



HBZ Bank Limited

(A subsidiary of Habib Bank AG Zurich)

South Africa

Annual Report
2017



● Canada

● United Kingdom

● Switzerland

● UAE

● Kenya

● South Africa



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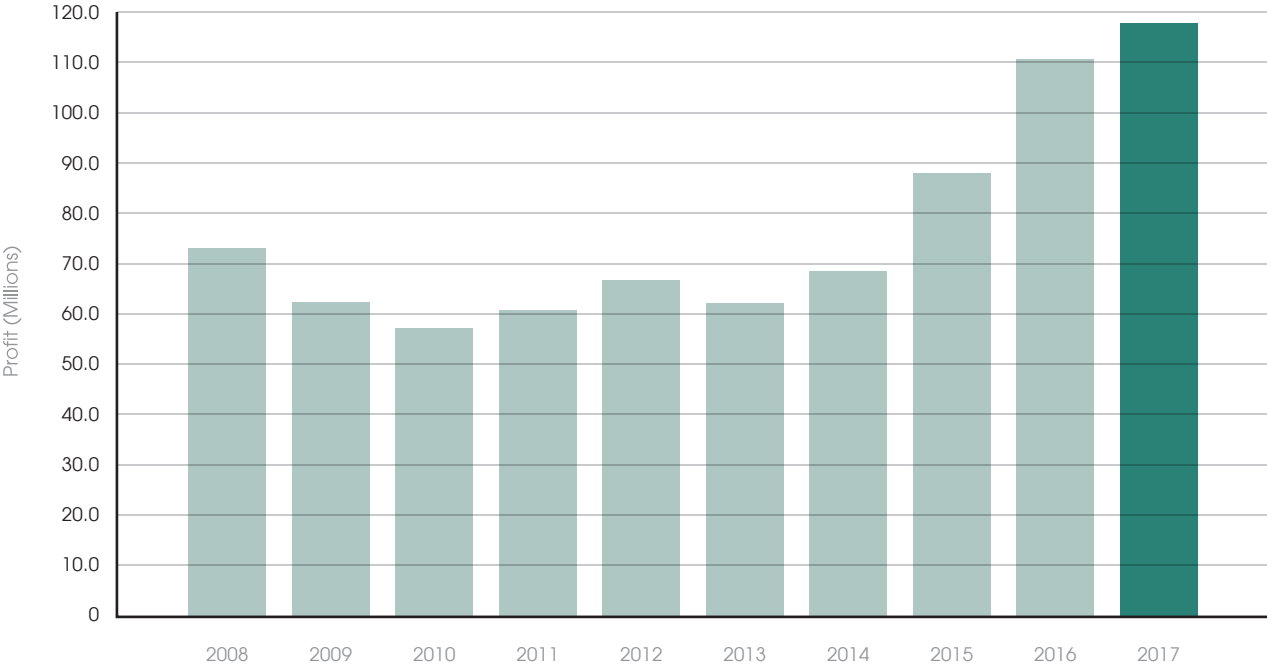
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TEN YEAR REVIEW

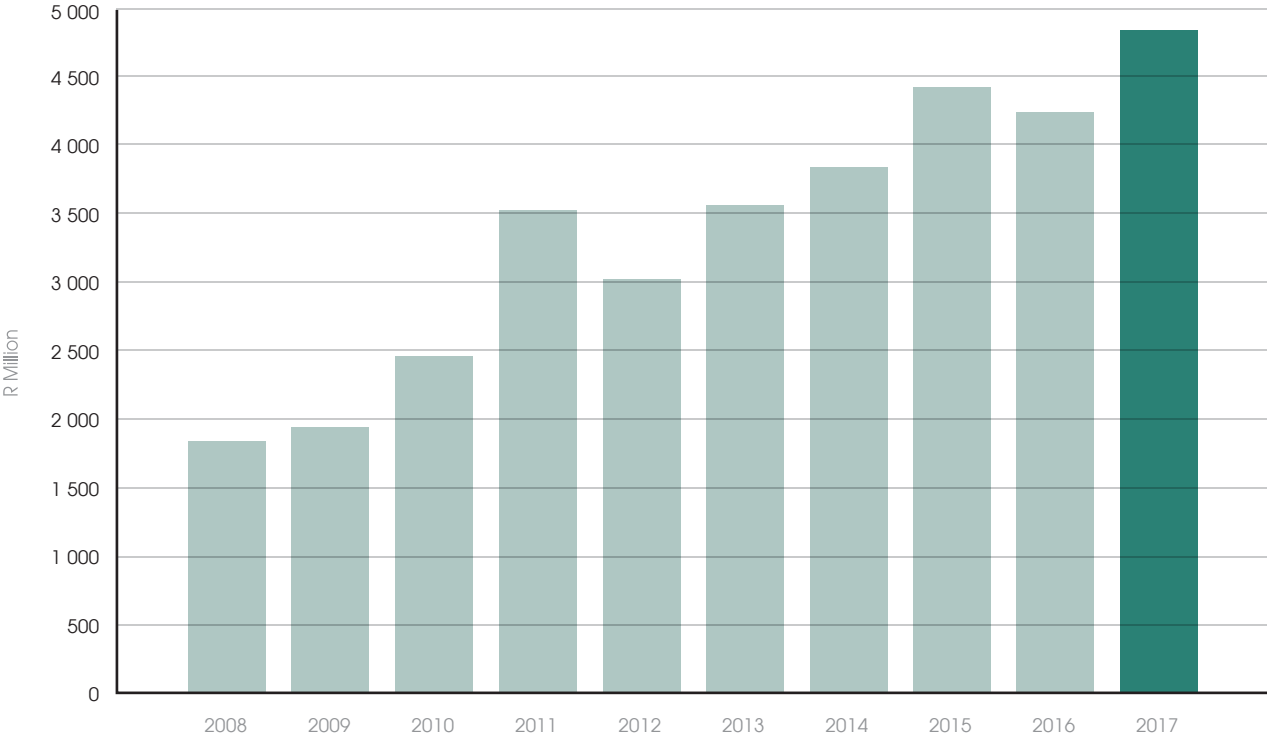
For the year ended 31 December 2017

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
PROFITS										
(R MILLION)										
Profit before taxation	73,6	63,1	57,7	61,5	67,3	62,8	69,1	88,6	111,4	119,7
BALANCE SHEET										
(R MILLION)										
Advances	658,4	755,7	851,4	1185,4	992,4	1169,96	1 347,8	1 619,0	1 537,9	1 468,1
Advances growth %	19,1%	14,8%	12,7%	39,2%	-16,3%	17,9%	15,2%	20,1%	-5,0%	-4,5%
Deposits	1 667,6	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
Deposits growth %	44,3%	4,7%	28,1%	47,7%	-17,1%	18,8%	8,0%	15,2%	-5,7%	14,4%
Total assets	1 856,0	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
Total assets growth %	40,2%	5,5%	26,4%	42,9%	-15,0%	18,9%	7,8%	14,7%	-4,2%	14,9%
PERSONNEL										
Number of employees	101	109	111	113	125	128	141	136	141	133
Net contribution per employee (R '000)	729	579	520	544	538	491	490	651	790	900

PROFIT SUMMARY



TOTAL ASSETS



BOARD OF DIRECTORS AND BOARD COMMITTEES

NON EXECUTIVE DIRECTORS

Muhammad H Habib (58)# - Chairman
Bus. Admin (USA)
President, Habib Bank AG Zurich
Appointed to the Board in 1995

Oscar D Grobler (64) – 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 2015

M Yakoob Chowdhury (75)^
Chief Executive Vice President, Habib Bank AG Zurich
Appointed to the Board in 1995

Hendrik F Leenstra (69)
Institute of Bankers SA C.A.I.B. (SA)
Ex-Regional Executive, Nedcor Group, KZN
Appointed to the Board in 2005

Dheven Dharmalingam (52)
B. Acc, Dip Acc, CA(SA)
Ex-CFO of Mutual & Federal Limited
Appointed to the Board in 2011

Anjum Iqbal (65) ^
B.Com, MBA
General Management, Habib Bank AG Zurich
Appointed to the Board in 2016

EXECUTIVE DIRECTORS

Zafar Alam Khan (65) – CEO and
Chief Executive Vice President
B.A.
Appointed to the Board in 2005

Chris Harvey (61) –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
Jay Datadin* (KPMG Director)
* By invitation

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 Alam Khan
Chris 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 Alam Khan
Chris Harvey

EXECUTIVE MANAGEMENT

Zafar Alam Khan (65)
Chief Executive Officer
Chris Harvey (60)
Head of Corporate Governance & Compliance
Rohinton Lim Meherjina (54)
Area Manager KZN
Yusuf Dockrat (38)
Chief Financial Officer
Hassan Zia (65)
Head of Risk

CORPORATE

Mohanpersadh Somaroo (48)
Treasury Manager
Nusrat Zaidi (56)
IT Manager
Saleem Abdulla (59)
Operational Risk Manager
Soobramoney Gounden (52)
Human Resources Manager
Zaakir Mitha (30)
Head of Internal Audit

COMPANY SECRETARY

Chris Harvey

REGISTERED OFFICE

135 Jan Hofmeyr Road
Westville
3629

REGISTRATION NUMBER

1995/006163/06

BRANCH NETWORK

KwaZulu-Natal Division:

Ronnie Meherjina (54) (Durban)
Senior Vice President
M Mohsin Ahmed (50) (Islamic)
Assistant Vice President
Zakariya Badat (31) (Pietermaritzburg)
Manager

Gauteng Division:

M Ali Chaudhry (49) (Gauteng)
Senior Vice President & Area manager Gauteng
Asif Abba (36) (Johannesburg)
Senior Manager
Yusuf Shamsoodin (48) (Lenasia)
Manager
S Babur H Zaidi (57)
Senior Vice President & Area Manager
Tshwane / Polokwane
Farhan Ballim (36) (Boksburg)
Manager
M Raashid Faiyaz (42) (Vereeniging)
Senior Manager
Ziyad Mohamed (32) (Laudium)
Manager
Ryan Morgan (31) Polokwane
Senior Manager

CHAIRMAN'S REVIEW

I am delighted to present the 2017 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

South Africa's growth prospects in 2017 remained subdued. GDP growth was expected to improve marginally to 0.6% in 2017 up from 0.4% in 2016, as low business confidence continued to undermine investment. Household consumption remained weak due to high unemployment, tight credit markets, rising government debt as a percentage of GDP, likely tax increases, as well as lingering political and policy uncertainty.

The SARB Monetary Policy Committee maintained a conservative approach and reduced the Repo rate by 0.25% on 21 July 2017, resulting in the Prime Lending Rate of banks reducing to 10.25%. The modest upswing in global growth that began in late 2016 continued to strengthen in 2017 to 2.7%, however South Africa has not benefited from this and local growth continues to fall well below its potential.

However, 2017 ended on a high note when Mr. Cyril Ramaphosa was appointed president of the ANC. Financial markets favour him as he is expected to deliver good governance, eradicate corruption, and follow economic policies that support growth and lean towards the free market approach. The Rand and the local financial market indicators have reacted positively to this change.

OPERATING PERFORMANCE

I am pleased to note that in spite of a sluggish economy, the Bank achieved strong results. Profit before tax rose by 7.5%, ending the year on R 119.7 million. Total assets stood at R 4.9 billion while advances and deposits were at R 1.5 billion and R 4.4 billion respectively. The hard work of our committed team and the continued support of our clients contributed to these strong results.

During July 2017, HBZ Bank Ltd hosted celebrations in Durban and Johannesburg to commemorate our holding company's (Habib Bank AG Zurich) 50th Anniversary.

During September 2017 the Bank opened its 9th branch in Polokwane situated in the Limpopo Province. Due to the support from the community the branch has had a good start and I look forward to its continued positive results during 2018.

LOOKING FORWARD

I expect local growth being positively influenced by two factors. Firstly, by the strengthening of the global economy in 2018 and 2019, led by China, the Euro Area, United States and India.

Secondly, I expect the ruling party will now focus on a recovery in economic growth towards 2.0% - 3.0% rising to 5% as Mr. Ramaphosa's "New Deal" comes to fruition. This "New Deal" is expected to bring together government, business, labour and civil society in a meaningful and effective social compact to construct a prosperous, just society founded on opportunities for all. There will be a commitment to strengthen the structures of the state, focus on the empowerment of youth and women, education, job creation, good governance of State Owned Enterprises and the eradication of corruption and state capture. To achieve this there will need to be a substantial increase in international investment which will prevail when investor confidence is restored by policy certainty, improved institutional stability, restored credibility of the criminal justice system and demonstrated political will to improve the economy.

The Bank will take advantage of this positive sentiment and continue to build its franchise in South Africa. We have revised our strategic plan which focuses on how to grow the business as well as build on our core strength of relationship banking and high touch customer service, at the same time becoming more efficient at everything we do.

I am confident that our strong business culture together with our entrepreneurial spirit will help us achieve our targeted growth levels for 2018. The Bank will continue to lend cautiously and maintain high liquidity and at the same time leverage its trust in the business community.

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 budgeted growth. 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 direction and guidance and look forward to their continued patronage.



Muhammad H. Habib
Chairman

RISK MANAGEMENT REVIEW

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;
- Protect 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.

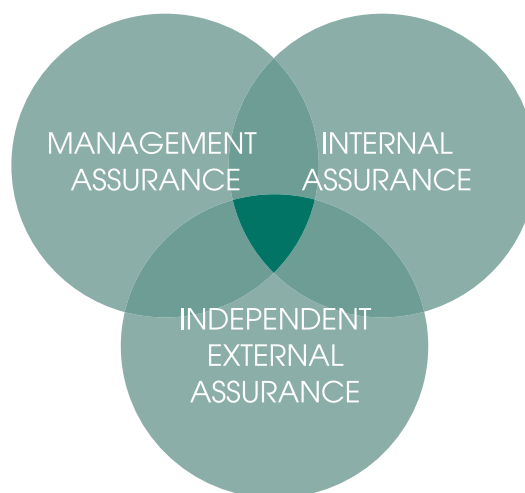
The Board enforces a conservative culture with respect to its overall appetite for risk and fully endorses and supports efforts at the Bank to attain international best practice in risk management.

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.)
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

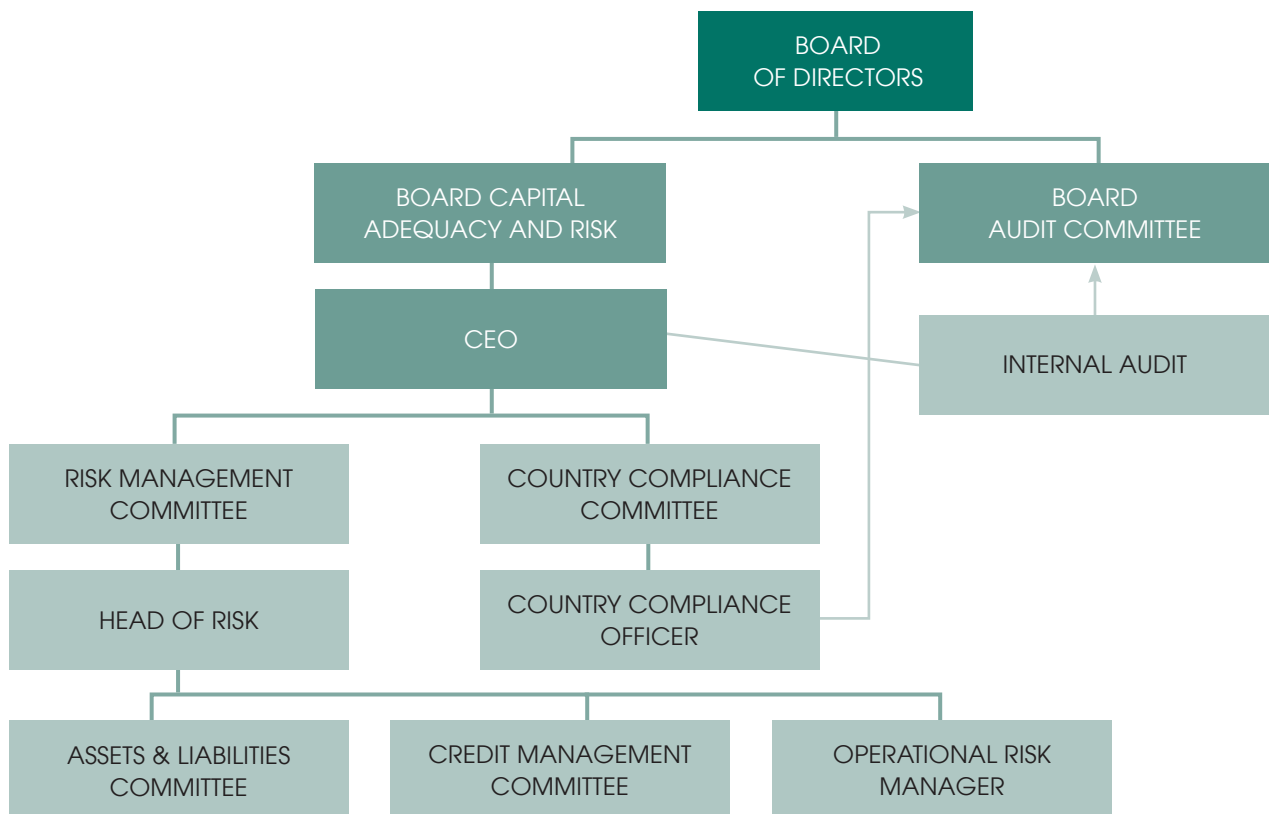
The Board is ultimately responsible for any financial loss or reduction in shareholder value suffered by the Bank. It is therefore responsible for the total process of risk management, recognising all the risks to which the Bank is exposed and ensuring that the proper mandates, policies, authority levels,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

RISK MANAGEMENT REVIEW CONTINUED...

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 Board itself and the Capital Adequacy and Risk Committee. The Risk Management Committee, 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 2017 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 (RMC) 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 HBZ 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, while the Heads of Corporate Governance, Internal Audit and Operational Risk attend as observers. A Branch or Area Manager is invited to attend as and when decided by the Committee. During 2017 the RMC met as per the requirements.

RISK MANAGEMENT REVIEW CONTINUED...

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, 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 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.
- Ensure a square position is maintained with currency risk.
- Review industry exposure to manage concentration 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 2017 the ALCO met as per the requirements. The Committee met as required in 2017 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 Ops & Technology Manager. The Committee has a written charter noting that it is responsible for overseeing the compliance function in HBZ 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 enquires.

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 2017 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
	Fraud 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.

RISK MANAGEMENT REVIEW CONTINUED...

- The Board makes decisions about the objectives and direction of the Bank;
- The BOD 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;
- Retaining capital at 10% of any exposure to an industry (both asset and liability) of more than 40% that is 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. Clearly 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 2017 the Board reviewed the capital management and capital adequacy processes and confirmed that it achieved the objectives specified.

LIQUIDITY RISK

1. Liquidity Funding 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 at that point, ensuring a wide deposit base, simplifying the product range and centralising the Treasury function. The Bank is extremely conservative. They directly match all major deposits with inter-Bank placements and keep a large proportion of the funds short-term to buffer against unexpected cash flow requirements. This is enhanced through an ALCO and an 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.
- Approach Habib Bank AG Zurich to provide funding.
- Approach the market to raise funds.

The Bank successfully 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:

- Having a policy 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 - Specific

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 Credit Risk Manager to manage the Bank's credit risk process. This manager attends the holding company's annual risk conference.

In line with the requirements of the South African Reserve Bank (SARB), the Bank is using 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 our niche client base;
- A centralised credit department to manage proposals, security and exposures;
- Appointment of a Credit Risk Manager;
- 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 high level credit committees with clearly defined limits;
- Periodic and routine review of facilities against updated Annual Financial Statements (AFS) received;
- Detailed credit inspection, quality review and prompt follow-up by high level management, the independent external and internal auditors;
- 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 at Board level;
- Spread the interbank placements amongst the banks to avoid concentration;
- Early detection of potentially bad loans through branch-wise monthly Watch-list reports;
- Structured procedure for recovery of non-performing accounts;
- 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 (another bank) will not honour their commitment in a forward exchange contract or interbank placement; or a sovereign does not honour a commitment either in part or totally.

The Bank pro-actively manages this risk by:

- Having the Board approve Bank limits for interbank placements and investments in sovereigns.
- Spread the interbank placements amongst the banks to avoid concentration.
- Limit the banks we purchase FEC's from to those approved by the Board.
- Spread the FEC deals amongst the approved banks to avoid concentration.
- Only deal 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 with the Bank. 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 an trade.

RISK MANAGEMENT REVIEW CONTINUED...

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 extremely 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.
- Head Office monitoring on a daily basis the open position of the Bank to ensure it is within the limit stipulated by the board.
- Head office 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 formal, meaningful counterparty exposure limits for trading and settlement.
- Having Board approved policies and procedures that are comprehensive, consistent with relevant laws, regulations and supervisory guidance and provide an effective system of internal controls.
- Only dealing with correspondent banks that have been carefully selected by HBZ and approved by the Board.
- Ensuring that all FX 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 (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. The major operational risks are:

- 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 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);
- Risk event management, issue management and action tracking;
- Self-Risk Assessment and Change Risk Assessments for existing and new products and processes respectively;
- Monitoring exposure to critical and material outsourced services providers;
- Control 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 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 an organisation from some sort of failure of its information technology systems.

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.
- Monitoring and review of cyber risk at the periodic Risk Management Committee meeting

3. Fraud Risk

Fraud risk is the risk that a 3rd party or employee commits a deceptive act to obtain a benefit for themselves to the detriment of the Bank.

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;
- Having 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. 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 compliance head 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.

RISK MANAGEMENT REVIEW CONTINUED...

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

2. 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 having the following measures in place:

- Appointment of Chief Financial Officer and Financial Manager with relevant tax qualifications;
- Ensuring that all tax and related regulatory requirements are complied with; (added)
- 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 collapse of an entire financial system or entire market, due to financial system instability caused or exacerbated by idiosyncratic events or conditions in financial intermediaries.

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.

SOCIAL INVESTMENT AND ETHICAL RESPONSIBILITY

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 Bank's 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 H&S representative and two First Aiders at each branch,
- Approval of a training plan and budget,
- Detailed procedures for monthly inspections and reporting.

During 2017 there was no inspection by the Department of Labour nor were 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 2017 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 neighbors, 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.

CORPORATE GOVERNANCE

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

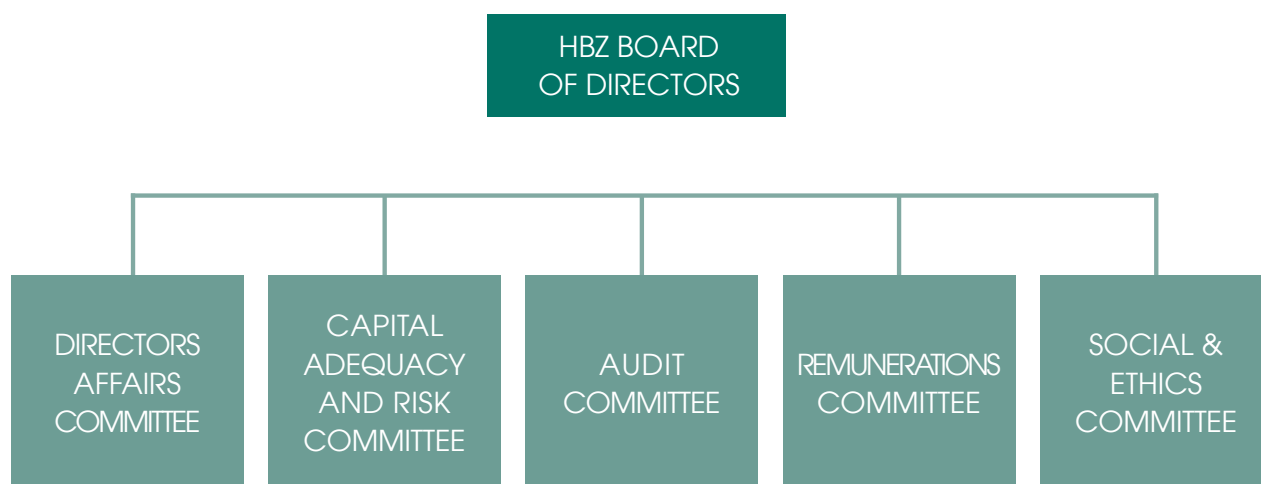
- Ensuring sustainable business practices, including social and environmental activities
- Disclosing timely and accurate information to enable all stakeholders to make a meaningful analysis of the Banks performance, financial position, and governance.

BOARD OF DIRECTORS

Charter

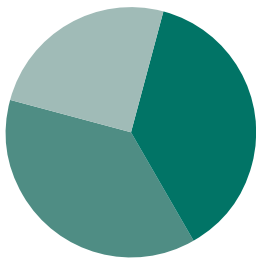
The HBZ Board has a Charter that includes the directors' code of conduct. The Board is fully committed to infusing the standards of integrity, accountability and transparency required to achieve effective corporate governance. The Charter confirms the board's accountability, fiduciary duties, conflict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

HBZ's Board of Directors governance framework is depicted as follows:



Structure and composition

During 2017 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 III, 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 2017 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 management accounts that include a statement of comprehensive income and a statement of financial position by branch. The Board meets annually with management for a number of days to debate and 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 the annual Board self-assessment evaluation. The self-assessments were collated by the Chairman and the results tabled at a meeting. The self-assessments showed no weakness in the board structure, member's attendance at meetings or the expertise, knowledge and valued input of individual directors at the meetings. The Board did agree that there would be continued focus on monitoring progress of the 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 Committees 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 of the Bank 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 2017 with the CEO, Chief Financial Officer (CFO), compliance officer, internal and external auditors invited to attend when necessary. The Committee attendance at the meetings is in accordance with requirements.

The Committee's primary responsibilities for 2017 are detailed in the separate Audit Committee report included elsewhere in this annual 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 2017 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 separate Risk Management section of this annual report.

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 2017, 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 2017 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 Bank's ethics code is implemented effectively. This will include monitoring that:
 - the Bank's management demonstrates support for ethics throughout the Bank;
 - ethical standards are articulated in a code;
 - 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 is imbedded 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.

HBZ 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 clearly 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 2017 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 of HBZ, Mr. C 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 HBZ Bank are:

- The Executive Committee (Exco); chaired by the CEO and made up of the CFO, COO, Head of Risk, Head of Compliance with the Head of Corporate Governance an attendee.
- The Assets and Liabilities Committee (Alco); chaired by the CFO.
- The Risk Management Committee (RMC); chaired by the Head of Risk.
- The Country Compliance Committee; chaired by the Head of Compliance.
- The IT Steering Committee; chaired by the CEO.
- The Human Resources Committee; chaired by the HR Manager.
- Corporate Social Investment (CSI) Committee; chaired by a non-executive Director to plan and execute the Banks CSI investments.

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.

CORPORATE GOVERNANCE CONTINUED...

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.

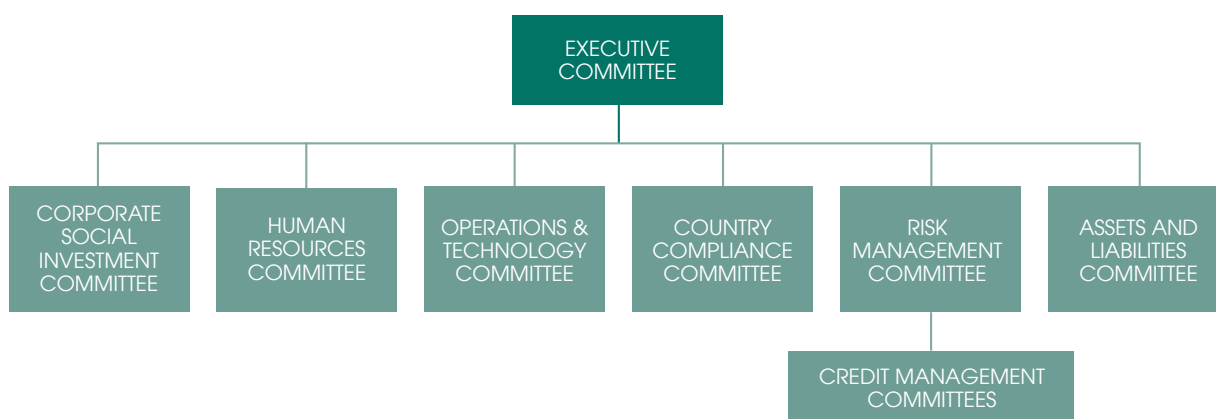
INTERNAL CONTROL

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 Bank's website. In addition the annual report of the Bank and its holding company, Bank 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 2017 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 24 to 30 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 2017;
- 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 independence was not impaired;
- confirmed that no non-audit services had been provided by the external auditors during the year under review;
- 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 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



D Dharmalingam
Chairman

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 2017, the statements of comprehensive income, changes in equity and cash flows for the 2017 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 2017 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 38 to 67 were approved by the Board of Directors on 9 April 2018 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 Du Toit Harvey

Company Secretary

Durban

9 April 2018

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 set out on pages 39 to 67, which comprise the statement of financial position as at 31 December 2017, 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 2017, 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 Inc. has been the auditor of HBZ Bank Limited for 23 years.

KPMG Inc.
Registered Auditor



Per Jay Datadin
Chartered Accountant (SA)
Registered Auditor
26 April 2018

REPORT OF THE DIRECTORS

The Board of Directors takes pleasure in presenting the Annual Financial Statements for the year ended 31 December 2017.

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 R86 072 962 (2016: R79 418 228).

DIVIDENDS AND GENERAL RESERVE

The following appropriations were made during the year:

GENERAL RESERVE

Transfer made

DIVIDEND

Dividend distributed

	2017	2016
Transfer made	R 20,000,000	R 40,000,000
Dividend distributed	R 38,500,000	R 30,000,000

POST BALANCE SHEET EVENTS

There were no material post balance sheet events.

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 21 to the annual financial statements.



Muhammad H. Habib
Chairman



Oscar D. Grobler
Vice-chairman

STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Notes	2017 R	2016 R
ASSETS			
Cash and cash equivalents	1	2 006 288 662	1 662 394 499
Investment securities	2	1 312 808 188	988 225 102
Other assets	3	4 053 177	7 617 024
Income tax receivable	4	-	130 115
Derivative assets held for risk management	5	44 363 118	15 208 348
Deferred taxation	6	1 279 115	1 471 739
Advances	7	1 468 115 043	1 537 900 513
Property and equipment	9	24 498 765	19 856 537
TOTAL ASSETS		4 861 406 068	4 232 803 877
EQUITY AND LIABILITIES			
Capital and reserves		428 586 226	381 013 264
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	9 058 109
General reserve	11	302 300 000	282 300 000
Retained earnings		70 671 419	39 655 155
LIABILITIES		4 432 819 842	3 851 790 613
Deposits and borrowings	12	4 369 707 744	3 820 501 346
Provision for leave pay	13	6 033 072	5 876 682
Other liabilities	14	13 616 446	10 856 468
Derivative liabilities held for risk management	15	43 462 580	14 556 117
Income tax payable	16	-	-
TOTAL EQUITY AND LIABILITIES		4 861 406 068	4 232 803 877

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	2017 R	2016 R
Interest received	17	354 655 722	319 715 097
Interest paid	18	(134 840 059)	(120 980 453)
Net interest income		219 815 663	198 734 644
Net impairment of advances	8.3	(3 852 516)	(1 059 851)
		215 963 147	197 674 793
Other operating income	19	59 725 891	57 725 355
		275 689 038	255 400 148
Operating expenses	20	(155 989 577)	(143 957 933)
Profit before taxation		119 699 461	111 442 215
Taxation	22.1	(33 626 499)	(32 023 987)
Profit for the year		86 072 962	79 418 228
Other comprehensive income		-	-
Total comprehensive income for the year		86 072 962	79 418 228
Dividends per share (cents)	23	385,00	300,00
Earnings per share (cents)	24	860,73	794,18
Diluted earnings per share (cents)	24	860,73	794,18

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Notes	Ordinary share capital	Share premium	Regulatory reserve	General reserve	Retained earnings	Total
		R	R	R	R	R	R
Balance at 31 December 2015		10 000 000	40 000 000	8 139 047	242 300 000	31 155 989	331 595 036
Total comprehensive income for the year		-	-	-	-	79 418 228	79 418 228
Increase in regulatory reserve		-	-	919 062	-	(919 062)	-
Ordinary dividends	23	-	-	-	-	(30 000 000)	(30 000 000)
Transfer to general reserve		-	-	-	40 000 000	(40 000 000)	-
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	23	-	-	-	-	(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

STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Notes	2017 R	2016 R
Cash flows from operating activities			
Cash receipts from customers	25.1	414 381 613	377 440 452
Cash paid to customers, employees and suppliers	25.2	(287 037 310)	(262 860 218)
Cash available from operating activities	25.3	127 344 303	114 580 234
Taxation paid	25.4	(33 303 760)	(32 455 925)
Dividends paid	23	(38 500 000)	(30 000 000)
Net cash inflow from operating activities		55 540 543	52 124 309
Increase in income-earning funds and other assets	25.5	(283 759 655)	(403 476 584)
Increase / (decrease) in deposits and other liabilities	25.6	581 029 229	(236 028 028)
Net increase in financing activities		297 269 574	(639 504 612)
Cash utilised in investing activities			
Capital expenditure on property and equipment		(9 029 396)	(5 915 990)
Proceeds on disposal of property and equipment		113 438	65 980
Cash utilised in investing activities		(8 915 958)	(5 850 010)
Increase in cash and cash equivalents		343 894 159	(593 230 313)
Cash and cash equivalents at the beginning of year		1 662 394 499	2 255 624 812
Cash and cash equivalents at end of year		2 006 288 658	1 662 394 499

ACCOUNTING POLICIES

For the year ended 31 December 2017

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 9 April 2018.

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.

(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. 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 SARB regulatory ratios which are disclosed to the nearest Rand Thousands (notes 33 and 34).

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(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. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured on a historical cost basis are not translated. Foreign currency differences arising on translation are recognised in the statement of comprehensive income through profit and loss.

(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.

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) Other income

Other income comprises net fee and commission income, which is recognised as the related services are performed.

(d) Financial assets and liabilities

(i) 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.

Foreign exchange forward and spot contracts are classified as held for trading. 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.

- **Loans and receivables**

Loans and receivables (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.

Held-to-maturity comprises investment securities

- **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.

- (ii) **Initial recognition and measurement**

The Bank initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities 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.

- (iii) **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.

- (iv) **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.

ACCOUNTING POLICIES CONTINUED...

For the year ended 31 December 2017

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.

(v) Amortised cost measurement

The amortised cost for a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(vi) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly 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), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Bank calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

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 (i.e., without modification or repackaging) 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 but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Assets and long positions are measured at a bid price; liabilities and short positions are measured at an asking price. Where the Bank has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank and the counterparty where appropriate.

(vii) Other receivables

Other receivables are measured at their cost less impairment losses.

(viii) Other payables

Other payables are measured at cost.

(ix) Identification and measurement of impairment

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 on 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 group, or economic conditions that correlate with defaults in the group.

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.

(x) 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.

(xi) 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.

(xii) Share capital

Ordinary shares

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 highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

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 accounted for as held-to-maturity.

ACCOUNTING POLICIES CONTINUED...

For the year ended 31 December 2017

(h) Held-to-maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity, and which are not designated at fair value through profit or loss or available-for-sale.

Held-to-maturity investments are measured at amortised cost using the effective interest rate method.

(i) 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.

(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.

(j) 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.

(k) 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 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.

(l) 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.

(m) 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.

(n) 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).

(o) 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.

(p) 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 not recognised for the following temporary differences: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. 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.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

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.

(q) 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.

(r) 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.

(s) 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 31.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

	2017 R	2016 R
1. CASH AND CASH EQUIVALENTS		
Balances with central bank other than the mandatory reserve deposits	13 917 120	13 159 375
Balances with other banks	1 926 263 284	1 593 744 962
Cash on hand	4 282 258	4 408 862
Mandatory reserves with central banks	61 826 000	51 081 300
	<u>2 006 288 662</u>	<u>1 662 394 499</u>
Maturity analysis		
On demand to one month	1 194 518 662	1 248 894 499
One month to six months	497 000 000	338 600 000
Six months to one year	314 770 000	74 900 000
Greater than one year	-	-
	<u>2 006 288 662</u>	<u>1 662 394 499</u>
2. INVESTMENT SECURITIES		
Interest bearing Government bonds	-	110 608 342
Treasury bills	1 312 808 188	877 616 760
	<u>1 312 808 188</u>	<u>988 225 102</u>
Maturity analysis		
On demand to one month	99 403 420	60 810 526
One month to six months	868 435 300	816 806 234
Six months to one year	344 969 468	110 608 342
Greater than one year	-	-
	<u>1 312 808 188</u>	<u>988 225 102</u>
3. OTHER ASSETS		
Prepayments	1 324 144	3 878 906
Sundry debtors	2 729 033	3 738 118
	<u>4 053 177</u>	<u>7 617 024</u>
4. INCOME TAX RECEIVABLE		
Provision for normal taxation	0	130 115
	<u>0</u>	<u>130 115</u>
5. DERIVATIVE ASSETS HELD FOR RISK MANAGEMENT		
Forward exchange contracts	44 363 118	15 208 348
	<u>44 363 118</u>	<u>15 208 348</u>

	2017 R	2016 R
6. DEFERRED TAXATION		
Tax effect of timing differences between tax and book values of		
- provisions for doubtful advances	114 594	82 455
- other accruals and provisions	1 432 260	1 528 875
- fixed asset allowances	(267 739)	(139 591)
Deferred taxation asset	<u>1 279 115</u>	<u>1 471 739</u>
Deferred taxation reconciliation		
Balance at beginning of year	1 471 739	1 317 916
Current year temporary differences recognised in Statement of Comprehensive Income	(192 624)	153 823
- provision for doubtful advances	26 404	7 026
- other accruals and provisions	(90 880)	181 871
- fixed asset allowances	(128 148)	(35 074)
Balance at the end of the year	<u>1 279 115</u>	<u>1 471 739</u>
7. ADVANCES		
Overdrafts	370 395 697	485 556 120
Loans	1 105 294 820	1 057 893 553
Staff loans	3 879 541	3 031 895
Commercial loans	1 054 512 082	1 011 421 697
Trust receipts	46 903 197	43 439 961
Bills receivable	2 094 802	750 000
Foreign bills purchased	-	-
	<u>1 477 785 319</u>	<u>1 544 199 673</u>
Specific impairment	(9 261 011)	(5 984 197)
Portfolio impairment	(409 265)	(314 963)
	<u>1 468 115 043</u>	<u>1 537 900 513</u>
Maturity analysis		
On demand to one month	447 396 043	614 688 513
One month to six months	195 585 000	179 304 000
Six months to one year	148 043 000	125 682 000
Greater than one year	677 091 000	618 226 000
	<u>1 468 115 043</u>	<u>1 537 900 513</u>

Interest rates charged on clients advances range between 6% and 13.25% during 2017.

Islamic Banking advances are included in advances.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED...

For the year ended 31 December 2017

	2017	2016
	R	R
8. IMPAIRMENT OF ADVANCES		
8.1 Specific impairment		
Balance at beginning of year	5 984 197	6 101 920
Impairment raised (See note 8.3)	7 460 879	4 512 189
Recoveries	(3 702 665)	(3 477 430)
Write-offs against impairment	(481 400)	(1 152 482)
Balance at end of year	<u>9 261 011</u>	<u>5 984 197</u>
8.2 Portfolio impairment		
Balance at beginning of year	314 963	289 871
Impairments raised (See note 8.3)	94 302	25 092
Balance at end of year	<u>409 265</u>	<u>314 963</u>
8.3 Statement of Comprehensive Income charge		
Impairment raised during the year		
- Specific impairment	7 460 879	4 512 189
- Portfolio impairment	94 302	25 092
	<u>7 555 181</u>	<u>4 537 281</u>
Recoveries	(3 702 665)	(3 477 430)
	<u>3 852 516</u>	<u>1 059 851</u>

9. PROPERTY AND EQUIPMENT

	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

	Cost	Accumulated depreciation	Closing carrying value
	R	R	R
2016			
Land and buildings	9 682 091	-	9 682 091
Furniture & fittings	13 503 699	(8 534 268)	4 969 431
Office equipment	5 871 110	(4 949 028)	922 082
Motor vehicles	3 635 164	(2 430 077)	1 205 087
Computers	9 842 135	(6 764 289)	3 077 846
	42 534 199	(22 677 662)	19 856 537

	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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED...

For the year ended 31 December 2017

	Opening carrying value	Additions	Disposals	Depreciation	Closing carrying value
	R	R	R	R	R
2016 movements					
Land and buildings	9 682 091	-	-	-	9 682 091
Furniture & fittings	3 493 327	2 691 448	-	(1 215 344)	4 969 431
Office equipment	752 437	610 669	-	(441 024)	922 082
Motor vehicles	1 481 230	309 573	-	(585 716)	1 205 087
Computers	1 828 092	2 304 300	(5 012)	(1 049 534)	3 077 846
	17 237 177	5 915 990	(5 012)	(3 291 618)	19 856 537

Land and buildings comprise the following:

1. Erf no. 1246, Jan Hofmeyr Road, Westville.
2. 39 Rooikoppies, 23 Leander Crescent, Westville.
3. Section numbers 15 and 28, Cedar Ridge, Jan Hofmeyr Road, Westville.
4. Section 11, Arbor Glade, Musgrave, Durban
5. Section 22, Berkley Close, Houghton, Johannesburg

Acquisition date:

- 13 December 2004
- 11 October 2004
- 16 January 1996
- 21 July 1997
- 14 March 2001

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

	2017	2016
	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

	2017 R	2016 R
11. NON-DISTRIBUTABLE RESERVES		
Regulatory reserve	5 614 807	9 058 109

The regulatory reserver relates to a general allowance for credit impairment that is in excess of the portfolio impairment disclosed in note 8.2

General reserve	302 300 000	282 300 000
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The reserve has been created specifically for the retention of capital.

12. DEPOSITS AND BORROWINGS

Deposits and loans from banks	5 817 104	37 227 140
Demand deposits	1 908 162 127	1 487 452 099
Savings deposits	283 179 083	236 243 122
Fixed deposits	1 457 837 219	1 379 532 758
Notice deposits	714 712 211	680 046 227
	<u>4 369 707 744</u>	<u>3 820 501 346</u>

Maturity analysis

On demand to one month	3 543 112 182	3 288 798 346
One month to six months	417 019 950	375 426 000
Six months to one year	409 575 612	151 536 000
Greater than one year	-	4 741 000
	<u>4 369 707 744</u>	<u>3 820 501 346</u>

Islamic Banking deposits are included in deposits and other borrowings.

13. PROVISION FOR LEAVE PAY

Balance at beginning of year	5 876 682	5 120 448
Provisions made during the period	156 390	756 234
Balance at end of year	<u>6 033 072</u>	<u>5 876 682</u>

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED...

For the year ended 31 December 2017

14. OTHER LIABILITIES		
Creditors	5 423 899	6 083 813
Other payables	8 192 547	4 772 655
	<u>13 616 446</u>	<u>10 856 468</u>
	2017	2016
	R	R
15. DERIVATIVE LIABILITIES HELD FOR RISK MANAGEMENT		
Forward exchange contracts	43 462 580	14 556 117
	<u>43 462 580</u>	<u>14 556 117</u>
16. INCOME TAX PAYABLE		
Provision for normal taxation	-	-
	<u>-</u>	<u>-</u>
17. INTEREST RECEIVED		
Balances with other banks	132 987 486	128 093 625
Advances	149 019 834	148 665 280
Investment securities	72 648 402	42 956 192
	<u>354 655 722</u>	<u>319 715 097</u>
18. INTEREST PAID		
Deposits from banks	2 065 590	4 629 852
Deposits from customers	132 774 469	116 350 601
	<u>134 840 059</u>	<u>120 980 453</u>
19. OTHER OPERATING INCOME		
Commissions and fees	42 661 185	39 618 314
Foreign exchange income	16 964 706	18 046 073
Profit on disposal of fixed assets	100 000	60 968
	<u>59 725 891</u>	<u>57 725 355</u>

	2017	2016
	R	R
20. OPERATING EXPENSES		
Operating expenses include :		
Directors' remuneration (see note 21)	6 039 524	5 766 672
Auditor's remuneration	1 330 179	1 349 999
- audit	1 330 179	1 349 999
Depreciation	4 373 726	3 291 618
Services rendered by group companies	36 043 035	34 271 984
Retirement benefit costs	3 911 603	3 777 635
- key management personnel	366 238	366 228
- other personnel	3 545 365	3 411 407
Operating leases	5 928 224	6 030 318
- premises	5 175 370	5 548 263
- equipment	752 854	482 055
Staff costs	39 334 357	43 823 691

The services paid to Group companies is paid to Habib Bank AG Zurich, the Bank's holding company.

21. DIRECTORS' REMUNERATION

For services as a director and other services

Non-executive directors	1 170 000	1 247 500
- MH Habib (Chairman)	-	-
- O Grobler (Vice Chairman)	290 000	290 000
- RL Daly	-	77 500
- MY Chowdhury	310 000	310 000
- MR Habib	-	-
- HF Leenstra	280 000	280 000
- D Dharmalingham	290 000	290 000
- A Iqbal	-	-
Executive directors	4 869 524	4 519 172
- ZA Khan - CEO	3 211 183	2 965 376
- C Harvey - Head Of Corporate Governance	1 658 341	1 553 796
Total directors' remuneration (see note 20)	6 039 524	5 766 672

NOTES TO THE FINANCIAL STATEMENTS CONTINUED...

For the year ended 31 December 2017

HBZ Bank does not offer pension to directors. In terms of the Articles of Association of HBZ Bank Limited 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.

	2017 R	2016 R
22. TAXATION		
22.1 South African normal taxation		
- current	33 433 875	32 177 810
- deferred	192 624	(153 823)
Total taxation	<u>33 626 499</u>	<u>32 023 987</u>

22.2 Reconciliation of tax charge		
SA Normal taxation	28,00%	28,00%
Standard rate affected by:		
- permanent difference	0,09%	0,74%
Effective rate - total taxation	<u>28,09%</u>	<u>28,74%</u>

23. DIVIDENDS PER SHARE		
'Final dividend of 385 cents per share (2016: 300 cents per share)	<u>38 500 000</u>	<u>30 000 000</u>

24. EARNINGS AND DILUTED EARNINGS PER SHARE

The calculation of earnings per ordinary share is based on net income attributable to ordinary shareholders of R86 072 962 (2016: R79 418 228) and a weighted average of 10 000 000 (2016: 10 000 000) ordinary shares issued.

The calculation of diluted earnings per ordinary share is based on net income attributable to ordinary shareholders of R86 072 962 (2016: R79 418 228) and a weighted average number of 10 000 000 (2016: 10 000 000) ordinary shares outstanding after any adjustments for the effects of all dilutive potential ordinary shares.

25. CASH FLOW INFORMATION

25.1 Cash receipts from customers

Interest income	354 655 722	319 715 097
Other income	59 725 891	57 725 355
	<u>414 381 613</u>	<u>377 440 452</u>

	2017 R	2016 R
25.2 Cash paid to customers, employees and suppliers		
Interest expenses	(134 840 059)	(120 980 453)
Other payments	(152 197 251)	(141 879 765)
	<u>(287 037 310)</u>	<u>(262 860 218)</u>
25.3 Cash available from operating activities		
Net income before tax	119 699 461	111 442 215
Adjusted for non-cash items		
- Specific debt provision	3 276 814	(117 723)
- General debt provision	94 302	25 092
- Depreciation	4 373 726	3 291 618
- Profit on disposal of property and equipment	(100 000)	(60 968)
	<u>127 344 303</u>	<u>114 580 234</u>
25.4 Taxation paid		
Amount receivable/(payable) at beginning of year	130 115	(148 000)
Charge to Statement of Comprehensive Income	(33 433 875)	(32 177 810)
Less: Amount receivable at end of year	-	(130 115)
	<u>(33 303 760)</u>	<u>(32 455 925)</u>
25.5 Increase in income-earning funds and other assets		
Advances	66 414 354	81 164 281
Investment securities	(324 583 086)	(491 541 836)
Other assets and derivative assets	(25 590 923)	6 900 971
	<u>(283 759 655)</u>	<u>(403 476 584)</u>
25.6 Increase/(Decrease) in deposits and other liabilities		
Deposits and borrowings	549 206 398	(228 891 331)
Provisions, Derivatives and Other liabilities	31 822 831	(7 136 697)
	<u>581 029 229</u>	<u>(236 028 028)</u>
26. LETTERS OF CREDIT AND GUARANTEE		
Letters of credit	58 239 337	78 803 177
Guarantees issued on behalf of customers	250 248 618	242 466 017
Guarantee issued on behalf of the Bank	7 155 000	7 155 000
	<u>315 642 955</u>	<u>328 424 194</u>

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.

Included in the above Guarantees issued on behalf of customers is an amount of R3,150,000 (2016: R3,150,000) which is a guarantee issued on behalf of a director.

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

For details on the other off-balance sheet items, refer to notes 28.1 and 30.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED...

For the year ended 31 December 2017

27. PRINCIPAL FOREIGN CURRENCY CONVERSION RATES

One South African Rand equals

- Swiss Franc	0,079	0,075
- United States Dollar	0,081	0,073
- Pound Sterling	0,060	0,059

28. RISK MANAGEMENT

28.1 Credit risk management

Exposure to credit risk

	Loans and advances to customers		Loans and advances to banks		Investment securities	
	2017	2016	2017	2016	2017	2016
On balance sheet	R	R	R	R	R	R
Individually impaired						
- Gross amount	43 841 246	57 901 962	-	-	-	-
- Impairment	(9 261 011)	(5 984 197)	-	-	-	-
- Carrying amount	34 580 235	51 917 765	-	-	-	-
Collectively impaired						
- Gross amount	1 433 944 073	1 486 297 711	-	-	-	-
- Impairment	(409 265)	(314 963)	-	-	-	-
- Carrying amount	1 433 534 808	1 485 982 748	-	-	-	-
Not impaired	-	-	2 006 288 662	1 662 394 499	1 312 808 188	988 225 102
Total carrying amount	1 468 115 043	1 537 900 513	2 006 288 662	1 662 394 499	1 312 808 188	988 225 102

	Letters of credit		Guarantees		Unutilised facilities	
	2017	2016	2017	2016	2017	2016
Off balance sheet	R	R	R	R	R	R
Not impaired						
Gross amount	58 239 337	78 803 177	257 403 618	249 621 017	363 388 000	463 802 721

Collateral held as security

The Bank holds collateral against loans and advances to customers, letters of credit, letters of guarantee and unutilised facilities. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, however property values are updated at least every three years. Collateral is not held over loans and advances to banks and investment securities, and no such collateral was held at 31 December 2017 or 31 December 2016.

An estimate of the fair value of collateral held against loans and advances to customers, letters of credit, letters of guarantee and unutilised facilities is shown below:

	2017 R	2016 R
Cash deposit	109 406 913	250 987 052
Bank guarantee	52 637 789	42 230 578
Property and other	1 994 771 572	2 043 208 958
Total	2 156 816 274	2 336 426 588

Concentration of credit risk

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

	Loans and advances to customers		Loans and advances to banks		Investment securities	
	2017 R	2016 R	2017 R	2016 R	2017 R	2016 R
Concentration by location						
- America	-	-	37 180 460	33 169 103	-	-
- Europe	-	-	96 302 597	20 862 369	-	-
- Asia	-	-	788 309	406 700	-	-
- South Africa	1 468 115 043	1 537 900 513	1 872 017 296	1 607 956 327	1 312 808 188	988 225 102
- Other African countries	-	-	-	-	-	-
	1 468 115 043	1 537 900 513	2 006 288 662	1 662 394 499	1 312 808 188	988 225 102

	Loans and advances - Gross		Doubtful debts - Gross		Specific Impairment	
	2017 R	2016 R	2017 R	2016 R	2017 R	2016 R
Concentration by industry						
- Finance & insurance	8 563 904	9 223 000	-	-	-	-
- Manufacturing	333 303 809	516 857 000	13 789 466	10 918 076	(3 867 396)	(1 706 324)
- Transportation	84 791 787	106 261 000	-	-	-	-
- Commercial real estate	373 279 242	244 519 000	-	-	-	-
- Retailers & wholesalers	499 162 606	509 070 000	23 318 112	15 621 541	(4 629 530)	(2 235 515)
- Other	178 683 971	158 269 673	6 733 668	31 362 345	(764 085)	(2 042 358)
	1 477 785 319	1 544 199 673	43 841 246	57 901 962	(9 261 011)	(5 984 197)

The portfolio impairment is not split by industry as it is based on the credit portfolio as a whole and not to specific loans and advances.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED...

For the year ended 31 December 2017

28.2 Currency risk management

The Bank did not have any significant foreign currency exposure at 31 December 2017.

28.3 Derivative instruments

	2017	2016
	R	R
Nominal value of forward exchange contracts sold to customers	601 260 775	474 751 680
Nominal value of forward exchange contracts sold to banks	13 034 645	27 129 151
	<u>614 295 420</u>	<u>501 880 831</u>
Nominal value of forward exchange contracts purchased from customers	(13 026 065)	(27 105 920)
Nominal value of forward exchange contracts purchased from banks	(600 728 118)	(477 181 810)
	<u>(613 754 183)</u>	<u>(504 287 730)</u>

28.4 Liquidity risk management

	On demand	1-6 months	6-12 months	< 12 months	Total
	R	R	R	R	R
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
	<u>1 765 603 392</u>	<u>1 584 540 453</u>	<u>808 091 230</u>	<u>677 393 113</u>	<u>4 835 628 188</u>
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)
	<u>(3 576 158 887)</u>	<u>(446 095 734)</u>	<u>(409 878 106)</u>	<u>(687 115)</u>	<u>(4 432 819 842)</u>
Net liquidity gap	<u>(1 810 555 495)</u>	<u>1 138 444 719</u>	<u>398 213 124</u>	<u>676 705 998</u>	<u>402 808 346</u>
2016					
Assets					
Investment securities	60 810 526	816 806 234	110 608 342	-	988 225 102
Advances	614 688 513	179 304 000	125 682 000	618 226 000	1 537 900 513
Other assets (incl. derivatives)	14 702 019	7 849 000	130 115	274 353	22 955 487
Cash and short term funds	1 248 894 499	338 600 000	74 900 000	-	1 662 394 499
	<u>1 939 095 557</u>	<u>1 342 559 234</u>	<u>311 320 457</u>	<u>618 500 353</u>	<u>4 211 475 601</u>

Liabilities

Deposits and other accounts	(3 288 798 346)	(375 426 000)	(151 536 000)	(4 741 000)	(3 820 501 346)
Other liabilities (incl. derivatives)	(16 061 583)	(8 637 941)	-	(713 061)	(25 412 585)
Provisions	-	-5 876 682	-	-	(5 876 682)
	(3 304 859 929)	(389 940 623)	(151 536 000)	(5 454 061)	(3 851 790 613)
Net liquidity gap	(1 365 764 372)	952 618 611	159 784 457	613 046 292	359 684 988

28.5 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		Total
	0 - 31 days	32 - 91 days	92 - 181 days	182 - 365 days	Other	
	R'000	R'000	R'000	R'000	R'000	R'000
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
2016						
Fixed rate items						
Assets	865 772	1 019 371	236 965	180 400	110 841	2 413 349
Liabilities	(1 128 266)	(157 797)	(90 425)	(46 479)	-	(1 422 967)
	(262 494)	861 574	146 540	133 921	110 841	990 382
Variable items						
Assets	1 596 532	-	-	-	-	1 596 532
Liabilities	(2 390 868)	-	-	-	-	(2 390 868)
	(794 336)	-	-	-	-	(794 336)
Net repricing gap	(1 056 830)	861 574	146 540	133 921	110 841	196 046

NOTES TO THE FINANCIAL STATEMENTS CONTINUED...

For the year ended 31 December 2017

28.6 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 2017, a general increase of 1% in the interest rate would increase the Bank's monthly profit by R2 050 320 (2016: R1 501 860) and a general decrease of 1% in the interest rate would decrease the Bank's monthly profit by R2 050 320 (2016: R1 501 860). The sensitivity analysis assumes that all variables including capital amounts remain consistent.

28.7 Financial assets and liabilities

	Non trading derivatives	Held-to-maturity	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
31 December 2017	R	R	R	R	R	R
Cash and short-term funds	-	-	2 006 288 662	-	2 006 288 662	2 006 288 662
Investment securities	-	1 312 808 188	-	-	1 312 808 188	1 312 808 188
Derivative assets held for risk management	44 363 118	-	-	-	44 363 118	44 363 118
Advances	-	-	1 468 115 043	-	1 468 115 043	1 468 115 043
	44 363 118	1 312 808 188	3 474 403 705	-	4 831 575 011	4 831 575 011
Deposits and loans from banks	-	-	-	(5 817 104)	(5 817 104)	(5 817 104)
Deposits from customers	-	-	-	(4 363 890 640)	(4 363 890 640)	(4 363 890 640)
Derivative liabilities held for risk management	(43 462 580)	-	-	-	(43 462 580)	(43 462 580)
	(43 462 580)	-	-	(4 369 707 744)	(4 413 170 324)	(4 413 170 324)
31 December 2016						
Cash and short-term funds	-	-	1 662 394 499	-	1 662 394 499	1 662 394 499
Investment securities	-	988 225 102	-	-	988 225 102	987 956 287
Derivative assets held for risk management	15 208 348	-	-	-	15 208 348	15 208 348
Advances	-	-	1 537 900 513	-	1 537 900 513	1 537 900 513
	15 208 348	988 225 102	3 200 295 012	-	4 203 728 462	4 203 459 647
Deposits and loans from banks	-	-	-	(37 227 140)	(37 227 140)	(37 227 140)
Deposits from customers	-	-	-	(3 783 274 206)	(3 783 274 206)	(3 783 274 206)
Derivative liabilities held for risk management	(14 556 117)	-	-	-	(14 556 117)	(14 556 117)
	(14 556 117)	-	-	(3 820 501 346)	(3 835 057 463)	(3 835 057 463)

The fair value of non trading derivatives is classed as a level 1 financial instrument in terms of the hierarchy requirements per IFRS 7.

The fair value of advances and deposits cannot be reliably measured as they are unquoted.

Effective interest rates on investment securities vary between 5.5% and 7.9%.

29. 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.

30. OPERATING LEASE COMMITMENTS

	Buildings	Equipment	Total
	R	R	R
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
2016			
Not later than 1 year	4 878 970	522 964	5 401 934
Between 2 and 5 years	8 993 560	1 125 958	10 119 518
	13 872 530	1 648 922	15 521 452

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 8% to 10%. The leases on office equipment run for a period of 3 years with no escalation.

31. RELATED PARTIES

31.1 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 listed in note 21.

31.2 Material related party transactions

Material transactions with the company

	2017	2016
	R	R
Dividends paid to the holding company - see note 23	38 500 000	30 000 000
Fees for services rendered	36 043 035	34 271 984
Directors' remuneration - see note 21	6 039 524	5 766 672
Loans to directors (balance outstanding)	363 611	182 599

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED...

For the year ended 31 December 2017

	2017 R	2016 R
Material transactions with the Habib group		
Receivables due from group companies:		
- Habib Bank AG Zurich, Zurich	83 047 145	11 940 987
- Habib Bank AG Zurich, London	13 255 452	8 921 249
- HBZ Finance Ltd, Hong Kong	3 870	3 705
- Habib Canadian Bank, Canada	13 736	9 395
- Habib Metropolitan Bank, Pakistan	20 311	151 747
	96 340 514	21 027 083

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 1.

Payables due to group companies:

- Habib Bank AG Zurich, Zurich	414 052	415 528
- Habib Bank AG Zurich, London	582 162	219 162
- Habib Bank AG Zurich, Nairobi	34 693	55 497
- Habib Bank AG Zurich, Deira Dubai	4 786 197	34 930 611
	5 817 104	35 620 798

These payables 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 12.

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.

The highest outstanding balance for these payables during the financial year were:

- Habib Bank AG Zurich, Zurich	10 000 000	27 500 000
- Habib Bank AG Zurich, London	582 162	4 756 817
- Habib Bank AG Zurich, Nairobi	514 476	1 095 733
- Habib Bank AG Zurich, Deira Dubai	65 023 973	104 412 831

Interest and related transaction charges paid to group companies:

- Habib Bank AG Zurich, Zurich	157 138	451 696
- Habib Bank AG Zurich, London	6 065	1 558
- Habib Bank AG Zurich, Dubai	9 377 927	2 727 746
	9 541 130	3 181 000

32. 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 2017, 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 15	Revenue from contracts with customers	1 January 2018
IFRS 9	Financial Instruments	1 January 2018
IFRS 16	Leases	1 January 2019

All Standards and Interpretations will be adopted at their effective date. Management is reviewing the impact of IFRS 15 and IFRS 16, however a material impact is not anticipated.

33. LIQUIDITY COVERAGE RATIO

	2017 R '000	2016 R '000
High quality liquid assets	1 258 797	951 616
Net cash outflows	157 934	166 409
Liquidity coverage ratio	797%	572%
SARB minimum requirement	80%	70%

The Liquidity coverage ratio was introduced on 1 January 2015, with a minimum requirement set at 60%. The minimum requirement for 2016 was 70% and this will rise in equal annual steps to reach 100% on 1 January 2019.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED...

For the year ended 31 December 2017

		2017	2016
		R'000	R'000
34. CAPITAL ADEQUACY STATEMENT			
Credit risk exposure	(See note 34.1)	2 186 815	2 039 911
Counterparty credit risk exposure	(See note 34.2)	54 894	19 914
Operational risk exposure	(See note 34.3)	389 597	336 425
Market risk exposure	(See note 34.4)	5 625	6 875
Other risk exposure	(See note 34.5)	26 904	26 686
Risk weighted exposure in relation to deferred tax assets	(See note 34.6)	3 198	3 680
Aggregate risk weighted exposure		2 667 033	2 433 491
Regulatory capital requirement - 11% (2016: 10.625%)		283 372	258 558
Qualifying capital and reserve funds			
Tier I			
Ordinary share capital		10 000	10 000
Share premium		40 000	40 000
General reserve		302 300	282 300
Unappropriated Retained earnings from prior year		-	82
Less: Prescribed deductions against capital and reserve funds		(1 646)	(789)
Total Tier 1 Capital		350 654	331 593
Tier II			
General allowance for credit impairment per Regulation 23		6 241	9 374
Total qualifying capital and reserve funds		356 895	340 967
Capital Adequacy Ratio			
Qualifying capital and reserve funds as a percentage of aggregate risk weighted exposure		13,4%	14,0%

34.1 CREDIT RISK EXPOSURE

The Bank uses the Standardised Approach to determine the regulatory capital requirement for its credit risk exposure.

Risk weightings	Assets	Off-balance sheet items	Credit Risk Mitigation	Risk-weighted assets	Credit risk exposure	Credit risk exposure
	2017	2017	2017	2017	2017	2016
	R'000	R'000	R'000	R'000	R'000	R'000
0%	1 422 215	-	363 388	1 785 603	-	-
5%	-	-	-	-	-	-
10%	-	-	-	-	-	-
20%	1 233 224	-	58 239	1 291 463	258 293	300 026
50%	752 517	-	146 028	898 545	449 273	399 572
75%	75 035	-	-	75 035	56 276	43 621
100%	1 240 891	-	132 589	1 373 480	1 373 479	1 296 692
150%	32 996	-	-	32 996	49 494	-
	4 756 878	-	700 244	5 457 122	2 186 815	2 039 911

The revolving credit facilities indicated in this statement are the average for the month ended 31 December 2017, as per Regulation 23 of the Regulations issued under section 90 of the Banks Amendment Act of 2007.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED...

For the year ended 31 December 2017

34.2 COUNTERPARTY CREDIT RISK EXPOSURE

The Bank uses the Standardised Approach to determine the regulatory capital requirement for its counterparty credit risk exposure.

Risk weightings	OTC derivative instruments	Risk exposure	Risk exposure
	2017 R'000	2017 R'000	2016 R'000
0%	-	-	
20%	4 954	991	1 402
50%	2 697	1 349	-
100%	48 996	48 996	18 259
	56 647	51 336	19 661
CVA risk weighted exposure		3 558	253
Counterparty credit risk exposure		54 894	19 914

34.3 OPERATIONAL RISK EXPOSURE

The Bank uses the Basic Indicator Approach to determine the regulatory capital requirement for its operational risk exposure.

	2017 R'000	2016 R'000
Gross income - 2015 / 2014	175 056	154 496
Gross income - 2016 / 2015	208 724	175 056
Gross income - 2017 / 2016	239 575	208 724
Total gross income for preceding three years	623 355	538 276
Average gross income for preceding three years	207 785	179 425
Fixed percentage per Regulation 33	x 15%	x 15%
Required capital and reserve funds for operational risk	31 168	26 914
Risk weighting per Regulation 33	x 12.5	x 12.5
Regulatory risk-weighted exposure	389 597	336 425

34.4 MARKET RISK EXPOSURE

The Bank uses the Standardised Approach to determine the regulatory capital requirement for its market risk exposure.

Net open foreign currency position	450	550
Risk weighting per Regulation 28	x 12.5	x 12.5
Regulatory risk-weighted exposure	5 625	6 875

34.5 OTHER RISK EXPOSURE

The Bank determines the regulatory capital requirement for its other risk exposure as specified in Regulation 23.

	Carrying amount	Specified risk weighting	Risk-weighted exposure	Risk-weighted exposure
	2017		2017	2016
	R'000		R'000	R'000
Cash and balances with the central bank	80 836	0%	-	-
Fixed assets	22 853	100%	22 853	19 068
Other assets	4 051	100%	4 051	7 618
			26 904	26 686

34.6 RISK WEIGHTED EXPOSURE IN RELATION TO DEFERRED TAX ASSETS

The Bank determines the regulatory capital requirement for its deferred tax assets as specified in Regulation 23.

	Carrying amount	Specified risk weighting	Risk-weighted exposure	Risk-weighted exposure
	2017		2017	2016
	R'000		R'000	R'000
Deferred tax asset	1 279	250%	3 198	3 680
			3 198	3 680

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	8 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

