

HBZ Bank Limited

(A subsidiary of Habib Bank AG Zurich)



**Biannual Public Disclosures
in terms of Banks Act, Regulation 43
June 2014**

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1. BASIS OF COMPILATION

The following information is compiled in terms of Regulation 43 of the Banks' Act 1990 (as amended) ("the Regulations") which incorporates the Basel, Pillar 3 requirements on market discipline. All disclosures presented below are consistent with those disclosed in terms of International Financial Reporting Standards (IFRS), unless otherwise stated.

2. PERIOD OF REPORTING

This report covers the six months ended 30 June 2014. Comparative information is presented for the previous period ended 31 December 2013. The financial results include comparative information for the six month period ended 30 June 2013.

3. DETAILED DISCLOSURES

3.1 FINANCIAL PERFORMANCE

UNAUDITED FINANCIAL RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2014

STATEMENT OF COMPREHENSIVE INCOME

	6 MONTHS 30-Jun-14 R'000	6 MONTHS 30-Jun-13 R'000	GROWTH %
Interest received	97 683	89 514	9
Interest paid	(32 606)	(30 224)	8
Net interest income	65 077	59 290	10
Net impairment of advances ¹	(648)	(486)	33
	64 429	58 804	10
Other income	16 863	16 732	1
	81 292	75 536	8
Operating expenses	(51 148)	(45 115)	13
Profit before taxation	30 144	30 421	(1)
Taxation	(8 563)	(9 740)	(12)
Net income attributable to shareholders	21 581	20 681	4

STATEMENT OF FINANCIAL POSITION

ASSETS

Cash and short term funds	1 653 472	1 545 900	7
Investment securities	428 866	494 010	(13)
Other assets	2 991	10 740	(72)
Derivative assets	4 137	5 637	(27)
Deferred taxation	802	730	10
Advances	1 111 055	995 523	12
Property and equipment	15 293	16 138	(5)
	3 216 616	3 068 678	5

EQUITY AND LIABILITIES

Capital and reserves			
Ordinary share capital	10 000	10 000	-
Share premium	40 000	40 000	-
General reserve	189 800	167 800	13
Retained earnings (prior year)	140	224	(38)
Retained earnings (current year)	21 581	20 681	4
	261 521	238 705	10
Deposits and other accounts	2 921 306	2 801 042	4
Other liabilities and provisions	30 014	23 648	27
Derivative liabilities	3 765	5 283	(29)
Taxation	10	0	100
	3 216 616	3 068 678	5

1 - Credit impairments and Regulatory reserve are in terms of the Regulatory credit impairments

3.2 REGULATORY CAPITAL ADEQUACY

	30-Jun-14 R'000	31-Dec-13 R'000
Credit risk exposure (See note 3.3)	1 428 009	1 456 997
Counterparty credit risk exposure (See note 3.3)	5 774	1,694
Operational risk exposure (See note 3.6)	272 654	254 579
Market risk exposure (See note 3.7)	4 739	2 100
Other risk exposure (See note 3.8)	17 971	27 244
Aggregate risk weighted exposure	1 729 147	1 742 614
Regulatory capital requirement	172 915	169 905
Qualifying capital and reserve funds		
Primary (Tier I) capital	239 940	218 024
Ordinary share capital	10 000	10 000
Share premium	40 000	40 000
General reserve	189 800	167 800
Retained earnings from prior year	140	224
Less: Deferred tax asset and Intangible assets	(1 114)	(1 128)
Secondary (Tier II) capital		
General allowance for credit impairment per Regulation 23	6 082	7 055
	244 908	223 951
Capital adequacy ratio		
Total qualifying capital and reserve funds as a % of aggregate risk weighted exposure	14.2%	12.9%
Primary capital adequacy ratio	13.8%	12.5%
Secondary capital adequacy ratio	0.4%	0.4%

3.3 CREDIT RISK

3.3.1 (a) Credit risk exposure

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

Risk weightings	Assets net impairment 30-Jun-14 R'000	Off-balance sheet items 30-Jun-14 R'000	Credit Risk Mitigation 30-Jun-14 R'000	Risk weighted assets 30-Jun-14 R'000	Credit risk exposure 30-Jun-14 R'000	Credit risk exposure 31-Dec-13 R'000
0%	428 866		212 893	641 759		-
5%						-
10%						-
20%	1 464 130	129 786	130 211	1 724 127	344 825	385,246
50%	79 951	291 710		371 661	185 831	231,716
100%	1 104 302	136 155	(343 104)	897 353	897 353	841,729
	3 077 249	557 651	-	3 634 900	1 428 009	1 458 691

The asset items indicated in this statement are the average balances for the month, as per Regulation 23 of the Regulations issued under section 90 of the Banks Amendment Act of 2007. The on-balance sheet assets include derivatives and is net of specific impairments.

3.3.1 (b) Counterparty credit risk exposure

The Bank uses the Current Exposure Method to determine the regulatory capital requirement for its counterparty credit risk exposure.

Risk weightings	Notional Principal 30-Jun-14 R'000	Net replacement 30-Jun-14 R'000	Net potential future add-on 30-Jun-14 R'000	Adjusted exposure 30-Jun-14 R'000	Risk weighted exposure 30-Jun-14 R'000	Risk weighted exposure 31-Dec-13 R'000
0%						
20%	170 816	521	1 708	2 229	446	1,694
50%						
100%	171 180	3 616	1 712	5 328	5 328	
	341 996	4 137	3 420	7 557	5 774	1,694

In terms of Basel III, effective 1 January 2013, counterparty credit risk is reported separately from credit risk. The December 2013 figures based on Basel II report counterparty credit risk under credit risk exposure.

3.3.2 Analysis of regulatory credit exposure

Asset Class	On-balance sheet items R'000	Off-balance sheet items R'000	Derivative instruments R'000	Credit exposure 30-Jun-14 R'000	Credit exposure 31-Dec-13 R'000
Corporate exposure					
Corporate	107 490	30 830		138 320	413 934
SME corporate	1 001 166	526 821		1 527 987	1 369 415
Sovereign	428 866			428 866	495 215
Banks	1 543 862			1 543 862	1 775 384
Total	3 081 384	557 651	-	3 639 035	4 053 948

Concentration by Location	30-Jun-14 R'000	31-Dec-13 R'000
Americas	27 678	9 261
Europe	3 397	2 844
Asia	156	273
South Africa	3 607 804	4 041 570
	3 639 035	4 053 948

Concentration by industry	30-Jun-14 R'000	31-Dec-13 R'000
Manufacturing	272 765	359 588
Wholesale and retail trade, repair of specified items, hotel	833 714	976 368
Transport, storage and communication	36 828	40 561
Financial intermediation and insurance	2 029 246	2 312 385
Real estate	370 010	287 753
Other	96 472	77 293
	3 639 035	4 053 948

3.3.3 Analysis of credit impairments

Specific Impairment	30-Jun-14 R'000	31-Dec-13 R'000
Balance at beginning of the period	2 634	3 354
Provisions raised	1 500	12
Recoveries		(732)
Balance at end of the period	4 134	2 634
Age analysis of impairments		
< 90 days	1 746	1 000
90 - 180 days	1 070	189
>180 days	1 318	1 445
	4 134	2 634
Portfolio impairment/General allowance for impairment		
Balance at beginning of the period	7 055	6 362
Provisions (released)	(973)	1 425
Recoveries		(732)
Balance at end of the period	6 082	7 055

Due to the requirements of Regulation 23 (22) of the Regulations issued under Section 90 of the Banks Amendment Act of 2007, that specifies a general allowance for credit impairment be held, a Regulatory Reserve is created for the difference between the Regulatory provision and the IFRS impairments, by re-allocating distributable reserves to non-distributable reserves as published in the Bank's annual report. The impairments reported above are the Regulatory credit impairments.

3.4 LIQUIDITY RISK

The following tables analyse the contractual maturity positions of the Bank's assets and liabilities.

30 JUNE 2014	Demand to one month R'000	One to three months R'000	Three months to one year R'000	More than one year R'000	Non-contractual R'000	Total R'000
Assets						
Advances and banks	1 891 023	229 576	186 270	427 097		2 733 966
Investments and derivatives	104 884	265 333	95 292			465 509
Other assets	1 452	1 441	1 244			4 137
	2 814				16 272	19 086
	2 000 173	496 350	282 806	427 097	16 272	3 222 698
Liabilities						
Fixed deposits	388 241	241 095	137 455			766 791
Demand and call deposits	1 975 752	44	180	172		1 976 148
Derivatives	178 367					178 367
Other liabilities	1 321	1 312	1 132			3 765
	14 572		11 348		271 707	297 627
	2 558 253	242 451	150 115	172	271 707	3 222 698
Net liquidity mismatch	(558 080)	253 899	132 691	426 925	(255 435)	-
Cumulative mismatch	(558 080)	(304 181)	(171 490)	255 435	-	-

31 December 2013	Demand to one month R'000	One to three months R'000	Three months to one year R'000	More than one year R'000	Non-contractual R'000	Total R'000
Assets						
Advances and banks	2 203 819	122 196	260 580	378 802		2 965 397
Investments and derivatives	147 386	258 000	162 508			567 894
Other assets	4 545	5 894	633			11 072
	12 160				16 510	28 670
	2 367 910	386 090	423 721	378 802	16 510	3 573 033
Liabilities						
Fixed deposits	583 052	131 425	156 468			870 945
Demand and call deposits	2 175 970	60	206	286		2 176 522
Derivatives	207 753					207 753
Other liabilities	4 419	5 732	616			10 767
	34 342				272 704	307 046
	3 005 536	137 217	157 290	286	272 704	3 573 033
Net liquidity mismatch	(637 626)	248 873	266 431	378 516	(256 194)	-
Cumulative mismatch	(637 626)	(388 753)	(122 322)	256 194	-	-

The liquidity shortfall in the demand to one month mismatch is due to the short term nature of the deposit book, the majority of which roll over when back tested. Furthermore Trading, hedging and other investments include highly liquid treasury bills and government bonds which can be easily converted to cash should the need arise.

3.5 INTEREST RATE RISK

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 30 June 2014, a general increase of 1% in the interest rate would increase the bank's monthly profit by R793 000 (Dec-13: R663 000) and a general decrease of 1% in the interest rate would decrease the bank's monthly profit by R793 000. (Dec-13: R663 000).

3.6 OPERATIONAL RISK EXPOSURE

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

	30-Jun-14 R'000	31-Dec-13 R'000
Gross income - 2011 / 2010	133 723	125 577
Gross income - 2012 / 2011	148 027	133 723
Gross income - 2013 / 2012	154 496	148 027
Total gross income for preceding three years	<u>436 246</u>	<u>407 327</u>
Average gross income for preceding three years	145 415	135 776
Fixed percentage per Regulation 33	x 15%	x 15%
Required capital and reserve funds for operational risk	<u>21 812</u>	<u>20 366</u>
Risk weighting per Regulation 33	x 12.5	x 12.5
Regulatory risk weighted exposure	<u>272 654</u>	<u>254 579</u>

3.7 MARKET RISK EXPOSURE

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

	30-Jun-14 R'000	31-Dec-13 R'000
Net open foreign currency position	379	168
Risk weighting per Regulation 28	x 12.5	x 12.5
Regulatory risk weighted exposure	<u>4 739</u>	<u>2 100</u>

3.8 OTHER RISK EXPOSURE

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

	Carrying amount 30-Jun-14 R'000	Specified risk weighting	Risk-weighted exposure 30-Jun-14 R'000	Risk-weighted exposure 31-Dec-13 R'000
Cash and balances with the central bank	37 757	0%	-	-
Fixed assets	14 981	100%	14 981	15 198
Other assets	2 991	100%	2 991	12 046
Regulatory risk weighted exposure	<u>55 729</u>		<u>17 972</u>	<u>27 244</u>

4. QUALITATIVE DISCLOSURES AND ACCOUNTING POLICIES

The Regulations require that certain qualitative disclosures and statements on accounting policy be made. These disclosures and statements on accounting policy were made in the Bank's annual report for the financial year ended 31 December 2013 and remain unchanged. The above disclosures should be read in conjunction with these qualitative disclosures made in the Corporate Governance and Risk Management Review and Accounting Policies contained in the Bank's annual report as at 31 December 2013, a copy of which is available at www.hbzbank.co.za.