 125 958	12 334 523

The bank leases office buildings and office equipment under operating leases. The leases on the various buildings run for a period of 3 to 5 years with an annual escalation of 0% to 10%. The leases on office equipment run for a period of 3 years with no escalation.

30. RELATED PARTIES

30.1 Identity of related parties

- The holding company of HBZ Bank Limited - Habib Bank AG Zurich
- Fellow subsidiaries - Habib European Bank Ltd, Habib Metropolitan Bank, Habib Canadian Bank, HBZ Finance Limited, Hong Kong.
- The directors are listed in note 20.

	2018	2017
	R	R
30.2 Material related party transactions		
Material transactions with the holding company and Directors		
Dividends paid to the holding company - see note 22	50 000 000	38 500 000
Fees for services rendered	42 328 639	36 043 035
Directors' remuneration - see note 20	6 315 763	6 039 524
Loans to directors (balance outstanding)	225 100	363 611

The loans to directors are fully secured, with fixed terms of repayment and are included as part of total advances in note 7.

Material transactions with the Habib group

	2018	2017
Receivables due from group companies:		
- Habib Bank AG Zurich, Zurich	4 425 881	83 047 145
- Habib Bank AG Zurich, London	5 539 959	13 255 452
- HBZ Finance Ltd, Hong Kong	4 669	3 870
- Habib Canadian Bank, Canada	14 706	13 736
- Habib Metropolitan Bank, Pakistan	524 111	20 311
	10 509 326	96 340 514

These receivables all relate to short-term receivables with no fixed terms of repayment and are included as part of total cash and short term funds in note 2.

	2018	2017
Payables due to group companies:		
- Habib Bank AG Zurich, Zurich	201 046	414 052
- Habib Bank AG Zurich, London	61 340 529	582 162
- Habib Bank AG Zurich, Nairobi	40 222	34 693
- Habib Bank AG Zurich, Deira Dubai	17 218 658	4 786 197
	78 800 455	5 817 104

These balances relate to short-term payables with no fixed terms of repayment and are included as part of total deposits and other accounts in note 2. The time accounts attract an interest charge linked to the overnight libor rate and the nostro accounts attract an interest charge based on the daily call rate.

For the year ended 31 December 2018

	2018 R	2017 R
The highest outstanding balance for these payables during the financial year were:		
- Habib Bank AG Zurich, Zurich	94 591 724	10 000 000
- Habib Bank AG Zurich, London	61 191 499	582 162
- Habib Bank AG Zurich, Nairobi	535 750	514 476
- Habib Bank AG Zurich, Deira Dubai	54 600 201	65 023 973
Interest and related transaction charges paid to group companies:		
- Habib Bank AG Zurich, Zurich	83 873	157 138
- Habib Bank AG Zurich, London	2 442	6 065
- Habib Bank AG Zurich, Dubai	592 829	9 377 927
	679 144	9 541 130

31. STANDARDS ISSUED BUT NOT YET EFFECTIVE

At the date of authorisation of the financial statements of HBZ Bank Ltd for the year ended 31 December 2018, there are new or revised Accounting Standards and Interpretations in issue that are not yet effective. These include the following Standards and Interpretations that are applicable to the business of the entity and may have an impact on future financial statements:

Standard/Interpretation		Effective date - periods beginning on or after
IFRS 16	Leases	1 January 2019

All Standards and Interpretations will be adopted at their effective date. Management is reviewing the impact of IFRS 16 which is expected to have a significant impact on the Bank's financial statements in the period of initial application.

IFRS 16 - DISCLOSURE

The Bank is required to adopt IFRS 16 Leases from 1 January 2019. The Bank has assessed the estimated impact that the initial application of IFRS 16 will have on its financial statements, as described below.

The new accounting policies are subject to change until the Bank presents its first financial statements that include the date of initial application.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

LEASES IN WHICH THE BANK IS A LESSEE

The Bank has completed an initial assessment of the potential impact on its financial statements but has not yet completed its detailed assessment. The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, the development of the Bank's lease portfolio, the Bank's assessment of whether it will exercise any lease renewal options and the extent to which the Bank chooses to use practical expedients and recognition exemptions.

The Bank will recognise new assets and liabilities for its operating leases of branch and office premises. The nature of expenses related to these leases will now change because IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of use assets and interest expense on lease liabilities.

Previously, the Bank recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

Based on assessments undertaken to date, the total estimated adjustment of the adoption of IFRS 16 on the banks total assets is expected to approximate between R30m and R35m. The above assessment is preliminary as not all transition work has been finalised.

TRANSITION

The Bank plans to apply IFRS 16 initially on 1 January 2019, using a modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

	2018 R'000	2017 R'000
32. CAPITAL ADEQUACY STATEMENT		
Credit risk exposure	2 475 051	2 186 815
Counterparty credit risk exposure	8 904	54 894
Operational risk exposure	441 436	389 597
Market risk exposure	4 765	5 625
Other risk exposure	26 713	26 904
Risk weighted exposure in relation to deferred tax assets	11 003	3 198
Aggregate risk weighted exposure	2 967 872	2 667 033
Regulatory capital requirement - 11.375% (2017: 11%)	337 595	283 372
Qualifying capital and reserve funds		
Tier I		
Ordinary share capital	10 000	10 000
Share premium	40 000	40 000
General reserve	366 617	302 300
Less: Prescribed deductions against capital and reserve funds	(1 681)	(1 646)
Total Tier 1 Capital	414 936	350 654
Tier II		
General allowance for ECL	12 751	6 241
Total qualifying capital and reserve funds	427 687	356 895
Capital Adequacy Ratio		
Qualifying capital and reserve funds as a percentage of aggregate risk weighted exposure	14,4%	13,4%

INTERNATIONAL NETWORK SUMMARY

1. UNITED ARAB EMIRATES	Habib Bank AG Zurich	**8 Branches**
2. UNITED KINGDOM	Habib Bank AG Zurich	**8 Branches**
3. KENYA	Habib Bank AG Zurich	**5 Branches**
4. SWITZERLAND	Habib Bank AG Zurich	**1 Branch**
5. UNITED ARAB EMIRATES	HBZ Services FZ LLC	**1 Branch**
6. PAKISTAN	Habib Metropolitan Bank	**307 Branches**
7. SOUTH AFRICA	HBZ Bank Ltd	**9 Branches**
8. CANADA	Habib Canadian Bank	**3 Branches**
9. HONG KONG	HBZ Finance Ltd	**5 Branches**
10. BANGLADESH	Habib Bank AG Zurich	**Representative Office**

LIST OF SERVICES

With the benefit of decades of experience in understanding and satisfying the varied financial needs of customers spread across the globe, the Group has developed a wide spectrum of quality products and services throughout its global network of branches, subsidiaries and affiliates.

THE RANGE OF SERVICES PRESENTLY AVAILABLE IN SOUTH AFRICA INCLUDE:

- Savings Accounts
- Current Accounts
- Debit Cards
- Term Deposit Accounts
- Overdrafts
- Commercial Loans
- Bill Discounting
- Letters of Guarantee
- Foreign Exchange
- Foreign Drafts
- Import and Export Letter of Credit
- Documentary Collections
- Trade Finance
- Travellers Cheques
- Internet Banking
- Islamic Financing
    - Murabaha
    - Diminishing Musharakah
    - Letters of Guarantee
- Islamic Deposits
    - Current accounts with Chequing Facilities
    - Profit and Loss Sharing Accounts
    - Islamic Certificates of Deposit
- Islamic Forward Exchange Contracts

OTHER SERVICES AVAILABLE THROUGH THE GLOBAL NETWORK INCLUDE:

Personal and Private Banking Services:

- International Portfolio Management
- Financial Advisory Management
- Trustee Services
- Credit Cards
- Travellers Cheques
- Safe Deposit Lockers and Custodial Services

Corporate Banking Services:

- Overdrafts
- Commercial Loans
- Trade Finance
- Import and Export Letter of Credit
- Bills Discounting
- Global Remittances
- Bullion and Silver Dealing
- Dealings in Securities, Bonds and Stocks
- Treasury Services