HBZ Bank Limited

(A subsidiary of Habib Bank AG Zurich)

Pillar 3 disclosures
in terms of Banks Act, Regulation 43
Dec-16

Overview of risk management and Risk Weighted Assets (RWA)

Bank risk management approach

Refer to the Risk Management Review on Page 7 of the 2016 Annual Report.

Overview of RWA

	HBZ Bank Limited		
	RWA		Minimum capital requirements
	Dec-16	Dec-15	Dec-16
Credit risk (excluding counterparty credit risk) (CCR)	2 039 911	2 128 273	211 641
- Of which standardised approach (SA)	2 039 911	2 128 273	211 641
- Of which internal rating-based (IRB) approach	-	-	-
Counterparty credit risk	19 914	9 476	2 066
- Of which standardised approach for counterparty credit risk (SA-CCR)	19 914	9 476	2 066
- Of which internal model method (IMM)	-	-	-
Market risk	6 875	3 125	713
- Of which standardised approach (SA)	6 875	3 125	713
- Of which internal model approaches (IMM)	-	-	-
Operational risk	336 425	298 488	34 904
- Of which Basic Indicator Approach	336 425	298 488	34 904
- Of which standardised Approach	-	-	-
- Of which Advanced Measurement Approach	-	-	-
Other risk	26 686	23 080	2 769
Amounts below the thresholds for deduction (subject to 250% risk weight)	3 680	3 295	382
Total	**2 433 491**	**2 465 737**	**252 475**

The percentage minimum capital requirement used for calculating the capital requirement is constructed as follows:
8% minimum capital requirement, plus 1.75% add-on, plus 0.625% capital conservation buffer. Total: 10.375%.

Other risks reflected in the table above relate to property and equipment and other assets as contained in the Bank's statement of financial position.

Linkages between financial statements and regulatory exposures

Differences between accounting and regulatory scopes of consolidation and mapping of financial statement with regulatory risk categories

R'000	Carrying values as reported in published financial statements & under scope of regulatory consolidation	Carrying values of items:			
		Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the market risk framework	Subject to other risk
Assets					
Cash and cash equivalents	1 662 394	1 662 394	-	-	-
Investment securities	988 225	988 225	-	-	-
Current tax	130	130	-	-	-
Derivative assets	15 208	-	15 208	5 502	-
Net advances	1 537 901	1 502 451	-	-	-
Accounts receivable and other assets	7 617	-	-	-	7 617
Property and equipment	19 857	-	-	-	19 857
Deferred tax asset	1 472	-	-	-	1 472
Total assets	**4 232 804**	**4 153 200**	**15 208**	**5 502**	**28 946**
Liabilities and equity					
Deposits and borrowings	3 820 502	-	-	-	-
Derivative liabilities	14 556	-	-	-	-
Creditors and accruals	10 856	-	-	-	-
Provisions	5 877	-	-	-	-
Ordinary shareholder’s equity	381 013	-	-	-	-
Total liabilities and equity	**4 232 804**	**-**	**-**	**-**	**-**

Main sources of differences between regulatory amounts and carrying values in financial statements

R'000	Total	Items subject to:			
		Credit risk framework	Counterparty credit risk framework	Market risk framework	Other risk framework
Asset carrying value amount under scope of regulatory consolidation	4 232 804	4 153 200	15 208	5 502	28 946
Liabilities and equity carrying value amount under scope of regulatory consolidation	4 232 804	-	-	-	-
Total net amount under regulatory scope of consolidation	-	4 153 200	15 208	5 502	28 946
Off-balance sheet amounts	814 904	422 206	-	-	-
Differences due to use of average balances	-41 749	-41 749	-	-	-
Exposure amounts considered for regulatory purposes	5 005 959	4 533 657	15 208	5 502	28 946

The differences between the accounting and regulatory exposure amounts are due to the following:

Credit risk: Revolving credit facility amounts are based on daily averages as required in terms of Regulation 23 of the Regulations relating to Bank.

Credit risk (Off-balance sheet): Off-balance sheet exposures for the regulatory purposes are reported post CCF and CRM.

Credit risk

General information about credit risk
Refer to the Risk Management Review on Page 7 of the 2016 Annual Report.

Additional disclosure related to the credit quality of assets
Refer to the Risk Management Review on Page 7 of the 2016 Annual Report as well as notes 7, 8 and 28 of the Annual Financial Statements for the year ended 31 December 2016.

Qualitative disclosure requirements related to credit risk mitigation techniques
Credit risk mitigation (CRM) relates to the reduction of a bank's credit risk exposure by obtaining, for example, eligible collateral or guarantees or entering into a netting agreement with a client that maintains both debit and credit balances with the reporting bank.

When a bank that adopted the simplified standardised approach for the calculation of the bank's credit exposure in its banking book obtains collateral or guarantees, a reduction in the credit risk exposure of the reporting bank shall be allowed to the extent that the bank achieves an effective and verifiable transfer of risk.

HBZ Bank applies the allowed CRM techniques as a result of the eligible collateral and guarantees that are held as security over certain exposures. The eligible collateral held is in the form of cash deposits held as liens against an exposure and this carries a 0% risk weighting. Exposures secured by bank guarantees carry a risk weighting of 20%.

Qualitative disclosures on banks' use of external credit ratings under the standardised approach for credit risk
In calculating the required amount of capital to be held against credit risk, the Bank applies the long term, international credit ratings as published by Moody’s Investors Services and Fitch Ratings.

The Bank applies the long term, international scale credit ratings to all its asset classes, where such ratings are available.

The Bank applies the standardized approach for the measurement of credit risk in terms of Regulation 23 and 24 of the Regulations relating to banks.

Under this approach, the external assessment ratings are mapped to the risk weighting table as follows:

	Moody's	Fitch	Meaning
Investment Grade	Aaa	AAA	Prime
	Aa1	AA+	High Grade
	Aa2	AA	
	Aa3	AA-	
	A1	A+	Upper Medium Grade
	A2	A	
	A3	A-	
	Baa1	BBB+	Lower Medium Grade
	Baa2	BBB	
	Baa3	BBB-	
Junk	Ba1	BB+	Non Investment Grade Speculative
	Ba2	BB	
	Ba3	BB-	
	B1	B+	Highly Speculative
	B2	B	
	B3	B-	
	Caa1	CCC+	Substantial Risks
	Caa2	CCC	Extremely Speculative
	Caa3	CCC-	In Default w/ Little Prospect for Recovery
	Ca	CC+	
		CC	In Default
		CC-	
	D	DDD	

Credit assessment issued by eligible institution						
Claim in respect of	AAA to AA-	A+ to A-	BBB+ to BBB-	BB+ to B-	Below B-	Unrated
Sovereigns	0%	20%	50%	100%	150%	100%
Public sector entities	20%	50%	50%	100%	150%	50%
Bank	20%	50%	50%	100%	150%	50%
Securities firms	20%	50%	50%	100%	150%	50%
Bank: short term claims	20%	20%	20%	50%	150%	20%
Securities firms: short term claims	20%	20%	20%	50%	150%	20%
	AAA to AA-	A+ to A-	BBB+ to BB-	Below BB-		Unrated
Corporate entities	20%	50%	100%	150%		100%
	Short term credit assessment					
	A-1/P-1	A-2/P-2	A-3/P-3	Other		
Banks and corporate entities	20%	50%	100%	150%		

Counterparty credit risk

Qualitative disclosure related to counterparty credit risk

Refer to the Risk Management Review on Page 7 of the 2016 Annual Report.

Market Risk

Qualitative disclosure requirements related to market risk

Refer to the Risk Management Review on Page 7 of the 2016 Annual Report.