HBZ Bank Limited

(A subsidiary of Habib Bank AG Zurich)

South Africa

Unaudited Annual Disclosure
31 December 2018

in terms of Regulation 43 relating to banks,
issued under Section 90 of the Banks Act, No.94 of 1990, as amended

1 BASIS OF COMPILATION

The following information is compiled in terms of Regulation 43 relating to banks, issued under Section 90 of the Banks Act, No 94 of 1990 (as amended) ("the Regulations"), which incorporates the Basel Pillar III requirements on market discipline.

All disclosures presented below are consistent with those disclosed in terms of International Financial Reporting Standards ("IFRS"), unless otherwise stated. In the main, differences between IFRS and information disclosed in terms of the Regulations relate to the definition of capital and the calculation and measurement thereof.

These disclosures have been prepared in compliance with the Bank's disclosure policy.

2 SCOPE OF REPORTING

This report covers the annual results of HBZ Bank Limited for the year ended 31 December 2018.

HBZ Bank Limited is a registered bank that specialises in trade finance and is a wholly owned subsidiary of Habib Bank AG Zurich, which is incorporated in Switzerland. HBZ Bank Limited does not have any subsidiaries or a bank-controlling company in South Africa.

3 KEY PRUDENTIAL INFORMATION

3.1 Overview of risk management, key prudential metrics

The Bank's key prudential metrics relating to regulatory capital, leverage ratio, liquidity ratios and risk weighted assets as at 31 December 2018 are disclosed below.

		31 Dec 18	30 Sep 18	30 Jun 18	31 Mar 18
LINE NO.	**AVAILABLE CAPITAL (AMOUNTS) R'000**				
1	Common Equity Tier 1 (CET1)	416 617	380 214	360 214	335 214
1a	Fully loaded ECL accounting model	416 617	380 214	360 214	335 214
2	Tier 1	414 936	378 973	358 835	333 705
2a	Fully loaded accounting model Tier 1	414 936	378 973	358 835	333 705
3	Total capital	427 687	411 705	390 536	361 079
3a	Fully loaded ECL accounting model total capital	427 687	411 705	390 536	361 079
	RISK-WEIGHTED ASSETS (AMOUNTS) R'000				
4	Total risk-weighted assets (RWA)	2 967 872	3 111 784	3 028 249	2 648 187
	RISK-BASED CAPITAL RATIOS AS A PERCENTAGE OF RWA				
5	Common Equity Tier 1 ratio (%)	13,98%	12,18%	11,85%	12,66%
5a	Fully loaded ECL accounting model CET1 (%)	13,98%	12,18%	11,85%	12,66%
6	Tier 1 ratio (%)	13,98%	12,18%	11,85%	12,66%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	13,98%	12,18%	11,85%	12,66%
7	Total capital ratio (%)	14,41%	13,23%	12,90%	13,63%
7a	Fully loaded ECL accounting model total capital ratio (%)	14,41%	13,23%	12,90%	13,63%

3.1 Overview of risk management, key prudential metrics (continued)

LINE NO.		31 Dec 18	30 Sep 18	30 Jun 18	31 Mar 18
	ADDITIONAL CET1 BUFFER REQUIREMENTS AS A PERCENTAGE OF RWA				
8	Capital conservation buffer requirement (2.5% from 2019) (%)	1,88%	1,88%	1,88%	1,88%
9	Countercyclical buffer requirement (%)	-	-	-	-
10	Bank D-SIB additional requirements (%)	-	-	-	-
11	Total of bank CET1 specific buffer requirements (%) (row8 + row 9+ row 10)	1,88%	1,88%	1,88%	1,88%
12	CET1 available after meeting the bank's minimum capital requirements (%)	9,48%	7,68%	7,35%	8,16%
	BASEL III LEVERAGE RATIO				
13	Total Basel III leverage ratio measure	6 124 231	5 866 329	5 791 700	4 877 155
14	Basel III leverage ratio (%) (row 2/row 13)	7%	6%	6%	7%
14a	Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2A/row 13)	7%	6%	6%	7%
	LIQUIDITY COVERAGE RATIO				
15	Total HQLA	1 204 236	926 651	954 540	903 146
16	Total net cash outflow	165 668	151 678	174 710	150 032
17	LCR ratio (%)	727%	611%	546%	602%
	NET STABLE FUNDING RATIO				
18	Total available stable funding	4 372 958	4 111 597	4 129 176	3 649 744
19	Total required stable funding	1 512 864	1 666 749	1 750 837	1 479 259
20	NSFR ratio (%)	289%	247%	236%	247%

HBZ Bank Limited did not apply the transitional arrangement for expected credit losses, therefore the fully loaded ECL accounting model will not differ from regulatory capital.

3.2 Overview of Risk Management Approach and Risk Weighted Assets (RWA)

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 ability of the 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.

Risk Assessment

The Board of Directors review 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 internal controls.

For a more detailed overview of Risk Management, please refer to the Risk Management section included in the annual financial statements available at www.hbzbank.co.za

The following table provides an overview of the risk weighted asset requirements at the respective reporting date.

Overview of RWA

	RWA		Minimum capital requirements
	Dec 18 R'000	Dec 17 R'000	Dec 18 R'000
Credit risk (excluding counterparty credit risk) (CCR)	2 475 051	2 135 480	281 537
- Of which standardised approach (SA)	2 475 051	2 135 480	281 537
- Of which foundation internal-ratings based (F-IRB) approach	-	-	-
- Of which supervisory slotting approach	-	-	-
- Of which advanced internal-ratings based (A-IRB) approach	-	-	-
Counterparty credit risk	8 904	54 894	1 013
- Of which standardised approach for counterparty credit risk (SA-CCR)	7 928	54 894	902
- Of which internal model method (IMM)	-	-	-
- Of which other CCR	-	-	-
Credit Valuation Adjustment (CVA)	976	3 558	111
Equity positions under the simple risk weight approach	976	3 558	111
Equity investments in funds - look through approach	-	-	-
Equity investments in funds - mandate based approach	-	-	-
Equity investments in funds - full back approach	-	-	-
Settlement risk	-	-	-
Securitisation exposures in the banking book	-	-	-
- Of which Securitisation internal- ratings based approach (SEC-IRBA)	-	-	-
- Of which Securitisation external- ratings based approach (SEC-ERBA), including internal assessment approach	-	-	-
- Of which Securitisation standardised approach (SEC-SA)	-	-	-
Market risk	4 765	5 619	542
- Of which standardised approach (SA)	4 765	5 619	542
- Of which internal model approaches (IMM)	-	-	-
Capital Charge for switch between trading book and banking book	-	-	-
Operational risk - Basic Indicator Approach	441 436	389 597	50 213
Amounts below the thresholds for deduction (subject to 250% risk weight)	11 003	3 198	1 252
Other risks	26 713	26 904	3 039
Total	**2 967 872**	**2 615 691**	**337 595**

Other risks reflected in the table above relate to property and equipment and other assets as included in the Statement of Financial Position.

The percentage minimum capital requirement consists of the following:

Minimum Capital requirement	8,000%
Add-on: systemic risk and idiosyncratic requirement	1,500%
Add-on: conservation buffer	1,875%
Total	11,375%

Further disclosure on the Capital Adequacy Ratio is included in Note 32 of the annual financial statements that are available on the Banks website (www.hbzbank.co.za)

4 LINKAGES BETWEEN FINANCIAL STATEMENTS AND REGULATORY EXPOSURES

This section outlines the treatment and the carrying values as published in the financial statements and used for the various regulatory risk categories, along with the carrying values of the items for the calculation of regulatory capital. Certain differences arise as a result of differing treatment under regulatory and IFRS rules, as further explained below.

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

	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
31 Dec 18	R'000	R'000	R'000	R'000	R'000
ASSETS					
Cash and cash equivalents	2 314 826	2 314 826	-	-	-
Investment securities	1 272 301	1 272 301	-	-	-
Current tax	-	-	-	-	-
Derivative assets	7 787	-	13 447	-	-
Net advances	1 714 259	1 714 259	-	-	-
Accounts receivable and other assets	9 914	-	-	-	9 914
Property and equipment	20 730	-	-	-	20 730
Deferred tax asset	4 400	-	-	-	4 400
Total assets	**5 344 218**	**5 301 386**	**13 447**	**-**	**35 045**
LIABILITIES AND EQUITY					
Deposits and borrowings	4 856 192	-	-	-	-
Derivative liabilities	7 318	-	-	-	-
Creditors and accruals	12 613	-	-	-	-
Provisions	7 618	-	-	-	-
Ordinary shareholder's equity	460 477	-	-	-	-
Total liabilities and equity	**5 344 218**	**-**	**-**	**-**	**-**

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

	Total	Items subject to:			
		Credit risk framework	Counterparty credit risk framework	Market risk framework	Other risk framework
	R'000	R'000	R'000	R'000	R'000
Asset carrying value amount under scope of regulatory consolidation	5 344 218	5 301 386	13 447	-	35 045
Liabilities and equity carrying value amount under scope of regulatory consolidation	5 344 218	-	-	-	-
Total net amount under regulatory scope of consolidation	-	5 301 386	13 447	-	35 045
Off-balance sheet amounts	561 662	543 565	-	-	-
Exposure amounts considered for regulatory purposes	**5 905 880**	**5 844 951**	**13 447**	**-**	**35 045**

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

The carrying values of the items subject to the regulatory framework are based on average daily balances (where applicable) as required in terms of the Regulations relating to Banks.

The Off-balance sheet amounts are post application of Credit Conversion Factors (CCF) and Credit Risk Mitigation (CRM) for derivative exposures under counterparty credit risk.

5 CREDIT RISK

This section outlines the regulatory view of the risk associated with advances which are reflected on the Statement of financial position of HBZ Bank Limited. The Bank primarily advances funds to customers in the form of corporate loans, mortgage loans and auto loans.

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 to manage the Bank's credit risk process.

For an overview of credit risk management as well as related qualitative information, please refer to the Risk Management section as well as note 27 of the annual financial statements, available at www.hbzbank.co.za.

The Bank has adopted the standardised approach to determine the capital requirement for credit risk on all portfolios.

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 bank.

HBZ Bank applies the allowed CRM techniques as a result of the eligible collateral and guarantees that are held as security over certain exposures.

5.1 Credit quality of assets

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 off-balance sheet exposures, the amounts in the table represent the amounts committed or guaranteed.

	a	b	c	d
	Gross carrying values of:			
	Defaulted Exposures	Non-defaulted Exposures	Allowances/ Impairments	Net values (a + b - c)
Advances	32 015	1 698 751	(16 507)	1 714 259
Investment Securities	-	1 273 257	(956)	1 272 301
Cash and Cash Equivalents	-	2 318 615	(3 789)	2 314 826
Off-balance sheet exposures	-	270 975	(1 061)	269 914
Total	**32 015**	**5 561 598**	**(22 313)**	**5 571 300**

Refer to the Risk Management Review as well as notes 7, 8 and 27 of the annual financial statements for additional disclosure on the credit quality of assets.

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 have 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.

5.2 Changes in stock of defaulted advances

Defaulted advances at end of the previous reporting period	**43 841**
Movements during the current year	(10 927)
Defaulted advances at end of the reporting period	**32 915**

5.3 Breakdown of gross credit exposure by geographic areas

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:

Concentration by location	Gross credit exposures
America	50 997
Europe	9 966
Asia	629
South Africa	5 239 794
Other African countries	-
Total	**5 301 386**

5.4 Breakdown of gross customer advances by industry sector

Concentration by industry	Gross credit exposures
Finance & insurance	15 255
Manufacturing	323 972
Transportation	66 270
Commercial real estate	606 543
Retailers & wholesalers	568 859
Other	149 867
Total	**1 730 766**

5.5 Impaired and past due advances by geographical area

	South Africa Gross amount	Other Gross amount
Individually impaired advances	**32 015**	**-**
Impairments for credit losses		
Expected credit loss (Stage 1)	(6 090)	-
Expected credit loss (Stage 2)	(949)	-
Expected credit loss (Stage 3)	(9 468)	-
Total	**15 508**	**-**

5.6 Credit risk mitigation techniques

	a Exposures Unsecured: carrying amount	b Exposures secured by collateral	c Exposures secured by financial guarantees
Advances	70 784	1 579 760	80 222
Investment securities	1 273 257	-	-
Cash and cash equivalents	2 314 826	-	-
Total	**3 658 867**	**1 579 760**	**80 222**
Of which defaulted	-	32 015	-

5.7 Aggregate credit exposure after set off but before and after credit mitigation techniques

Asset classes	Exposures before CCF and CRM		Exposures post CRM		RWA and RWA density	
	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
Sovereign and their central banks	1 334 000	-	1 334 000	-	-	0%
Non-central government public sector entities	-	-	-	-	-	-
Multilateral development banks	-	-	-	-	-	-
Banks	2 250 435	-	2 250 435	-	849 899	38%
Securities firms	-	-	-	-	-	-
Corporates	1 018 468	543 565	1 026 476		944 223	92%
Retail portfolios	675 537	-	675 537	-	677 141	100%
Equity	-	-	-	-	-	-
Past-due loans	32 015	-	32 015	-	12 692	40%
Higher-risk categories	-	-	-	-	-	-
Other assets	26 713	-	26 713	-	26 713	100%
Total	**5 337 168**	**543 565**	**5 345 176**	**-**	**2 510 668**	

Policies and processes for collateral valuation and management

The Bank holds collateral and other credit enhancements against 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).

Further disclosure on the collateral valuation and management is included in Note 27 of the annual financial statements that are available on the Banks website (www.hbzbank.co.za)

5.8 Exposures by asset class and risk weights

Asset classes by Risk weights	0% - 5%	15% - 20%	50% - 75%	100%	150%	Total credit exposures amount (post CCF and post-CRM)
Sovereign and their central banks	1 334 000	-	-	-	-	1 334 000
Non-central government public sector entities	-	-	-	-	-	-
Multilateral development banks	-	-	-	-	-	-
Banks	-	926 940	1 323 495	-	-	2 250 435
Securities firms	-	-	-	-	-	-
Corporates	-	-	-	1 562 033	-	1 562 033
Retail portfolios	-	-	70 875	604 662	-	675 537
Equity	-	-	-		-	-
Past-due loans	-	-	-	28 203	3 812	32 015
Higher-risk categories	-	-	-	-	-	-
Other assets	-	-	-	26 713	-	26 713
Total	**1 334 000**	**926 940**	**1 394 370**	**2 221 611**	**3 812**	**5 880 733**

6 COUNTERPARTY CREDIT RISK (CCR)

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

The Bank pro-actively manages this risk by:

- Ensuring Board approved limits are in place for interbank 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.

6.1 Analysis of counterparty credit risk (CCR) exposure by approach

	Replacement Cost	Potential future exposure	EEPE	Alpha used for computing regulatory EAD	EAD post-CRM	RWA
SA-CCR (for derivatives) (1)	7 787	5 660			13 447	8 904
Internal Model Method (for derivatives and SFTs)			-	-	-	-
Simple Approach for credit risk mitigation (for SFTs)					-	-
Comprehensive Approach for credit risk mitigation (for SFTs)					-	-
VaR for SFTs					-	-
Total						**8 904**

6.2 Credit valuation adjustment (CVA) charge

Credit valuation adjustment is the difference between the risk-free portfolio value and the true portfolio value considering the possibility of counterparty default. CVA is the market value of counterparty credit risk. The RWA of the CVA is added to the risk-weighted amount for counterparty credit exposure.

	EAD post-CRM	RWA
Total portfolios subject to the Advanced CVA capital charge	-	-
(i) VaR component (including the 3 x multiplier)		
(ii) Stressed VaR component (including the 3 x multiplier)		
All portfolios subject to the Standardised CVA capital charge	13 447	976
Total subject to the CVA capital charge	**13 447**	**976**

6.3 CCR exposures by regulatory portfolios and risk weights

Regulatory portfolios by Risk weights	0% - 5%	15% - 20%	50% - 75%	100%	150%	Total credit exposures amount
Sovereigns	-	-	-	-	-	-
Non-central government public sector entities (PSEs)	-	-	-	-	-	-
Multilateral development banks (MDBs)	-	-	-	-	-	-
Banks	-	4 058	4 547	4 843	-	13 447
Securities firms	-	-	-	-	-	-
Corporates	-	-	-	-	-	-
Regulatory retail portfolios	-	-	-	-	-	-
Other assets	-	-	-	-	-	-
Total	**-**	**4 058**	**4 547**	**4 843**	**-**	**13 447**

7 OPERATIONAL RISK

The Bank uses the Basic Indicator Approach for calculating operational risk. Operational risk weighted assets at 31 December 2018 total R441 million (2017: R390 million).

8 MARKET RISK

The portfolios that are subject to market risk relate to forward exchange contracts. The Bank uses the Standardised approach to compute market risk weighted assets totalling R4.8 million (2017: R5.6 million).

9 LIQUIDITY RISK

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

The Bank controls liquidity at source, ensuring a wide deposit base, simplifying the product range and centralising the Treasury function. The Bank directly matches all major deposits with inter-bank placements and keeps a large proportion of the funds short-term to buffer against 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 on a daily basis.

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 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.

In terms of Regulation 43(1)(e)(iii)(F) of the Regulations relating to Banks, minimum disclosure on the Liquidity Coverage Ratio of the Bank is required on a quarterly basis. This announcement meets the on-going reporting requirement for quarterly disclosure in terms of Pillar 3 of the Basel III capital accord.

9.1 Liquidity Coverage Ratio

LINE NO.		Total unweighted value	Total weighted value
	HIGH-QUALITY LIQUID ASSETS		
1	Total HQLA	1 204 236	1 204 236
	CASH OUTFLOWS		
2	**Retail deposits and deposits from small business customers, of which:**	1 370 861	137 086
3	Stable deposits	-	-
4	Less stable deposits	1 370 861	137 086
5	**Unsecured wholesale funding, of which:**	2 298 829	498 454
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-
7	Non-operational deposits (all counterparties)	2 298 829	498 454
8	Unsecured debt	-	-
9	Secured wholesale funding	-	-
10	**Additional requirements, of which:**	543 565	27 133
11	Outflows related to derivative exposures and other collateral requirements	-	-
12	Outflows related to loss of funding on debt products	-	-
13	Outflows related to loss of funding on debt products	-	-
14	Credit and liquidity facilities	543 565	27 133
15	Other contingent funding obligations	-	-
16	**TOTAL CASH OUTFLOWS**	4 213 255	662 674
	CASH INFLOWS		
17	Secured lending (eg reverse repos)	-	-
18	Inflows from fully performing exposures	1 444 520	1 198 930
19	Other cash inflows	-	-
20	**TOTAL CASH INFLOWS**	1 444 520	1 198 930

		Total adjusted value
21	**Total HQLA**	**1 204 236**
22	**Total net cash outflows**	**165 668**
23	**Liquidity Coverage Ratio (%)**	**727%**

9.2 Net Stable Funding Ratio (NSFR)

		Unweighted value by residual maturity				Weighted value
		No maturity	< 6 months	6 months to < 1 year	≥ 1 year	
LINE NO.	AVAILABLE STABLE FUNDING (ASF) ITEM					
1	**Capital:**	416 617	-	-	-	416 617
2	Regulatory capital	416 617	-	-	-	416 617
3	Other capital instruments	-	-	-	-	-
4	**Retail deposits and deposits from small business customers:**	-	3 647 830	172 129	-	3 481 539
5	Stable deposits	-	699 389	172 129	-	827 942
6	Less stable deposits	-	2 948 441	-	-	2 653 597
7	**Wholesale funding:**	-	839 306	189 231	366	474 802
8	Operational deposits	-	-	-	-	-
9	Other wholesale funding	-	839 306	189 231	366	474 802
10	Liabilities with matching interdependent assets	-	-	-	-	-
11	Other liabilities:	-	19 401	-	-	-
12	NSFR derivative liabilities		-	-	-	
13	All other liabilities and equity not included in the above categories	-	19 401	-	-	-
14	**Total ASF**					**4 372 958**
	REQUIRED STABLE FUNDING (RSF) ITEM					
15	Total NSFR high-quality liquid assets (HQLA)	-	1 241 420	95 322	-	66 837
16	Deposits held at other financial institutions for operational purposes	-	1 876 840	-	-	933 165
17	**Performing loans and securities:**					
18	Performing loans to financial institutions secured by Level 1 HQLA	-	-	-	-	-
19	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	-	-	-	-	-
20	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	-	756 148	161 277	-	458 713
21	With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk	-	-	-	-	-
22	Performing residential mortgages, of which:	-	-	-	-	-
23	With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk	-	-	-	-	-
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	-	-	-
25	Assets with matching interdependent liabilities	-	-	-	-	-

26	**Other assets:**						
27	Physical traded commodities, including gold	-	-	-	-	-
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs	-	-	-	-	-
29	NSFR derivative assets	-	-	-	-	-
30	NSFR derivative liabilities before deduction of variation margin posted	-	-	-	-	-
31	All other assets not included in the above categories	-	-	-	40 582	40 582
32	Off-balance sheet items				271 335	13 567
33	**Total RSF**					**1 512 864**
34	**Net Stable Funding Ratio (%)**					**289%**

10 CAPITAL MANAGEMENT

In line with the requirements of the Bank Supervision Department of the South African Reserve Bank, and effective from 1 January 2018, the Bank has implemented a countercyclical buffer of 0% and a capital conservation buffer of 1.875%.

The Bank has documented its Internal Capital Adequacy Assessment Process ("ICAAP"), which was approved by the Board of Directors. Evaluations were made of the various direct, indirect and associated risks faced by the Bank and the related mitigating controls that are in place.

The disclosures of the composition of capital and main capital features for the Bank, required per Directive 3 of 2015, issued in terms of section 6(6) of the Banks Act of 1990, are set out in CC1 and CC2, respectively.

COMPOSITION OF CAPITAL DISCLOSURE TEMPLATE

Basel III common disclosure template to be used during transition of regulatory adjustments (i.e. from 1 June 2013 to 1 January 2018)

LINE NO.	COMMON EQUITY TIER 1 CAPITAL: INSTRUMENTS AND RESERVES		AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	50 000	
2	Retained earnings	-	
3	Accumulated other comprehensive income (and other reserves)	366 617	
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	-	
	Public sector capital injections grandfathered until 1 January 2018	-	
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-	-
6	**Common Equity Tier 1 capital before regulatory adjustments**	416 617	
	COMMON EQUITY TIER 1 CAPITAL: REGULATORY ADJUSTMENTS		
7	Prudential valuation adjustments	-	-
8	Goodwill (net of related tax liability)	-	-
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	(1 681)	-
10	Deferred tax assets that rely on future profitabilty excluding those arising from temporary differences (net of related tax liability)	-	-

LINE NO.	COMMON EQUITY TIER 1 CAPITAL: REGULATORY ADJUSTMENTS (CONTNUED)		AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT
11	Cash flow hedge reserve	-	-
12	Shortfall of provisions to expected losses	-	-
13	Securitisation gain on sale	-	-
14	Gains and losses due to changes in own credit risk on fair valued liabilities	-	-
15	Defined-benefit pension find net assets	-	-
16	Investments in own shares (if not already netted off in paid-in capital on reported balance sheet)	-	-
17	Reciprocal cross-holdings in common equity	-	-
18	Investments in capital of banking, financail and insurance entities that are outside of the scope of regulatory consolidation, net of eligible short positions, where bank does not own more than 10% of the issued share capital (amount aove 10% threshold)	-	-
19	Significant investments in common stock of banking, finacila and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-	-
20	Mortgage servicing rights (amount above 10% threshold)	-	-
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability	-	-
22	Amount exceeding the 15% threshold	-	-
23	of which: significant investments in the common stock of financials	-	-
24	of which: mortgage servicing rights	-	-
25	of which: deferred tax assets arising from temporary differences	-	-
26	National specific regulatory adjustments	-	-
	REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	-	
	OF WHICH:	-	
	OF WHICH:	-	
27	Regulatory adjustments applied to common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	
28	**Total regulatory adjustments to common equity Tier 1**	**(1 681)**	
29	**Common Equity Tier 1 capital (CET1)**	**414 936**	
	ADDITIONAL TIER 1 CAPITAL : INSTRUMENTS		
30	Directly issued quilifying Additional Tier 1 instruments plus related stock surplus	-	
31	of which: classified as equity under applicable accounting standards	-	
32	of which: classified as liabilities under applicable accounting standards	-	
33	Directly issued capital instruments subject to phase out from Additional Tier 1	-	
34	Additional Teir 1 instruments (and CET1 instruments not included in line 5) issued by susbsidiaries and held by third parties (amount allowed in group AT1)	-	
35	of which: instruments issued by sybsidiaries subject to phase out	-	
36	**Additonal Tier 1 capital before regulatory adjusments**	-	

LINE NO.	ADDITIONAL TIER 1 CAPITAL: REGULATORY ADJUSTMENTS		AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT
37	Investment in own Additional Tier a instruments	-	-
38	Reciprocal cross-holdings in Additional Tier 1 instruments	-	-
39	Investment in capital of banking, financail and insurance entities that are outside the scope of the regulatory consolidation net of eligible short positions, where the bank does not own moree than 10 % of the issued common share capital of the entity (amount above 10 % threshold)	-	-
40	Significant investments in the capital of banking, financail and insurance entiteis that are outside of the scope of regulatroy consolidation (net of eligible short positions)	-	-
41	National specific regulatory adjustments	-	-
	REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	-	
	OF WHICH:	-	
	OF WHICH:	-	
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	
43	**Total regulatory adjustments to Additional Tier 1 capital**	**-**	
44	**Additional Tier 1 (AT1)**	**-**	
45	**Tier 1 (T1 = CET1 + AT1)**	**414 936**	
	TIER 2 CAPITAL AND PROVISONS		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	-	
47	Directly issued capital instruments subject to phase out from Tier 2	-	
48	Tier 2 instruments (and CET1 and AT1 instruements not included in lines 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-	
49	of which: instruments issued by subsidiaries subject to phase out	-	
50	Provisions	12 751	
51	**Tier 2 capital before regulatory adjustments**	**12 751**	
	TIER 2 CAPITAL : REGULATORY ADJUSTMENTS		
52	Investments in own Tier 2 instruments	-	-
53	Reciprocal cross-holdings in Tier 2 instruments	-	-
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of the regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-	-
55	Significant investments in the capital banking, financail and insurance entities that are outside the scope pf regulatory consolidation (net of eligibe short positions)	-	-
56	National specific reulatory adjustments	-	-
	REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 2 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	-	-
	OF WHICH:	-	
	OF WHICH:	-	
57	**Total regulatory adjustments to Tier 2 capital**	**-**	
58	**Tier 2 capital (T2)**	**12 751**	
59	**Total capital (TC = T1 + T2)**	**427 687**	

LINE NO.	TIER 2 CAPITAL : REGULATORY ADJUSTMENTS (CONTNUED)	
59	**Total capital (TC = T1 + T2)**	**427 687**
	RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE BASEL III TREATMENT	-
	OF WHICH:	-
	OF WHICH:	-
60	**Total risk weighted assets**	**2 967 872**
LINE NO.	**CAPITAL RATIOS**	
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	13,98%
62	Tier 1 (as a percentage of risk weighted assets)	13,98%
63	Total capital (as a percentage of risk weighted assets)	14,41%
64	Institution specific buffer requirement (minimum CET 1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB buffer requirement, expressed as a percentage of risk weighted assets)	-
65	of which: capital conservation buffer requirement	-
66	of which: bank specific countercyclical buffer requirement	-
67	of which: G-SIB buffer requirement	-
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	-
	NATIONAL MINIMA (IF DIFFERENT FROM BASEL 3)	
69	National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	5,50%
70	National Tier 1 minimum ratio	7,00%
71	National total capital minimum ratio	9,25%
	AMOUNTS BELOW THE THRESHOLD FOR DEDUCTIONS (BEFORE RISK WEIGHTING)	
72	Non-significant investments in the capital of other financials	-
73	Significant investments in the common stock of financials	-
74	Mortgage servicing rights (net of related tax liability)	-
75	Deferred tax assets arising from temporary differences (net of related tax liability)	-
	APPLICABLE CAPS ON THE INCLUSION OF PROVISIONS IN TIER 2	
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	12 751
77	Cap on inclusion of provisions in Tier 2 under standardised approach	-
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	-
	CAPITAL INSTRUMENTS SUBJECT TO PHASE-OUT ARRANGEMENTS (ONLY APPLICABLE BETWEEN 1 JAN 2018 AND 1 JAN 2022)	
80	Current cap on CET1 instruments subjects to phase out arrangements	-
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-
82	Current cap on AT1 instruments subject to phase out arrangements	-
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-
84	Current cap on T2 instruments subject to phase out arrangements	-
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-

MAIN FEATURES DISCLOSURE TEMPLATE

LINE NO.	DISCLOSURE TEMPLATE FOR MAIN FEATURES OF REGULATORY CAPITAL INSTRUMENTS	
1	Issuer	HBZ Bank Limited
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	N/A
3		N/A
	REGULATORY TREATMENT	
4	Transitional Basel III rules	N/A
5	Post transitional Basel III rules	N/A
6	Eligible at solo/group/group & solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Share Capital
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	R 50 million
9	Par value of instrument	R1 par value issued at R5 each
10	Accounting classification	Ordinary Share Capital and Share Premium
11	Original date of issuance	Thursday, June 29, 1995
12	Perpetual or dated	Perpetual
13	Original maturity date	N/A
14	Issuer call subject to prior supervisory approval	N/A
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	N/A
22	Noncumulative or cumulative	Non-cumulative
23	Convertible or non convertible	Non-convertible
24	If convertible, conversion trigger (s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write down feature	N/A
31	If write down, write down trigger(s)	N/A
32	If write down, full or partial	N/A
33	If write down, permanent or temporary	N/A
34	If temporary write down, description of write up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	N/A
36	Non compliant transitioned features	N/A
37	If yes, specify non compliant features	N/A

11 LEVERAGE RATIO

In terms of Regulation 43(1)(e)(iii)(G), the Bank is required to provide a summarised comparison of the accounting assets and the regulatory leverage ratio differences, as well as the Leverage Ratio positions of the Bank, as at 31 December 2018. These are set out below:

11.1 Summarised comparison of accounting assets and leverage ratio exposure measure

LINE NO.	Item	31 Dec 18
1	Total consolidated assets as per published financial statements	5 344 218
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	
4	Adjustments for derivative financial instruments	(7 787)
5	Adjustment for securities financing transactions (ie repos and similar secured lending)	
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	216 542
7	Other adjustments	
8	Leverage ratio exposure	5 552 973

11.2 Leverage ratio

LINE NO.	Item	
	On-balance sheet exposures	
1	On-balance sheet exposures(excluding derivatives and securities financing transactions (SFTs), but including collateral)	5 335 557
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	(1 681)
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	5 333 876
	Derivative exposures	
4	Replacement cost associated with all derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	566 026
5	Add-on amounts for PFE associated with all derivatives transactions	7 787
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	
8	(Exempted CCP leg of client-cleared trade exposures)	
9	Adjusted effective notional amount of written credit derivatives	
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	
11	Total derivative exposures (sum of lines 4 to 10)	573 813
	Securities financing transaction exposures	
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	
14	CCR exposure for SFT assets	
15	Agent transaction exposures	
16	Total securities financing transaction exposures (sum of lines 12 to 15)	-

	Other off-balance sheet exposures	
17	Off-balance sheet exposure at gross notional amount	561 662
18	(Adjustments for conversion to credit equivalent amounts)	(345 120)
19	Off-balance sheet items (sum of lines 17 and 18)	216 542
	Capital and total exposures	
20	**Tier 1 capital**	**414 419**
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	**6 124 231**
	Leverage ratio	
22	**Basel III leverage ratio**	**7%**

12 REMUNERATION

The Board has established a Remuneration Committee (Remcom) which comprises three Non-Executive Directors.

The majority of the Remcom members are also members of the Capital Adequacy and Risk Committee and Audit Committee to ensure that Remcom is able to monitor key risk trends at the Bank.

The Committee is chaired by a Non-Executive Director and meets as deemed appropriate, but at least once a year. Further meetings may be convened by the chairperson or any other member of the Committee. The Committee is satisfied that it has discharged its responsibilities for the period under review in compliance with its terms of reference.

For a more detailed overview of Remuneration, please refer to the Corporate Governance section included in the annual financial statements available at www.hbzbank.co.za

Remuneration awarded during the financial year

The Bank has classified it's two Executive Directors as Senior Management. Remuneration for the Executive and Non-Executive Directors has been disclosed in note 20 of the annual financial statements available at www.hbzbank.co.za.

The remumeration structure is cash based with no amounts deferred as well as no shares being offered as an incentive. The Bank does not have a share incentive scheme, sign on awards or variable remuneration structure. Staff members are entitled to a 13th cheque that is built into their cost to company package and is paid in December each year.

13 FINANCIAL PERFORMANCE AND FINANCIAL POSITION

Information pertaining to the financial performance and financial position for the year ended 31 December 2018 is included in the annual financial statemens available at www.hbzbank.co.za

14 QUALITATIVE DISCLOSURES AND ACCOUNTING POLICIES

The Regulations require that certain qualitative disclosures and statements on accounting policy be made. These regulatory qualitative disclosures and statements on accounting policy were made in the Bank's annual financial statements for the financial year ended 31 December 2018.

The above disclosures should be read in conjunction with the qualitative disclosures made in the sections on risk management and corporate governance, and the statements on accounting policy contained in the Bank's annual financial statements for the year ended 31 December 2018.