

# Habib Overseas Bank Limited

(Registration number 1990/004437/06)

## AUDITED CONSOLIDATED ANNUAL FINANCIAL STATEMENTS 2018

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*These financial statements were prepared by Mohamed Chalakta (Manager) under the supervision of Sameer Kazmi CA (SA) (Head of Finance) and have been audited in compliance with the applicable requirements of the Companies Act, 71 of 2008.*

# Habib Overseas Bank Limited

## Directors' responsibility statement

The directors are responsible for the preparation and fair presentation of the consolidated and company annual financial statements for Habib Overseas Bank Limited (the "Bank"), comprising the Directors' report, the statements of financial position at 31 December 2018, the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended; the notes to the annual financial statements, which include a summary of significant accounting policies and other explanatory notes; in accordance with International Financial Reporting Standards and in the manner required by the Companies Act 2008 as amended.

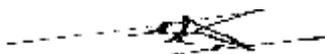
The directors' responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of these financial statements, so as to be free from material misstatement, whether owing to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are responsible, reasonable and prudent under the circumstances.

The directors' responsibility also includes ensuring the maintenance of adequate accounting records and an effective system of risk management.

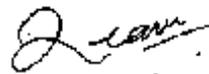
The directors have made an assessment of the Habib Overseas Bank Group and the Company's ability to continue as a going concern and there is no reason to believe that the business will not be a going concern in the year ahead.

The auditors are responsible for reporting on whether the Group and Company annual financial statements are fairly presented in accordance with the applicable financial reporting framework. They have issued their unqualified report on the annual financial statements which is included on page 5, 6 and 7.

The consolidated and company annual financial statements, as identified in the first paragraph, were approved by the Board of Directors on 28 March 2019 and are signed on its behalf by:



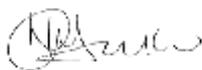
**Brian W Smith**  
Non - Executive Director



**Manzar A Kazmi**  
Managing Director

## CERTIFICATE OF THE COMPANY SECRETARY

In terms of Section 88(2)(e) of the Companies Act 2008 as amended, I certify that to the best of my knowledge and belief, Habib Overseas Bank Limited has lodged with the Registrar of Companies for the year ended 31 December 2018, all such returns as required of a Public Company in terms of the Companies Act and that all such returns are true, correct and up to date.



**Nomusa Masuku**  
Company Secretary  
28 March 2019

# Habib Overseas Bank Limited

## DIRECTORS AND SECRETARY

### DIRECTORS

**Habib Mohamed D Habib**  
(Chairman)

**Asgar D Habib**  
(Senior Vice Chairman)

**Zain Habib**  
(Vice Chairman)

**Ahmed Habib**  
(Non-executive Director)

**S Manzar Abbas Kazmi**  
(Managing Director)

**Arshad Ansari**  
(Executive Director)

**Martin Bramwell**  
(Independent Non-executive Director)

**Brian W Smith**  
(Independent Non-executive Director)

### COMPANY SECRETARY

Nomusa Masuku  
nomusa@habiboverseas.co.za

### HEAD OFFICE

N-77 North Mall  
Oriental Plaza  
Fordsburg 2092  
P O Box 62369  
Marshalltown, 2107  
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Website: [www.habiboverseas.co.za](http://www.habiboverseas.co.za)

### ORIENTAL PLAZA BRANCH

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Marshalltown, 2107  
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### LENASIA BRANCH

53 Gembok Street  
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P O Box 62369  
Marshalltown, 2107  
Tel: (011) 854-5998  
Fax: (011) 854-6308  
Telex: 420 032  
E-mail:  
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### LAUDIUM BRANCH

246 Tangerine Street  
Laudium  
P O Box 14573  
Laudium, 0037  
Tel: (012) 374-2355/374-6993  
Fax: (012) 374-5561  
Telex: 320 088  
E-mail:  
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### CAPE TOWN BRANCH

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P O Box 38382  
Gatesville, 7766  
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Fax: (021) 637-2099  
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### DURBAN BRANCH

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Durban  
P O Box 49409  
Qualbert, 4078  
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[dbnbranch@habiboverseas.co.za](mailto:dbnbranch@habiboverseas.co.za)

# Habib Overseas Bank Limited

## CHAIRMAN'S STATEMENT

The global economy during 2018 showed slight improvement as compared to 2017 despite slowing down towards the end of the year. Higher US interest rates, decline in global trade volumes due to increased protectionism among the world's largest economies, a fragile geopolitical landscape especially in the middle east and uncertainty with regards to Brexit contributed to the sluggish growth towards the end of 2018.

Whole the SA economy recorded a technical recession in the first half of 2018, real GDP growth for the year recovered to 0.7%. Although the pace of the recovery remained modest, given the very low base, the improvement was relatively widespread, with most major industries recording mild output growth, driven by firmer domestic spending and stronger exports. Consumer spending picked up in the second half, but household finances remain fragile due to high unemployment, subdued income growth, lower net wealth levels and higher indirect taxes as a result of the VAT increase. Inflation remained high for much of 2018, driven by the surge in fuel prices earlier in the year and higher tariffs on electricity, water and other services. The inflation outlook has since improved due to sharp declines in fuel prices - the result of reduction in global oil prices, coupled with a steadier rand towards the end of 2018. After a decline in the repo rate of 25 bps in both July 2017 and March 2018, SARB's Monetary Policy Committee increased the same in November 2018 by 25 bps. Banking conditions remained challenging throughout 2018, with the weak economic environment resulting in subdued growth across all categories of credit and transactional banking.

It gives me great pleasure to report a satisfactory performance of the Bank during 2018 despite the negative pressures faced by the South African economy during 2018. By the Grace of God, the bank posted a pre-tax profit of R12.9 million (2017 - R10.1 million). Our deposits increased to R1,335 million from R1,051 million in 2017 and have now largely stabilised above the R1bn mark. The total advances as at 31 December 2018 stood at R384 million as compared to R397 million as at 31 December 2017, the decrease being a result of subdued economic activity during 2018 and non/under-utilisation of credit facilities by a few customers. Capital Adequacy remained high at 16.80% (2017 - 16.34%). The financial year 2019 looks promising for the bank and we expect to achieve better results.

The implementation of T-24 - Temenos software is in the final stages and we expect to go live in Q2 2019. We also plan to launch Islamic Banking products during H2 2019 in order to diversify our loan book and revenue sources.

I am extremely thankful to our customers who continued to support the bank and maintained their loyal relationship with us over the years. This relationship will grow further with improvement in our services after the new software is installed and Islamic banking products introduced. I would also like to extend my sincere thanks to my fellow directors for their continued guidance and the management team and bank staff for their hard work, dedication and support that has led to the bank's performance over the years.



Habib Mohamed D Habib  
Chairman  
28 March 2019

# Habib Overseas Bank Limited

# Deloitte.

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Gale Manor 2052  
South Africa

Deloitte & Touche  
Registered Auditors  
Financial Services Team -  
HSI  
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The Woodlands  
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## INDEPENDENT AUDITOR'S REPORT To the Shareholders of Habib Overseas Bank Limited

### Report on the Audit of the Consolidated and Separate Financial Statements

#### Opinion

We have audited the consolidated and separate financial statements of Habib Overseas Bank Limited and its subsidiaries ("the Group") set out on pages 10 to 56, which comprise the consolidated and separate statements of financial position as at 31 December 2018, and statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements 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 consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Group and Company as at 31 December 2018, and their consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) 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 Consolidated and Separate Financial Statements* section of our report. We are independent of the Group 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 Directors' Responsibility Statement, Certificate of the Company Secretary, the Chairman's Statement, Audit Committee Report and the Directors' Report as required by the Companies Act of South Africa. The other information does not include the consolidated and separate financial statements and our auditor's report thereon.

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

National Executive: \*LL Bam Chief Executive Officer \*TMM Jordan Deputy Chief Executive Officer; Clients & Industries \*MJ Jarvis Chief Operating Officer  
\*AF Mackie Audit & Assurance \*N Sing Risk Advisory \*DP Ndlovu Tax & Legal TP Pillay Consulting \*JK Mazzocco Talent & Transformation  
\*MG Dicks Risk Independence & Legal \*KL Hodson Financial Advisory \*TJ Brown Chairman of the Board

A full list of partners and directors is available on request

\* Partner and Registered Auditor

**B-BBEE rating: Level 1 contribution in terms of the DTI Generic Scorecard as per the amended Codes of Good Practice**

Associate of Deloitte Africa, a Member of Deloitte Touche Tohmatsu Limited

# Habib Overseas Bank Limited

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate 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 Consolidated and Separate Financial Statements**

The directors are responsible for the preparation and fair presentation of the consolidated and separate 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 consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group's and 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 Group and/or Company or to cease operations, or have no realistic alternative but to do so.

## **Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated and separate 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 ISA's 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 consolidated 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 consolidated and separate 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 Group's and 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.

# Habib Overseas Bank Limited

- 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 Group's and 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 consolidated and separate 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 Group or the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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.

*Deloitte & Touche*

**Deloitte & Touche**  
**Registered Auditor**

Per: JZ Dziruni  
Partner  
24 April 2019

# Habib Overseas Bank Limited

## AUDIT COMMITTEE REPORT

The audit committee is a Committee appointed by the shareholders. The audit committee comprised independent non-executive directors BW Smith (Chairman) and M Bramwell as well as non executive directors Z Habib and AH Habib. The committee carried out its functions in accordance with its term of reference specified by the Board and in accordance with the requirements of Section 94(7) (a) to (i) of the Companies Act 2008.

### **Objectives and scope**

- To assist the board in discharging its duties relating to the safeguarding of assets and the operation of adequate systems and control processes.
- To control reporting processes and the preparation of financial statements in accordance with applicable legal and regulatory requirements and accounting standards.
- To provide a forum for the governance of risk including control issues.
- To oversee internal and external audit appointments and functions.
- To perform duties prescribed by the Companies Act 2008 and the Banks Act.

### **External audit**

#### **The committee has:**

- Confirmed the continued appointment of Deloitte & Touche as external auditors and Mr Justin Dziruni as the designated partner, and determined that in our opinion they are independent of the Company giving due consideration to the provisions of Section 93 of the Companies Act 2008.
- Reviewed and agreed the terms of engagement of Deloitte & Touche.
- Considered and approved the audit fee payable to the external auditors.
- Noted that Non-audit services were provided by the external auditors. These services relate to a gap analysis on the Interest Rate Risk in the Banking Book (IRRB) and an audit on the status of the BA returns automation.
- Provided oversight of the external audit process by reviewing and discussing the audit plan, significant accounting and auditing issues that arose during the audit, and management's responses to issues raised and the adequacy of the responses.

### **Internal audit**

- The committee has also carried out oversight of the internal audit function, discussed the audit plans of the internal auditors and reviewed their reports on head office and branch audits, and management responses thereon.

### **Internal financial controls**

The committee has reviewed the effectiveness of the company's system of internal financial controls, which includes receiving assurances from management and internal and external audit. Nothing has come to the attention of the audit committee to indicate that the internal financial controls were not operating effectively. Based on its reviews and discussions with management and both internal and external auditors, the committee has satisfied itself of the effectiveness of internal control and the finance function of the bank.

### **Annual report**

The committee has reviewed the annual financial statements for the year ended 31 December 2018 and has recommended the annual report for approval by the Board. The Board has subsequently approved the annual report which will be presented for discussion at the annual general meeting.

### **Considerations on King IV and Integrated reports**

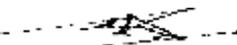
King IV proposes that organisations should produce integrated reports. JSE listing requirements require all JSE listed companies to provide narrative of how each has applied the recommendations of King IV. The approach to unlisted companies, such as ours, is advisory rather than compulsory.

Limited guidance on integrated reporting is currently available, especially considering the nature of the business conducted by the bank. The approach will evolve as a framework is developed by interested organisations. Nevertheless, we take cognisance of the issues addressed in King IV, and are satisfied that the main proposals are taken into account and the relevant information presented in sections of the annual report.

The main issues relevant to the bank include:

- Strategy: The nature of the business is stated under the principal activities in the Directors' Report.
- Corporate governance: The commitment of the directors and relevant mechanisms, are confirmed in the Directors' report.
- Risk management: The risks and their management are detailed in note 32 to the annual financial statements.
- Performance: The results of the bank's activities are clearly set out in the annual financial statements and supporting notes.
- Prospects: The directors are satisfied that the company is a going concern for the foreseeable future, as stated in the directors' report.

On behalf of the Committee

  
Brian W Smith  
Chairman of the audit committee.  
28 March 2019

# Habib Overseas Bank Limited

## DIRECTORS' REPORT

The directors have pleasure in presenting the annual financial statements for the year ended 31 December 2018.

### SHARE CAPITAL

Habib Overseas Bank Limited has an authorised share capital of R25,000,000 ordinary shares of R1 each and issued and fully paid issued share capital of 20,000,000 ordinary shares of R1 each.

### DIRECTORS AND SECRETARY

At the end of the financial year and at the date of this report, the directors and secretary are as detailed on page 3.

### PRINCIPAL ACTIVITIES

The Bank is a registered banking institution and provides a range of financial products and services to a diverse customer base which includes individuals, corporates, charitable organisations, clubs, societies and financial institutions.

### FINANCIAL

Total comprehensive income after taxation of Habib Overseas Bank Group for the year amounted to R9,548,743 (2017: R7,263,797).

### GOING CONCERN

The Habib Overseas Bank Group Financial statements have been prepared on the going concern basis.

### SUBSEQUENT EVENTS

The directors are not aware of any other matter or event which is material to the financial affairs of the Group that has occurred between the balance sheet date and the date of the approval of the financial statements.

### MANAGEMENT OF OFF BALANCE SHEET ITEMS

The Bank's philosophy relating to the management of off balance sheet items is subject to the same scrutiny and approval process as on balance sheet items. Contingent exposure is approved and monitored by the Credit Committee in accordance with the credit policy.

### CORPORATE GOVERNANCE

The directors realise that corporate governance constitutes an important component and as such, are committed to applying the principles necessary to ensure that good governance is practised at all levels across the Bank. Necessary mechanisms have been put in place to ensure that these practices are being adhered to and applied fully.

### HOLDING COMPANY

Pitcairns Finance S.A. Luxembourg holds 99.9% of the shares in the Bank.

### SUBSIDIARY

The interest of the Bank in the net profit after taxation of its wholly owned subsidiary N77 Oriental Plaza (Proprietary) Limited.

	2018	2017
	R	R
Net profit after taxation for the year	111,554	71,450

### CAPITAL ADEQUACY

	2018	2017
Capital adequacy ratio	16.80%	16.34%

The capital adequacy ratio is calculated based on the qualifying capital (which includes unappropriated profit for the year) less capitalised software divided by total risk weighted assets.

# Habib Overseas Bank Limited

## Statement of financial position

as at 31 December 2018

	Notes	Group		Company	
		2018 R	2017 R	2018 R	2017 R
<b>ASSETS</b>					
<b>Non-Current Assets</b>		<b>124,980,721</b>	119,049,361	<b>124,569,841</b>	118,638,420
Property, plant and equipment	3	<b>4,367,503</b>	5,181,913	<b>3,957,146</b>	4,770,893
Intangible Assets	3	<b>15,890,946</b>	15,895,858	<b>15,890,946</b>	15,895,858
Investment in subsidiary	4	-	-	<b>1</b>	1
Long-Term Loans and advances	5	<b>102,617,698</b>	96,182,825	<b>102,617,698</b>	96,182,825
Deferred tax asset	20	<b>2,104,574</b>	1,788,765	<b>2,104,050</b>	1,788,843
<b>Current Assets</b>		<b>1,366,075,408</b>	1,067,851,213	<b>1,366,056,237</b>	1,067,805,653
Cash and cash equivalents	6	<b>875,294,751</b>	605,694,587	<b>875,294,751</b>	605,694,587
Investments and negotiable securities	7	<b>194,721,004</b>	147,305,711	<b>194,721,004</b>	147,305,711
Loans and advances	8	<b>282,327,591</b>	301,368,163	<b>282,327,591</b>	301,368,163
Other assets	9	<b>13,570,659</b>	13,150,438	<b>13,570,659</b>	13,150,438
Receiver of Revenue		<b>161,403</b>	332,314	<b>142,232</b>	286,754
<b>Total assets</b>		<b>1,491,056,129</b>	1,186,900,574	<b>1,490,626,078</b>	1,186,444,073
<b>EQUITY AND LIABILITIES</b>					
<b>Capital and Reserves</b>					
<b>Equity attributable to ordinary shareholders</b>		<b>137,849,273</b>	123,333,571	<b>135,372,208</b>	120,968,060
Share capital	10	<b>20,000,000</b>	20,000,000	<b>20,000,000</b>	20,000,000
Retained earnings		<b>117,849,273</b>	103,333,571	<b>115,372,208</b>	100,968,060
<b>Liabilities</b>		<b>1,353,206,856</b>	1,063,567,003	<b>1,355,253,870</b>	1,065,476,013
<b>Current Liabilities</b>		<b>1,353,206,856</b>	1,063,567,003	<b>1,355,253,870</b>	1,065,476,013
Deposits and current accounts	11	<b>1,333,318,372</b>	1,049,106,815	<b>1,335,375,669</b>	1,051,020,018
Other liabilities	12	<b>19,888,484</b>	14,460,188	<b>19,878,201</b>	14,455,995
<b>Total equity and liabilities</b>		<b>1,491,056,129</b>	1,186,900,574	<b>1,490,626,078</b>	1,186,444,073

# Habib Overseas Bank Limited

## Statement of comprehensive income

for the year ended 31 December 2018

	Notes	Group 2018 R	2017 R	Company 2018 R	2017 R
<b>Revenue</b>					
<b>Net interest income</b>		<b>59,379,734</b>	55,526,275	<b>59,272,203</b>	55,423,024
Interest and similar income	14	<b>88,044,397</b>	80,231,680	<b>88,044,397</b>	80,231,680
Interest expense and similar charges	14	<b>(28,664,663)</b>	(24,705,405)	<b>(28,772,194)</b>	(24,808,656)
Non-interest income	15	<b>26,793,244</b>	21,790,043	<b>26,784,163</b>	21,770,262
<b>Net interest and non-interest income</b>		<b>86,172,978</b>	77,316,318	<b>86,056,366</b>	77,193,286
ECL raised during the year	16	<b>(1,200,000)</b>	(3,186,159)	<b>(1,200,000)</b>	(3,186,159)
Operating expenditure	17	<b>(71,961,373)</b>	(63,961,750)	<b>(71,935,616)</b>	(63,950,555)
<b>Profit before taxation</b>		<b>13,011,605</b>	10,168,409	<b>12,920,750</b>	10,056,572
Taxation	19	<b>(3,462,862)</b>	(2,904,612)	<b>(3,483,561)</b>	(2,864,222)
<b>Profit for the year</b>		<b>9,548,743</b>	7,263,797	<b>9,437,189</b>	7,192,350

# Habib Overseas Bank Limited

## Statement of changes in equity

for the year ended 31 December 2018

	Note	Share capital R	Retained earnings R	Total R
<b>Group</b>				
<b>Balance as at 1 January 2017</b>		20,000,000	96,069,774	116,069,774
Profit for the year		-	7,263,797	7,263,797
<b>Balance as at 31 December 2017</b>		<b>20,000,000</b>	<b>103,333,571</b>	<b>123,333,571</b>
Opening balance adjustment - IFRS 9			4,966,959	4,966,959
<b>Balance as at 1 January 2018</b>		<b>20,000,000</b>	<b>108,300,530</b>	<b>128,300,530</b>
<b>Changes in equity in the current year</b>				
Profit for the year		-	9,548,743	9,548,743
<b>Balance as at 31 December 2018</b>		<b>20,000,000</b>	<b>117,849,273</b>	<b>137,849,273</b>
<b>Company</b>				
<b>Balance as at 1 January 2017</b>		20,000,000	93,775,710	113,775,710
Profit for the year		-	7,192,350	7,192,350
<b>Balance as at 31 December 2017</b>		<b>20,000,000</b>	<b>100,968,060</b>	<b>120,968,060</b>
Opening balance adjustment - IFRS 9			4,966,959	4,966,959
<b>Balance as at 1 January 2018</b>		<b>20,000,000</b>	<b>105,935,019</b>	<b>125,935,019</b>
<b>Changes in equity in the current year</b>				
Profit for the year		-	9,437,189	9,437,189
<b>Balance as at 31 December 2018</b>		<b>20,000,000</b>	<b>115,372,208</b>	<b>135,372,208</b>

# Habib Overseas Bank Limited

## Statement of cash flows

for the year ended 31 December 2018

	Note:	2018 R	Group 2017 R	2018 R	Company 2017 R
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>					
Interest income and other income received	22	112,773,968	99,157,200	112,764,887	99,137,420
Interest paid	23	(28,209,401)	(23,593,946)	(28,316,932)	(23,697,197)
Cash paid to suppliers and employees	24	(65,110,901)	(62,066,563)	(65,091,898)	(62,087,591)
<b>Cash generated from operations</b>		<b>19,453,666</b>	13,496,691	<b>19,356,057</b>	13,352,632
Decrease in loans and advances	25	16,491,658	17,594,911	16,491,658	17,594,911
Increase in deposits and current accounts	26	284,210,886	44,216,180	284,355,651	44,304,240
Taxation paid	27	(3,726,090)	(3,754,468)	(3,773,246)	(3,698,468)
<b>Net cash inflow from operating activities</b>		<b>316,430,120</b>	71,553,314	<b>316,430,120</b>	71,553,315
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>					
Additions to property and equipment	3	(1,086,114)	(16,411,424)	(1,086,114)	(16,411,425)
Cash (outflow) /inflow from treasury bills		(45,743,842)	35,084,180	(45,743,842)	35,084,180
<b>Net cash (outflow)/inflow from investing activities</b>		<b>(46,829,956)</b>	18,672,756	<b>(46,829,956)</b>	18,672,755
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>269,600,164</b>	90,226,070	<b>269,600,164</b>	90,226,070
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	6	<b>605,694,587</b>	515,468,517	<b>605,694,587</b>	515,468,517
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	6	<b>875,294,751</b>	605,694,587	<b>875,294,751</b>	605,694,587

# Habib Overseas Bank Limited

## Notes to annual financial statements

for the year ended 31 December 2018

### 1. ACCOUNTING POLICIES

#### 1.1 Basis of Accounting and Separate Statement of Compliance

The annual financial statements for the year ended 31 December 2018 and the comparative figures are prepared in accordance with, and comply with International Financial Reporting Standards (IFRS) and the South African Companies Act of 2008. The financial statements are presented in South African Rand (ZAR) and are prepared in accordance with the going concern principle on the historical cost basis, with derivatives at fair-value.

#### 1.2 Accounting standards issued but not yet effective

IFRS 16 (Leases) was issued on 13 January 2016 but is only effective from annual periods beginning on or after 1 January 2019. The Group will comply with the applicable standards from their effective dates.

#### 1.3 IFRS 9 Financial Instruments

The Group has adopted IFRS 9 Financial instruments with a date of initial application on 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period.

The adoption of IFRS 9 has resulted in changes in our accounting policies for recognitions, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also amends other standards dealing with financial instruments such as IFRS 7.

The key changes to the Group's accounting policies resulting from its adoption of IFRS 9 are summarised below.

#### *Impairment of financial assets*

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected loss' model. The new impairment model applies to debt instruments recorded at amortised cost or at fair value through other comprehensive income, plus loan commitments (undrawn overdrafts) and financial guarantee contracts that are not measure through profit or loss.

# Habib Overseas Bank Limited

## Notes to annual financial statements

for the year ended 31 December 2018 (continued)

### 1. ACCOUNTING POLICIES (CONTINUED)

#### 1.3 IFRS 9 Financial Instruments

Financial assets and financial liabilities

##### ***Modification of financial assets and financial liabilities***

The group occasionally renegotiates/modifies the contractual cash flows of its loans and advances.

If the terms of a financial asset are modified, the Group considers whether the cash flows arising from the modified asset are substantially different. The financial asset will be regarded as being substantially different if modified in view of:

- Existing agreement is de-recognised and a new agreement made on substantially different terms
- Terms of existing agreement are modified such that the renegotiated loan is a substantially different instrument.

If substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this instance, a new financial asset is recognised at fair value while the original financial asset is derecognised and a new effective interest rate is calculated. The date of modification is thus of initial recognition including for the purposes of determining whether a significant increase in credit risk has occurred.

The Group also assesses whether the new financial asset recognised is credit-impaired upon recognition (calculated using credit-adjusted effective interest rate), upon evidence of the existence of one or more impairment indicators as mentioned in the impairment policy note. Differences in the carrying amount are recognised in profit/loss as gain/loss on derecognition. If considered to be credit-impaired upon modification, the financial asset is classified as originated credit-impaired on which lifetime ECL (stage 3) are measured. Originated credit-impaired financial assets are always classified as Stage 3.

If the cash flows of the modified asset are not substantially different, then the modification does not result in the derecognition of the financial asset. In this case, the Group recognises a modification gain/loss in the profit/loss as the difference between the gross carrying amount prior to the modification and the gross carrying amount after the modification.

For financial assets substantially modified, the Group assesses significant increases in credit risk by comparing the risk of default occurring at the assets new origination date (based on the modified contractual cash flows) to the risk of default occurring at the reporting date.

##### ***Financial guarantee contract and undrawn overdrafts***

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of the amount of the loss allowance and the premium received on initial recognition.

Undrawn overdrafts provided by the Group are measured at the amount of the loss allowance.

For undrawn overdrafts and financial guarantee contracts, the loss allowance is recognised as a provision. However, for contracts that include both a loan and an undrawn overdraft and the group cannot separately identify the expected credit losses on the undrawn overdraft component. The expected credit losses on the undrawn component are recognised together with the loss allowance for the overdraft. To the extent that the combined expected credit losses exceed the gross carrying amount of the overdraft, the expected credit loss are recognised as a provision.

# Habib Overseas Bank Limited

## Notes to annual financial statements

for the year ended 31 December 2018 (continued)

### 1. ACCOUNTING POLICIES (CONTINUED)

#### 1.3 IFRS 9 Financial Instruments

##### Impairment

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost and with the exposure arising from loan commitments and financial guarantee contracts. The Group recognises a loss allowance for such losses at each reporting date.

The measurement for ECL reflects:

- An unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes;
- Time value of money;
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Group has established a policy to perform an assessment at the end of each reporting period of whether credit risk has increased significantly since initial recognition by considering the change in the risk of default occurring over the remaining life of the financial instrument.

- To calculate ECL, the Group estimates the risk of a default occurring on the financial instrument during its expected estimated based on the present value of all cash shortfalls over the remaining expected life of the financial asset, i.e. the difference between the contractual cash flows that are due to the group under the contract.
- The cash flows that the group expects to receive discounted at the effective interest rate of the loan.

The Group applies a three-stage approach to measuring expected credit losses (ECLs) for the following categories of debt securities that are not measured at fair value through profit or loss.

- Stage 1 - Performing loans: when loans are first recognised, the Group recognises an allowance based on 12 month expected credit losses.
- Stage 2 - Performing loans: when a loan shows a significant increase in credit risk, the Group records an allowance for the lifetime expected credit loss.
- Stage 3 - Non-performing loans: The Group recognises the lifetime expected credit losses for these loans. In addition, in Stage 3 the Group accrues interest income on the amortised cost of the loan net of allowances.

The Group considers whether there has been a significant increase in credit risk of an asset by comparing the lifetime probability of default upon initial recognition of the asset against the risk of a default occurring on the asset as at the end of each reporting period. In each case, this assessment is based on forward-looking assessment that takes into account a number of economic scenarios, in order to recognise the probability of higher losses associated with more negative economic outlooks. In addition, a significant increase in credit risk is assumed if the borrower falls more than 30 days past due in making its contractual payments, as well as the qualitative factors listed below which is assessed on a case by case basis.

It is the Group's policy to evaluate additional available reasonable and supportive forward-looking information as further additional drivers.

Inputs used in this assessment include but are not limited to the following:

- Adverse business changes
- Actual or expected restructuring
- Significant change in collateral value
- Signs of cash flow problems

When estimating lifetime ECLs for undrawn overdrafts, the Group will:

Estimate the expected portion of the overdraft that will be drawn down over the expected life of the overdraft.

# Habib Overseas Bank Limited

## Notes to annual financial statements

for the year ended 31 December 2018 (continued)

### 1. ACCOUNTING POLICIES (CONTINUED)

#### 1.3 IFRS 9 Financial Instruments

Calculate the present value of cash shortfalls between the contractual cash flows that are due to the entity if the holder of the overdraft draws down that expected portion of the overdraft and the cash flows that the entity expects to receive if that expected portion of the overdraft is drawn down.

For financial guarantee contracts, the Group will estimate the lifetime ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the guarantor expects to receive from the holder, the debtor or any other party. If a loan is fully guaranteed, the ECL estimate for the financial guarantee contract would be the same as the estimated cash shortfall estimate for the loan subject to the guarantee.

For revolving facilities such as overdrafts, the Group measures ECLs by determining the period over which it expects to be exposed to credit risk, taking into account the credit risk management actions that it expects to take once the credit risk has increased.

An exposure will migrate through the ECL stages as probability of default deteriorates. If, in a subsequent period, probability of default improves and also reverses any previously assessed significant increase in credit risk since origination, then the allowance for credit loss reverts from lifetime ECL to 12-months ECL. Exposures that have not deteriorated significantly since origination are considered to have a low credit risk. The allowance for credit loss for these financial assets is based on a 12-month ECL. When an asset is uncollectible it is written off against the related allowance. Subsequent recoveries of amounts previously written off reduce the amount of the expense in the income statement. An exposure classified as stage 3 (excluding purchased/originated credit-impaired assets) will cure to Stage 2 upon 12 months of regular payments in the case of loans and satisfactory conduct of overdrafts including any of the default criteria no longer occurring.

Other than originated credit-impaired loans, loans will be transferred from out of Stage 3 if they no longer meet the criteria of credit-impaired.

#### ***Presentation of the ECL allowance in the financial statements***

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

- As a deduction from the gross carrying amount of financial assets measured at amortised cost;
- For undrawn overdrafts and financial guarantee contracts as a provision;

#### ***Write-off***

The Group writes off exposures of financial assets, in whole or part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Group's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovery. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

#### ***Interest***

##### ***Effective interest rate***

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument.

When calculating the effective interest rate for financial instruments other than credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

# Habib Overseas Bank Limited

## Notes to annual financial statements

for the year ended 31 December 2018 (continued)

### 1. ACCOUNTING POLICIES (CONTINUED)

#### 1.3 IFRS 9 Financial Instruments

##### *Interest (continued)*

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

##### *Amortised cost and gross carrying amount*

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

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

##### *Calculation of interest income and expense*

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively in accordance with IAS 8, except as described below.

Comparative periods have not been restated. The differences in carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. For impairment purposes, the cumulative impairment loss allowance is recognised in the opening retained earnings for all credit exposures.

As a result of the above, the information presented for 2017 is not comparable to the information presented for 2018 as it does not reflect the requirements of IFRS 9.

The following assessments have been made on the basis of facts and circumstances that existed at the date of initial application.

- The determination of the business model within which a financial asset is held
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.

The Group has assumed that credit risk on a debt security has not increased significantly since its initial recognition if at the date of initial application of IFRS 9 it had a low credit risk.

# Habib Overseas Bank Limited

## Notes to annual financial statements

for the year ended 31 December 2018 (continued)

### 1. ACCOUNTING POLICIES (CONTINUED)

#### 1.3 IFRS 9 Financial Instruments

The implications resulting from the adoption of IFRS 9 has been depicted below.

The following table reconciles:

- the net carrying amount of financial assets in accordance with IAS 39, and;
- the opening balance under IFRS 9 as at 1 January 2018.

IAS 39 measurement categories	IAS 39 closing balance as at 31 Dec 2017	Reclassified to	Reclassification	Remeasurement	Impairment	IFRS 9 opening balance as at 1 Jan 2018
<b>Held to maturity</b>	<b>147 305 711</b>		-	-	<b>310 675</b>	<b>146 995 036</b>
Investment in negotiable securities	147 305 711	Amortized Cost	-	-	310 675	146 995 036
<b>Loans &amp; Receivables</b>	<b>1012 351 901</b>		-	-	<b>4 970 948</b>	<b>1007 380 953</b>
Loans and Advances	397 550 988	Amortized Cost	-	-	4 682 660	392 868 328
Cash & Cash Equivalents	605 694 587	Amortized Cost	-	-	169 288	605 525 299
Other Assets	9 106 326	Amortized Cost	-	-	119 000	8 987 326
<b>Held for trading</b>	<b>4 044 112</b>		-	-	-	<b>4 044 112</b>
Derivatives	4 044 112	FVTPL	-	-	-	4 044 112

The change in remeasurement of the financial instruments is only due to the change in impairment allowance between IAS 39 and IFRS 9.

#### 1.4 IFRS 15 Revenue from contracts with customers

During the current year, the Group applied IFRS 15 Revenue from Contracts with Customers. IFRS 15 introduces a 5-step approach to revenue recognition. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios.

IFRS 15 uses the terms 'contract liability' to describe what might more commonly be known as 'accrued revenue' and 'deferred revenue', however the standard does not prohibit an entity from using alternative descriptions in the statement of financial position. The Group has adopted the alternative approach.

The application of IFRS 15 has not had a significant impact on the financial position and/or financial performance of the Group.

# Habib Overseas Bank Limited

## Notes to annual financial statements

for the year ended 31 December 2018 (continued)

### 1. ACCOUNTING POLICIES (CONTINUED)

#### 1.5 Investment Property, plant and equipment and intangible assets

The Group considers land and buildings to be owner occupied and they are depreciated on the straight-line basis. Investment property is initially recorded at cost. Freehold land and buildings, held for investment purposes, are depreciated to their residual values, using the straight line basis.

Furniture, equipment and intangible assets are stated at cost less accumulated depreciation and any recognised impairment losses. Depreciation is provided for on the straight line basis to write off the cost of fixed assets to their residual values over their expected useful lives. Properties and equipment acquired during the year are depreciated from the date when they are available for use to their residual values. Core banking software is depreciated over ten years.

The following straight-line rates are in use:

• Furniture and office equipment	-	10% - 20%
• Motor vehicles	-	20%
• Buildings	-	4%
• Intangible assets	-	10% - 33%

#### 1.6 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

#### 1.7 Post employment benefits

The Bank provides benefits through a provident fund to employees. The provisions for retirement and survivor's benefits are recognised in the statement of comprehensive income when they accrue for payment.

#### 1.8 Lease property

- The Bank only holds lease properties under operating lease arrangements.
- Lease payments are expensed on the straight-line basis over the term of the lease.

#### 1.9 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank (its subsidiaries). Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

#### 1.10 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

##### (a) Current tax

The tax currently payable is based on taxable income for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in future years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

##### (b) Deferred income tax

Deferred income tax is provided, using the balance sheet liability method, for all the temporary differences arising between the tax values of assets and liabilities and their carrying values for financial reporting purposes. Current enacted tax rates are used to determine deferred income tax. Deferred tax assets relating to the carry forward of unused tax losses are recognised to the extent that it is probable that future taxable income will be available against which the unused tax losses can be utilised.

# Habib Overseas Bank Limited

## Notes to annual financial statements

for the year ended 31 December 2018 (continued)

### 1. ACCOUNTING POLICIES (CONTINUED)

#### 1.10 Taxation (Continued)

##### (c) Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity.

#### 1.11 Foreign currency assets and liabilities

Transactions in foreign currencies are recorded at the rates of exchange ruling at the transaction date. Monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities at fair value, denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising from exchange are included in other comprehensive income for the year in the statement of comprehensive income, and the exchange differences arising on non-monetary assets and liabilities where fair value is recognised directly to equity. In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward contracts.

#### 1.12 Areas of judgement and estimation

##### (a) Classification of financial assets

The directors have reviewed the Group's financial assets classified as amortised cost in light of its capital maintenance and liquidity requirements and have confirmed the Group's positive intention and ability to hold those assets at amortised cost. The carrying amount of the amortised cost financial assets is R195.9 million (2017 : R147.3 million) as disclosed in note 7.

##### (b) Residual values of property and equipment

The Group reviews the estimated residual values of property and equipment at the end of each annual reporting period.

##### (c) Fair value of derivatives and other financial instruments

The Group uses their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments, assumptions are made based on quoted market rates adjusted for specific features of the instrument. Other financial instruments are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates.

The derivative financial instruments are classified as FVTPL with fair value movements recognised through profit and loss. The carrying amount of the derivatives is R2,351,730 (2017 : R4,044,112) as disclosed in Note 2. The derivative instruments are valued at forward exchange rates.

##### (d) Measurement of the expected credit loss allowance (ECL)

The measurement of the expected credit loss allowance for financial assets measured at amortised cost is an area that requires the use of complex models and significant assumptions about the future economic conditions and credit behaviour.

Explanations of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in the Credit Risk Note 31.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- determining criteria for significant increase in credit risk; and
- choosing models and assumptions for the measurement of ECL; and
- establishing the number and weightings of forward-looking information for each type of product and associated ECL; and
- establishing groups of similar financial assets for the purpose of measuring ECL.

Further information around the judgements and estimates made by the Group in relation to the above is set out in the Credit Risk Note 31.

# Habib Overseas Bank Limited

## Notes to annual financial statements

for the year ended 31 December 2018 (continued)

### 2 STATEMENT OF FINANCIAL POSITION - CLASSIFICATION OF FINANCIAL INSTRUMENTS

Group	2018 R	FVTPL R	Amortised Cost R	Non-financial assets and liabilities R
<b>ASSETS</b>				
<b>Non-Current Assets</b>	<b>124,980,721</b>	-	<b>102,617,698</b>	<b>22,363,023</b>
Property, plant and equipment	4,367,503	-	-	4,367,503
Intangible Assets	15,890,946	-	-	15,890,946
Long-term loans and advances	102,617,698	-	102,617,698	-
Deferred tax asset	2,104,574	-	-	2,104,574
<b>Current Assets</b>	<b>1,366,075,408</b>	<b>2,351,730</b>	<b>1,363,562,275</b>	<b>161,403</b>
Cash and cash equivalents	875,294,751	-	875,294,751	-
* Investment in negotiable securities	194,721,004	-	194,721,004	-
Loans and advances to customers	282,327,591	-	282,327,591	-
Derivative financial instruments (Forward exchange contracts)	2,351,730	2,351,730	-	-
Other assets	11,218,929	-	11,218,929	-
Receiver of Revenue	161,403	-	-	161,403
<b>Total assets</b>	<b>1,491,056,129</b>	<b>2,351,730</b>	<b>1,466,179,973</b>	<b>22,524,426</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>				
Ordinary share capital	20,000,000	-	-	20,000,000
Reserves	117,849,273	-	-	117,849,273
<b>Total ordinary equity</b>	<b>137,849,273</b>	-	-	<b>137,849,273</b>
<b>Total Liabilities</b>	<b>1,353,206,856</b>	<b>1,853,495</b>	<b>1,337,638,657</b>	<b>13,714,704</b>
<b>Current Liabilities</b>	<b>1,353,206,856</b>	<b>1,853,495</b>	<b>1,337,638,657</b>	<b>13,714,704</b>
Amount owed to depositors	1,333,318,372	-	1,333,318,372	-
Derivative financial instruments (Forward exchange contracts)	1,853,495	1,853,495	-	-
Other liabilities	18,034,989	-	4,320,285	13,714,704
<b>Total equity and liabilities</b>	<b>1,491,056,129</b>	<b>1,853,495</b>	<b>1,337,638,657</b>	<b>151,563,978</b>

\* The investment in negotiable securities' fair value is R 200 000,000 which is obtained from the South African Multiple Option Settlement (Samos) system at the market price. No revaluation was recognised on the investment, since they will be held-to-maturity.

# Habib Overseas Bank Limited

## Notes to annual financial statements

for the year ended 31 December 2018 (continued)

### 2 STATEMENT OF FINANCIAL POSITION - CLASSIFICATION OF FINANCIAL INSTRUMENTS (CONTINUED)

Non-financial  
assets and  
liabilities  
R

Group	2017 R	Held-for- trading R	Held-to-maturity investments R	Loans and receivables R	Non-financial assets and liabilities R
<b>ASSETS</b>					
<b>Non-Current Assets</b>	119,049,361	-	-	96,182,825	22,866,536
Property, plant and equipment	5,181,913	-	-	-	5,181,913
Intangible Assets	15,895,858	-	-	-	15,895,858
Long-term loans and advances	96,182,825	-	-	96,182,825	-
Deferred tax asset	1,788,765	-	-	-	1,788,765
<b>Current Assets</b>	1,067,851,213	4,044,112	147,305,711	916,169,076	332,314
Cash and cash equivalents	605,694,587	-	-	605,694,587	-
* Investment in negotiable securities	147,305,711	-	147,305,711	-	-
Loans and advances to customers	301,368,163	-	-	301,368,163	-
Derivative financial instruments (Forward exchange contracts)	4,044,112	4,044,112	-	-	-
Other assets	9,106,326	-	-	9,106,326	-
Receiver of Revenue	332,314	-	-	-	332,314
<b>Total assets</b>	1,186,900,574	4,044,112	147,305,711	1,012,351,901	23,198,850
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Ordinary share capital	20,000,000	-	-	-	20,000,000
Reserves	103,333,571	-	-	-	103,333,571
<b>Total ordinary equity</b>	123,333,571	-	-	-	123,333,571
<b>Total Liabilities</b>	1,063,567,003	3,972,219	-	1,059,594,784	-
<b>Current Liabilities</b>	1,063,567,003	3,972,219	-	1,059,594,784	-
Amount owed to depositors	1,049,106,815	-	-	1,049,106,815	-
Derivative financial instruments (Forward exchange contracts)	3,972,219	3,972,219	-	-	-
Other liabilities	10,487,969	-	-	10,487,969	-
<b>Total equity and liabilities</b>	1,186,900,574	3,972,219	-	1,059,594,784	123,333,571

\* The investment in negotiable securities' fair value is R 150 000,000 which is obtained from the South African Multiple Option Settlement (Samos) system at the market price. No revaluation was recognised on the investment, since they will be held-to-maturity.

# Habib Overseas Bank Limited

## Notes to annual financial statements

for the year ended 31 December 2018 (continued)

### 2 STATEMENT OF FINANCIAL POSITION - CLASSIFICATION OF FINANCIAL INSTRUMENTS (CONTINUED)

Company	2018 R	FVTPL R	Amortised Cost R	Non-financial assets and liabilities R
<b>ASSETS</b>				
<b>Non-Current Assets</b>	<b>124,569,841</b>	-	<b>102,617,698</b>	<b>21,952,143</b>
Property, plant and equipment	3,957,146	-	-	3,957,146
Intangible Assets	15,890,946	-	-	15,890,946
Investment in subsidiary	1	-	-	1
Long-term loans and advances	102,617,698	-	102,617,698	-
Deferred tax asset	2,104,050	-	-	2,104,050
<b>Current Assets</b>	<b>1,366,056,237</b>	<b>2,351,730</b>	<b>1,363,562,275</b>	<b>142,232</b>
Cash and cash equivalents	875,294,751	-	875,294,751	-
* Investment in negotiable securities	194,721,004	-	194,721,004	-
Loans and advances to customers	282,327,591	-	282,327,591	-
Derivative financial instruments (Forward exchange contracts)	2,351,730	2,351,730	-	-
Other assets	11,218,929	-	11,218,929	-
Receiver of Revenue	142,232	-	-	142,232
<b>Total assets</b>	<b>1,490,626,078</b>	<b>2,351,730</b>	<b>1,466,179,973</b>	<b>22,094,375</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>				
Ordinary share capital	20,000,000	-	-	20,000,000
Reserves	115,372,208	-	-	115,372,208
<b>Total ordinary equity</b>	<b>135,372,208</b>	-	-	<b>135,372,208</b>
<b>Total Liabilities</b>	<b>1,355,253,870</b>	<b>1,853,495</b>	<b>1,339,695,954</b>	<b>13,704,421</b>
<b>Current Liabilities</b>	<b>1,355,253,870</b>	<b>1,853,495</b>	<b>1,339,695,954</b>	<b>13,704,421</b>
Amount owed to depositors	1,335,375,669	-	1,335,375,669	-
Derivative financial instruments (Forward exchange contracts)	1,853,495	1,853,495	-	-
Other liabilities	18,024,706	-	4,320,285	13,704,421
<b>Total equity and liabilities</b>	<b>1,490,626,078</b>	<b>1,853,495</b>	<b>1,339,695,954</b>	<b>149,076,629</b>

\* The investment in negotiable securities' fair value is R 200 000,000 which is obtained from the South African Multiple Option Settlement (Samos) system at the market price. No revaluation was recognised on the investment, since they will be held-to-maturity.

# Habib Overseas Bank Limited

## Notes to annual financial statements

for the year ended 31 December 2018 (continued)

### 2 STATEMENT OF FINANCIAL POSITION - CLASSIFICATION OF FINANCIAL INSTRUMENTS (CONTINUED)

Company	2017 R	Held-for- trading R	Held-to-maturity investments R	Loans and receivables R	Non-financial assets and liabilities R
<b>ASSETS</b>					
<b>Non-Current Assets</b>	118,638,420	-	-	96,182,825	22,455,595
Property, plant and equipment	4,770,893	-	-	-	4,770,893
Intangible Assets	15,895,858	-	-	-	15,895,858
Investment in Subsidiary	1	-	-	-	1
Long-term loans and advances	96,182,825	-	-	96,182,825	-
Deferred tax asset	1,788,843	-	-	-	1,788,843
<b>Current Assets</b>	1,067,805,653	4,044,112	147,305,711	916,169,076	286,754
Cash and cash equivalents	605,694,587	-	-	605,694,587	-
* Investment in negotiable securities	147,305,711	-	147,305,711	-	-
Loans and advances to customers	301,368,163	-	-	301,368,163	-
Derivative financial instruments (Forward exchange contracts)	4,044,112	4,044,112	-	-	-
Other assets	9,106,326	-	-	9,106,326	-
Receiver of Revenue	286,754	-	-	-	286,754
<b>Total assets</b>	1,186,444,073	4,044,112	147,305,711	1,012,351,901	22,742,349
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Ordinary share capital	20,000,000	-	-	-	20,000,000
Reserves	100,968,060	-	-	-	100,968,060
<b>Total ordinary equity</b>	120,968,060	-	-	-	120,968,060
<b>Total Liabilities</b>	1,065,476,013	3,972,219	-	1,061,503,794	-
<b>Current Liabilities</b>	1,065,476,013	3,972,219	-	1,061,503,794	-
Amount owed to depositors	1,051,020,018	-	-	1,051,020,018	-
Derivative financial instruments (Forward exchange contracts)	3,972,219	3,972,219	-	-	-
Other liabilities	10,483,776	-	-	10,483,776	-
<b>Total equity and liabilities</b>	1,186,444,073	3,972,219	-	1,061,503,794	120,968,060

\* The investment in negotiable securities' fair value is R 150,000,000 which is obtained from the South African Multiple Option Settlement (Samos) system at the market price. No revaluation was recognised on the investment, since they will be held-to-maturity.

# Habib Overseas Bank Limited

## Notes to annual financial statements

for the year ended 31 December 2018 (continued)

### NON-CURRENT ASSETS

#### 3 PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS

##### Group

Cost	Purchased Intangible assets R	Land & buildings R	Motor vehicles R	Furniture & office equipment R	Property, Plant and Equipment R	Total R
Balance as at 1 January 2017	-	1,000,000	3,867,168	14,513,015	19,380,183	19,380,183
Additions	15,914,812	-	455,000	388,934	843,934	16,758,746
Disposals	-	-	(453,583)	(51,024)	(504,607)	(504,607)
Balance as at 1 January 2018	15,914,812	1,000,000	3,868,585	14,850,925	19,719,510	35,634,322
Additions	55,233	-	401,775	629,106	1,030,881	1,086,114
Disposals	-	-	-	-	-	-
<b>Balance as at 31 December 2018</b>	<b>15,970,045</b>	<b>1,000,000</b>	<b>4,270,360</b>	<b>15,480,031</b>	<b>20,750,391</b>	<b>36,720,436</b>

Accumulated Depreciation / Amortisation	Purchased Intangible assets R	Land & buildings R	Motor vehicles R	Furniture & office equipment R	Property, Plant and Equipment R	Total R
Balance as at 1 January 2017	-	(559,891)	(2,437,309)	(9,872,702)	(12,869,902)	(12,869,902)
Depreciation / Amortisation expense	(18,954)	(32,404)	(472,965)	(1,479,018)	(1,984,387)	(2,003,341)
Disposals	-	-	308,576	8,116	316,692	316,692
Balance as at 1 January 2018	(18,954)	(592,295)	(2,601,698)	(11,343,604)	(14,537,597)	(14,556,551)
Depreciation / Amortisation expense	(60,145)	-	(513,825)	(1,331,466)	(1,845,291)	(1,905,436)
Disposals	-	-	-	-	-	-
<b>Balance as at 31 December 2018</b>	<b>(79,099)</b>	<b>(592,295)</b>	<b>(3,115,523)</b>	<b>(12,675,070)</b>	<b>(16,382,888)</b>	<b>(16,461,987)</b>

##### Carrying amount

As at 31 December 2017	15,895,858	407,705	1,266,887	3,507,321	5,181,913	21,077,771
<b>As at 31 December 2018</b>	<b>15,890,946</b>	<b>407,705</b>	<b>1,154,837</b>	<b>2,804,961</b>	<b>4,367,503</b>	<b>20,258,449</b>

##### Properties

###### Johannesburg Property

Premises acquired on 16 July 1998 being section No 46 as shown on sectional plan No SS31 / 85 in the building known as Oriental Plaza, Fordsburg, Johannesburg, in extent 678 square meters and an undivided share in the common property in the land and buildings as apportioned in accordance with the participation quota of the said section. The municipal valuation of the property is R3,730,000 (2017: R3,730,000).

# Habib Overseas Bank Limited

## Notes to annual financial statements

for the year ended 31 December 2018 (continued)

### NON-CURRENT ASSETS

#### 3 PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS

##### Company

Cost	Purchased Intangible assets R	Motor vehicles R	Furniture & office equipment R	Property, Plant and Equipment R	Total R
Balance as at 1 January 2017	-	3,867,168	14,263,015	18,130,183	18,130,183
Additions	15,914,812	455,000	388,934	843,934	16,758,746
Disposals	-	(453,583)	(51,024)	(504,607)	(504,607)
Balance as at 1 January 2018	15,914,812	3,868,585	14,600,925	18,469,510	34,384,322
Additions	55,233	401,775	629,106	1,030,881	1,086,114
Disposals	-	-	-	-	-
<b>Balance as at 31 December 2018</b>	<b>15,970,045</b>	<b>4,270,360</b>	<b>15,230,031</b>	<b>19,500,391</b>	<b>35,470,436</b>

Accumulated Depreciation / Amortisation	Purchased Intangible assets R	Motor vehicles R	Furniture & office equipment R	Property, Plant and Equipment R	Total R
Balance as at 1 January 2017	-	(2,437,309)	(9,626,846)	(12,064,155)	(12,064,155)
Depreciation / Amortisation expense	(18,954)	(472,965)	(1,478,189)	(1,951,154)	(1,970,108)
Disposals	-	308,576	8,116	316,692	316,692
Balance as at 1 January 2018	(18,954)	(2,601,698)	(11,096,919)	(13,698,617)	(13,717,571)
Depreciation / Amortisation expense	(60,145)	(513,825)	(1,330,803)	(1,844,628)	(1,904,773)
Disposals	-	-	-	-	-
<b>Balance as at 31 December 2018</b>	<b>(79,099)</b>	<b>(3,115,523)</b>	<b>(12,427,722)</b>	<b>(15,543,245)</b>	<b>(15,622,344)</b>

##### Carrying amount

As at 31 December 2017	15,895,858	1,266,887	3,504,006	4,770,893	20,666,751
<b>Balance as at 31 December 2018</b>	<b>15,890,946</b>	<b>1,154,837</b>	<b>2,802,309</b>	<b>3,957,146</b>	<b>19,848,092</b>

	2018 R	2017 R
<b>4 INVESTMENT IN SUBSIDIARY</b>		
N77 Oriental Plaza (Proprietary) Limited - share at cost	100%	1
	1	1

# Habib Overseas Bank Limited

## Notes to annual financial statements

for the year ended 31 December 2018 (continued)

	Group		Company	
	2018 R	2017 R	2018 R	2017 R
<b>NON-CURRENT ASSETS</b>				
<b>5 LONG-TERM LOANS AND ADVANCES</b>				
- Loans to customers	102,653,829	96,182,825	102,653,829	96,182,825
Less: Expected credit loss on long-term loans and advances	(36,131)	-	(36,131)	-
Advances to customers and bills discounted net of impairments	102,617,698	96,182,825	102,617,698	96,182,825
<b>Net maturity analyses</b>				
Maturing after 1 year	102,617,698	96,182,825	102,617,698	96,182,825
<b>Sectoral analyses</b>				
Companies and close corporations	96,762,386	91,022,739	96,762,386	91,022,739
Unincorporated businesses	2,303,540	1,215,063	2,303,540	1,215,063
Individuals	3,551,772	3,945,023	3,551,772	3,945,023
	102,617,698	96,182,825	102,617,698	96,182,825
<b>Sectoral distribution</b>				
Manufacturing	11,467,151	4,076,818	11,467,151	4,076,818
Wholesale and retail trade, repair of specified items, hotel	31,083,734	28,380,073	31,083,734	28,380,073
Real estate, financial and insurance	43,853,586	21,601,440	43,853,586	21,601,440
Business services	7,883,089	33,703,508	7,883,089	33,703,508
Individuals and other	8,330,138	8,420,986	8,330,138	8,420,986
	102,617,698	96,182,825	102,617,698	96,182,825
<b>Geographical distribution</b>				
The loans and advances relate to customers who are SA residents				
<b>CURRENT ASSETS</b>				
<b>6 CASH AND CASH EQUIVALENTS</b>				
Coin and bank notes	7,891,760	3,960,854	7,891,760	3,960,854
Money at call and short term notice with banks	833,414,575	562,422,375	833,414,575	562,422,375
Balances with central bank	33,988,416	39,311,358	33,988,416	39,311,358
<b>Net cash and cash equivalents</b>	<b>875,294,751</b>	<b>605,694,587</b>	<b>875,294,751</b>	<b>605,694,587</b>
<b>Net maturity analyses</b>				
Maturing within 1 month	645,429,473	453,433,479	645,429,473	453,433,479
Maturing after 1 month but within 3 months	168,375,254	141,040,367	168,375,254	141,040,367
Maturing after 3 months but within 1 year	61,490,024	11,220,741	61,490,024	11,220,741
<b>Net cash and cash equivalents</b>	<b>875,294,751</b>	<b>605,694,587</b>	<b>875,294,751</b>	<b>605,694,587</b>
<b>7 INVESTMENTS AND NEGOTIABLE SECURITIES</b>				
<b>Treasury Bills</b>				
Maturing within 1 year	194,261,282	147,305,711	194,261,282	147,305,711
Accrued interest	1,671,452	-	1,671,452	-
IFRS 9 expected credit loss	(1,211,730)	-	(1,211,730)	-
<b>Total investment in Treasury Bills</b>	<b>194,721,004</b>	<b>147,305,711</b>	<b>194,721,004</b>	<b>147,305,711</b>
<b>Market valuation of total investments</b>	<b>200,000,000</b>	<b>150,000,000</b>	<b>200,000,000</b>	<b>150,000,000</b>

No revaluations were recognised as treasury bills are classified at amortised cost.

# Habib Overseas Bank Limited

## Notes to annual financial statements

for the year ended 31 December 2018 (continued)

	Group		Company	
	2018 R	2017 R	2018 R	2017 R
<b>CURRENT ASSETS</b>				
<b>8 LOANS AND ADVANCES</b>				
Advances to customers and bills discounted	389,775,918	407,851,991	389,775,918	407,851,991
Less: Long-term loans and advances (Note 5)	(102,653,829)	(96,182,825)	(102,653,829)	(96,182,825)
Less: Expected credit loss on short-term loans and advances	(4,794,498)	(10,301,003)	(4,794,498)	(10,301,003)
Advances to customers and bills discounted net of impairments	282,327,591	301,368,163	282,327,591	301,368,163
<b>Net maturity analyses</b>				
Maturing within 1 month (overdrafts - payable on demand)	232,128,500	258,530,230	232,128,500	258,530,230
Maturing after 1 month but within 3 months	11,678,134	14,986,204	11,678,134	14,986,204
Maturing after 3 months but within 1 year	38,520,957	27,851,729	38,520,957	27,851,729
	282,327,591	301,368,163	282,327,591	301,368,163
<b>Sectoral analyses</b>				
Companies and Close Corporations	262,157,406	275,189,307	262,157,406	275,189,307
Unincorporated businesses	14,912,822	11,945,943	14,912,822	11,945,943
Individuals	2,689,843	10,848,905	2,689,843	10,848,905
Non-profit institutions	2,567,520	3,384,008	2,567,520	3,384,008
	282,327,591	301,368,163	282,327,591	301,368,163
<b>Sectoral distribution</b>				
Manufacturing	105,454,417	101,280,317	105,454,417	101,280,317
Wholesale and retail trade, repair of specified items, hotel	90,780,263	127,396,303	90,780,263	127,396,303
Transport, storage and communication	11,124,516	-	11,124,516	-
Financial intermediation and insurance	7,665,800	7,226,510	7,665,800	7,226,510
Real estate	21,797,285	27,263,787	21,797,285	27,263,787
Business services	15,054,805	20,904,789	15,054,805	20,904,789
Community, social and personal services	8,422,223	6,029,481	8,422,223	6,029,481
Individuals	4,031,695	4,085,120	4,031,695	4,085,120
Other	17,996,587	7,181,856	17,996,587	7,181,856
	282,327,591	301,368,163	282,327,591	301,368,163
<b>Geographical distribution</b>				
The loans and advances relate to customers who are SA residents				
<b>9 OTHER ASSETS</b>				
Accrued interest	4,864,550	3,314,513	4,864,550	3,314,513
Other accounts receivable	8,706,109	9,835,925	8,706,109	9,835,925
	13,570,659	13,150,438	13,570,659	13,150,438

The carrying amounts of these assets approximate their fair value.

The fair value of derivative instruments (FEC) is recognised in other assets.

# Habib Overseas Bank Limited

## Notes to annual financial statements

for the year ended 31 December 2018 (continued)

	Group		Company	
	2018 R	2017 R	2018 R	2017 R
<b>10 SHARE CAPITAL</b>				
<b>Authorised</b>				
25,000,000 ordinary shares of R1 each	25,000,000	25,000,000	25,000,000	25,000,000
<b>Issued</b>				
20,000,000 ordinary shares of R1 each	20,000,000	20,000,000	20,000,000	20,000,000
<b>CURRENT LIABILITIES</b>				
<b>11 DEPOSITS AND CURRENT ACCOUNTS</b>				
Current and call accounts	993,556,789	723,451,699	995,614,086	725,364,902
Savings accounts	74,039,904	83,187,164	74,039,904	83,187,164
Time deposit accounts	265,721,679	242,467,952	265,721,679	242,467,952
	<b>1,333,318,372</b>	1,049,106,815	<b>1,335,375,669</b>	1,051,020,018
<b>Maturity analyses</b>				
Maturing within 1 month	1,208,271,073	953,118,815	1,210,328,370	955,032,018
Maturing after 1 month but within 6 months	82,125,973	68,014,998	82,125,973	68,014,998
Maturing after 6 months but within 1 year	42,639,326	27,973,002	42,639,326	27,973,002
Maturing after 1 year	282,000	-	282,000	-
	<b>1,333,318,372</b>	1,049,106,815	<b>1,335,375,669</b>	1,051,020,018
<b>12 OTHER LIABILITIES</b>				
Accrued interest	2,871,465	2,416,203	2,871,465	2,416,203
Accrued expenses	13,704,421	7,023,000	13,704,421	7,023,000
Other accounts payable	3,074,635	5,020,985	3,064,352	5,016,792
Expected credit loss on letters of guarantees	237,963	-	237,963	-
	<b>19,888,484</b>	14,460,188	<b>19,878,201</b>	14,455,995
The carrying amounts of these liabilities approximate their fair value. The fair value of derivative instruments (FEC) is recognised in other liabilities.				
<b>13 CONTINGENT LIABILITIES</b>				
Letters of guarantee	28,207,622	41,581,219	28,207,622	41,581,219
Letters of credit	-	5,565,570	-	5,565,570
	<b>28,207,622</b>	47,146,789	<b>28,207,622</b>	47,146,789

# Habib Overseas Bank Limited

## Notes to annual financial statements

for the year ended 31 December 2018 (continued)

	Group		Company	
	2018 R	2017 R	2018 R	2017 R
<b>14 INTEREST INCOME AND EXPENSE</b>				
<b>Interest and similar income comprises interest on:</b>				
Loans and advances	41,580,048	40,742,863	41,580,048	40,742,863
Balances with banks	35,314,826	25,989,605	35,314,826	25,989,605
Investments and negotiable securities	11,149,523	13,499,212	11,149,523	13,499,212
	<b>88,044,397</b>	<b>80,231,680</b>	<b>88,044,397</b>	<b>80,231,680</b>
<b>Interest expense and similar charges comprises interest on:</b>				
Current and time deposit accounts	(28,371,416)	(24,442,961)	(28,478,947)	(24,546,212)
Savings accounts	(265,974)	(262,316)	(265,974)	(262,316)
Balances with banks	(27,273)	(128)	(27,273)	(128)
	<b>(28,664,663)</b>	<b>(24,705,405)</b>	<b>(28,772,194)</b>	<b>(24,808,656)</b>
<b>15 NON-INTEREST INCOME</b>				
Commission and foreign exchange earnings	13,478,365	9,743,539	13,478,365	9,743,539
Fee based income	11,278,031	9,625,071	11,278,031	9,625,071
Other income	2,036,848	2,421,433	2,027,767	2,401,652
	<b>26,793,244</b>	<b>21,790,043</b>	<b>26,784,163</b>	<b>21,770,262</b>
<b>16 IMPAIRMENT CHARGE</b>				
Balance at beginning of year	10,301,003	7,114,844	10,301,003	7,114,844
IFRS 9 Opening Balance ECL adjustment	(5,085,959)	-	(5,085,959)	-
ECL raised during the year	1,200,000	1,950,000	1,200,000	1,950,000
Interest suspense raised during the year	-	1,236,159	-	1,236,159
Charge to income statement	1,200,000	3,186,159	1,200,000	3,186,159
<b>Balance at end of year</b>	<b>6,415,044</b>	<b>10,301,003</b>	<b>6,415,044</b>	<b>10,301,003</b>
<b>Comprising:</b>				
General - Stage 1	2,446,520	(3,200,000)	2,446,520	(3,200,000)
General - Stage 2	785,196	-	785,196	-
Specific - Stage 3	3,183,328	(7,101,003)	3,183,328	(7,101,003)
<b>Balance at end of year</b>	<b>6,415,044</b>	<b>(10,301,003)</b>	<b>6,415,044</b>	<b>(10,301,003)</b>

# Habib Overseas Bank Limited

## Notes to annual financial statements

for the year ended 31 December 2018 (continued)

	Group		Company	
	2018 R	2017 R	2018 R	2017 R
<b>17 OPERATING EXPENDITURE</b>				
Operating expenses include the following items:				
<b>Staff costs</b>	<b>(34,633,029)</b>	(31,044,904)	<b>(34,633,029)</b>	(31,044,904)
- Staff cost	<b>(34,633,029)</b>	(31,044,904)	<b>(34,633,029)</b>	(31,044,904)
<b>Provident Fund Contributions</b>	<b>(1,539,667)</b>	(1,455,613)	<b>(1,539,667)</b>	(1,455,613)
Current service costs	<b>(1,539,667)</b>	(1,455,613)	<b>(1,539,667)</b>	(1,455,613)
<b>Auditors' remuneration on other services</b>	<b>(3,325,500)</b>	(1,747,681)	<b>(3,325,500)</b>	(1,747,681)
- Audit fee	<b>(2,250,500)</b>	(1,249,500)	<b>(2,250,500)</b>	(1,249,500)
- Non Audit services	<b>(1,075,000)</b>	(498,181)	<b>(1,075,000)</b>	(498,181)
<b>Depreciation / Amortisation expense</b>	<b>(1,905,436)</b>	(2,003,341)	<b>(1,904,773)</b>	(1,970,108)
Land and buildings	<b>(60,145)</b>	(32,404)	-	-
Purchased Intangible assets	-	(18,954)	<b>(60,145)</b>	(18,954)
Motor vehicles	<b>(513,825)</b>	(472,965)	<b>(513,825)</b>	(472,965)
Furniture and office equipment	<b>(1,331,466)</b>	(1,479,018)	<b>(1,330,803)</b>	(1,478,189)
<b>Operating leases</b>	<b>(3,682,993)</b>	(3,912,031)	<b>(4,102,993)</b>	(4,332,031)
Rental - banks premises	<b>(2,463,070)</b>	(2,302,457)	<b>(2,883,070)</b>	(2,722,457)
Rental - staff accommodation	<b>(1,219,923)</b>	(1,609,574)	<b>(1,219,923)</b>	(1,609,574)
Profit/(Loss) on disposal of assets	<b>28,000</b>	159,409	<b>28,000</b>	159,409

# Habib Overseas Bank Limited

## Notes to annual financial statements

for the year ended 31 December 2018 (continued)

	Group		Company	
	2018	2017	2018	2017
	R	R	R	R
<b>18 Directors' emoluments</b>				
<b>Total Directors Emoluments</b>	<b>(6,379,984)</b>	(6,300,647)	<b>(6,379,984)</b>	(6,300,647)
<b>Managing Director - Manzar A Kazmi</b>	<b>(4,096,398)</b>	(3,920,458)	<b>(4,096,398)</b>	(3,920,458)
Basic salary (gross)	(1,482,000)	(1,482,000)	(1,482,000)	(1,482,000)
Bonus and performance related payments	(123,500)	(123,500)	(123,500)	(123,500)
Private use of motor vehicle	(201,600)	(201,600)	(201,600)	(201,600)
Medical aid contribution	(68,880)	(63,480)	(68,880)	(63,480)
Pension / provident scheme contributions	(107,445)	(106,829)	(107,445)	(106,829)
Cell phone	(42,000)	(42,000)	(42,000)	(42,000)
Travel passage	(144,973)	(47,487)	(144,973)	(47,487)
Special allowance	(1,440,000)	(1,440,000)	(1,440,000)	(1,440,000)
Housing allowance	(410,000)	(413,562)	(410,000)	(413,562)
Free or cheap services	(76,000)	-	(76,000)	-
<b>Executive Director - A Ansari</b>	<b>(2,283,586)</b>	(2,380,189)	<b>(2,283,586)</b>	(2,380,189)
Basic salary (gross)	(1,041,600)	(1,041,600)	(1,041,600)	(1,041,600)
Bonus and performance related payments	(86,800)	(86,800)	(86,800)	(86,800)
Private use of motor vehicle	(68,460)	(79,229)	(68,460)	(79,229)
Medical aid contribution	(68,430)	(62,705)	(68,430)	(62,705)
Pension / provident scheme contributions	(75,516)	(74,972)	(75,516)	(74,972)
Cell phone	(15,000)	(15,000)	(15,000)	(15,000)
Travel passage	(16,368)	(146,828)	(16,368)	(146,828)
Special allowance	(612,000)	(612,000)	(612,000)	(612,000)
Housing allowance	-	(261,055)	-	(261,055)
Free or cheap services	(299,412)	-	(299,412)	-
<b>Non-executive Directors</b>	<b>(242,000)</b>	(230,000)	<b>(242,000)</b>	(230,000)
Non-executive Director - M Bramwell	(115,000)	(115,000)	(115,000)	(115,000)
Non-executive Director - BW Smith	(127,000)	(115,000)	(127,000)	(115,000)

# Habib Overseas Bank Limited

## Notes to annual financial statements

for the year ended 31 December 2018 (continued)

	Group		Company	
	2018	2017	2018	2017
	R	R	R	R
<b>19 TAXATION</b>				
<b>South African Normal and Deferred Taxation</b>	<b>3,462,862</b>	<b>2,904,612</b>	<b>3,483,561</b>	<b>2,864,222</b>
- Normal Taxation - current year	3,940,597	3,589,561	3,917,768	3,549,246
- Normal Taxation - prior years	(43,596)	-	-	-
- Deferred taxation	(434,139)	(684,949)	(434,207)	(685,024)
<b>TAX RATE RECONCILIATION</b>				
Standard rate of taxation	28.00%	28.00%	28.00%	28.00%
Adjustment for :				
- Prior year taxation	0.00%	0.00%	0.00%	0.00%
- other permanent differences	-1.05%	0.57%	-1.04%	0.48%
<b>Effective rate of taxation</b>	<b>26.61%</b>	<b>28.57%</b>	<b>26.96%</b>	<b>28.48%</b>

## 20 DEFERRED TAXATION

### Group and Company

- Deferred tax liability beginning of the year on property & equipment	-	-	-	-
- Originating temporary difference	-	-	-	-
<b>Deferred tax liability end of the year on property &amp; Equipment</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total deferred tax liability at the end of the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

### Group and company

- Deferred tax asset beginning of the year on property & equipment	(350,355)	(468,155)	(350,277)	(468,155)
- Originating temporary difference	34,272	117,800	33,670	117,878
<b>Deferred tax (liability) end of the year on property &amp; Equipment</b>	<b>(316,083)</b>	<b>(350,355)</b>	<b>(316,607)</b>	<b>(350,277)</b>
- Deferred tax asset beginning of the year on Expected Credit Loss	672,000	493,500	672,000	493,500
- IFRS 9 ECL Opening balance adjustment on Deferred Tax	(119,000)	-	(119,000)	-
- Originating temporary difference	202,871	178,500	202,871	178,500
<b>Deferred tax asset end of the year on Expected Credit Loss</b>	<b>755,871</b>	<b>672,000</b>	<b>755,871</b>	<b>672,000</b>
- Deferred tax asset beginning of the year on disallowable provisions	1,467,120	1,078,474	1,467,120	1,078,474
- Originating temporary difference	197,666	388,646	197,666	388,646
<b>Deferred tax asset end of the year on disallowable provisions</b>	<b>1,664,786</b>	<b>1,467,120</b>	<b>1,664,786</b>	<b>1,467,120</b>
<b>Total deferred tax asset at the end of the year</b>	<b>2,104,574</b>	<b>1,788,765</b>	<b>2,104,050</b>	<b>1,788,843</b>

## 21 ORDINARY DIVIDENDS

- Final dividend of 20 cents per share for the year 2018 declared on 28 March 2019 and will be paid from current earnings distributed to shareholders.

# Habib Overseas Bank Limited

## Notes to annual financial statements

for the year ended 31 December 2018 (continued)

	Group		Company	
	2018 R	2017 R	2018 R	2017 R
<b>22 INTEREST INCOME AND OTHER INCOME RECEIVED</b>				
Accounts receivable at beginning of year	13,150,438	8,257,896	13,150,438	8,257,897
Interest and similar income	88,044,397	80,231,680	88,044,397	80,231,680
Proceeds on the sale of assets	28,000	-	28,000	-
Accounts receivable at end of year	(13,570,659)	(13,150,438)	(13,570,659)	(13,150,438)
	87,652,176	75,339,138	87,652,176	75,339,139
<b>Adjustments for:</b>				
Interest accrued on treasury bills in the current year	(1,671,452)	3,264,178	(1,671,452)	3,264,178
Interest suspense	-	(1,236,159)	-	(1,236,159)
	85,980,724	77,367,157	85,980,724	77,367,158
Non-interest revenue	26,793,244	21,790,043	26,784,163	21,770,262
	112,773,968	99,157,200	112,764,887	99,137,420
<b>23 INTEREST PAID</b>				
Accrued interest at beginning of year	(2,416,203)	(1,304,744)	(2,416,203)	(1,304,744)
Interest expense and similar charges	(28,664,663)	(24,705,405)	(28,772,194)	(24,808,656)
Accrued interest at end of year	2,871,465	2,416,203	2,871,465	2,416,203
	(28,209,401)	(23,593,946)	(28,316,932)	(23,697,197)
<b>24 CASH PAID TO EMPLOYEES AND SUPPLIERS</b>				
Operating expenditure	(71,961,373)	(63,961,750)	(71,935,616)	(63,950,555)
<b>Adjustments for:</b>				
Depreciation	1,905,436	2,003,341	1,904,773	1,970,108
Profit on disposal of fixed assets	(28,000)	(159,409)	(28,000)	(159,409)
	(70,083,937)	(62,117,818)	(70,058,843)	(62,139,856)
Working capital changes:				
Increase/(decrease) in bills payable	166,284	(666,161)	166,284	(666,161)
Increase in other accounts payable	4,806,752	717,416	4,800,661	718,426
	(65,110,901)	(62,066,563)	(65,091,898)	(62,087,591)
<b>25 DECREASE IN LOANS AND ADVANCES</b>				
Loans and advances net of impairments at beginning of the year	397,550,988	417,095,899	397,550,988	417,095,899
IFRS 9 Opening Balance ECL adjustment	5,085,959	-	5,085,959	-
ECL raised during the year	(1,200,000)	(1,950,000)	(1,200,000)	(1,950,000)
Loans and advances net of impairments at end of year	(384,945,289)	(397,550,988)	(384,945,289)	(397,550,988)
<b>Decrease in loans and advances</b>	16,491,658	17,594,911	16,491,658	17,594,911
<b>26 INCREASE IN DEPOSITS AND CURRENT ACCOUNTS</b>				
Deposits and current accounts at beginning of year	1,049,106,815	1,004,821,241	1,051,020,018	1,006,715,778
Deposits and current accounts at end of year	1,333,318,372	1,049,106,815	1,335,375,669	1,051,020,018
Non Cash-Adjustment	(671)	(69,394)	-	-
<b>increase in deposits and current accounts</b>	284,210,886	44,216,180	284,355,651	44,304,240

# Habib Overseas Bank Limited

## Notes to annual financial statements

for the year ended 31 December 2018 (continued)

	Group		Company	
	2018 R	2017 R	2018 R	2017 R
<b>27 TAXATION PAID</b>				
Net amounts receivable/(payable) at beginning of year	332,314	167,407	286,754	137,532
Prior year taxation	43,596	-	-	-
Current tax	(3,940,597)	(3,589,561)	(3,917,768)	(3,549,246)
Net amounts payable/(receivable) at end of year from SARS	(161,403)	(332,314)	(142,232)	(286,754)
	<b>(3,726,090)</b>	<b>(3,754,468)</b>	<b>(3,773,246)</b>	<b>(3,698,468)</b>

## 28 RETIREMENT BENEFITS

The Bank has established a provident fund scheme managed by Old Mutual.

The contributions are as follows:

6% of the cost of employment by the employees

7.25% of the cost of employment by the employer

<b>Total current service costs</b>	<b>(1,539,667)</b>	<b>(1,455,613)</b>	<b>(1,539,667)</b>	<b>(1,455,613)</b>
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## 29 RELATED PARTIES

(i) The subsidiary is a property investment company.

- N77 Oriental Plaza (Proprietary) Limited

Rental paid to its subsidiary			<b>(420,000)</b>	(420,000)
	-	-	<b>(420,000)</b>	(420,000)

N77 Oriental Plaza (Proprietary) Limited holds a non-interest bearing current account and an interest bearing call account with Habib Overseas Bank Limited amounting to R 2,127,361 (2017: R 1,982,597). The value of R 2,127,361 is recognised in Deposits with current accounts and call accounts. The interest received by Habib Overseas Bank on the interest bearing account amounted to R 107,531. The rentals paid to its subsidiary are on terms more favourable than those arranged with third parties.

(ii) Related Parties Disclosures - Yasmin Manzar Kazmi and Manzar A Kazmi

The following related party transactions are in relation to Mr Kazmi (Managing Director). All accounts are of a deposit in nature. Yasmin Manzar Kazmi is the spouse of Mr Kazmi, a member of the key management personnel of Habib Overseas Bank and therefore is considered a related party to the entity. Total deposits held by Mrs Kazmi equals R 612 843. Interest earned equals R 41 086. Total deposits held by Mr Kazmi equals R 196 337 and interest earned equals R 9 799.

(iii) Related Parties Disclosures - Najma Khan and Arshad Ansari

The following related party transactions are in relation to Mr Ansari (Executive Director). All accounts are of a deposit in nature. Najma Khan is the spouse of Mr Ansari, a member of the key management personnel of Habib Overseas Bank and therefore is considered a related party to the entity. Total deposits held by Mrs Khan equals R 508 568. Interest earned equals R 6 718. Total deposits held by Mr Ansari equals R 148 365 and interest earned equals R 6 923.

## 30 Operating Lease Commitments

The operating lease commitments are recognised as expenses and calculated in accordance with IFRS on the straight-line basis over the lease term. They relate to rental of premises and staff accommodation

<b>&lt; 1 Year</b>	<b>2,530,224</b>	2,727,555	<b>2,983,824</b>	2,727,555
<b>1-5 Years</b>	<b>198,727</b>	1,905,140	<b>688,615</b>	1,905,140
<b>Total</b>	<b>2,728,951</b>	4,632,695	<b>3,672,439</b>	4,632,695

# Habib Overseas Bank Limited

## Notes to annual financial statements

for the year ended 31 December 2018 (continued)

### 31 RISK MANAGEMENT

The Bank has in place a reliable system of computer hardware and software to provide management with the information required to initiate, manage and monitor various risks undertaken in the course of its business on a prudent basis. The Bank is primarily exposed to Credit Risk, Capital Risk, Operational Risk, Market Risk, Liquidity Risk, Interest Rate Risk, Foreign Exchange Risk and Compliance Risk.

#### 31.1 CAPITAL RISK MANAGEMENT

The Bank's objective in managing capital is to assess the adequacy of the capital in order to safeguard its ability to continue as a going concern, to provide return and growth to the shareholders and in accordance with IAS1:134. The Bank has always held capital well in excess of the regulatory requirements to ensure that it remains well capitalised in a vastly changing banking world. The internal capital adequacy assessment process approved by the Board of Directors has been reviewed by the South African Reserve Bank.

The quantitative information complies with IAS 1:135 and South African Reserve Bank Regulation 43.

#### Components of Capital

	* 2018 R'000	* 2017 R'000
<b>Common Equity Tier 1 (CET 1)</b>		
- Issued Capital	20,000	20,000
- Other Reserves	115,372	100,968
- Less unappropriated profits	(9,580)	(7,192)
<b>Total Common Equity Tier 1 (CET 1)</b>	<b>125,792</b>	<b>113,776</b>
Less: Prescribed deductions against capital	(16,029)	(16,175)
<b>Aggregate amount of primary share capital &amp; reserves</b>	<b>109,763</b>	<b>97,601</b>
<b>Common Equity Tier 1 Capital Adequacy Ratio</b>	<b>15.00%</b>	<b>15.82%</b>
<b>Tier 2 Capital</b>		
- General allowance for credit impairment standardised approach	3,467	3,200
<b>Total Tier 2 Capital</b>	<b>3,467</b>	<b>3,200</b>
Less: Prescribed deductions against Tier 1 capital	-	-
<b>Aggregate amount of Tier 2 Share Capital &amp; Reserves</b>	<b>3,467</b>	<b>3,200</b>
<b>Tier 2 Capital Adequacy Ratio</b>	<b>0.47%</b>	<b>0.52%</b>
<b>Total Share Capital</b>		
- Primary capital & reserves (CET 1)	125,792	113,776
- Secondary capital & reserves (Tier 2)	3,467	3,200
Less: Prescribed deductions against Tier 1 capital	(16,029)	(16,175)
<b>Net Qualifying Capital</b>	<b>113,230</b>	<b>100,801</b>
<b>Total capital adequacy ratio</b>	<b>15.47%</b>	<b>16.34%</b>
Total capital requirement	83,256	63,414
Aggregate amount of capital & reserves	113,230	100,801
<b>Excess</b>	<b>29,974</b>	<b>37,387</b>
<b>Risk weighted exposure</b>		
Credit risk	562,660	459,061
Counterparty credit risk	14,514	4,613
Operational risk	137,980	136,217
Market risk	31	240
Other risk	16,734	16,831
<b>Total risk weighted exposure</b>	<b>731,919</b>	<b>616,962</b>

(\*) unaudited

# Habib Overseas Bank Limited

## Notes to annual financial statements

for the year ended 31 December 2018 (continued)

### 31 RISK MANAGEMENT

#### 31.1 CAPITAL RISK MANAGEMENT (Continued)

#### LEVERAGE RATIO

##### Components of Capital

	* 2018 R'000	* 2017 R'000
<b>Common Equity Tier 1 (CET 1)</b>		
- Issued Capital	20,000	20,000
- Other Reserves	115,372	100,968
- Less unappropriated profits	(9,580)	(7,192)
<b>Total Common Equity Tier 1 (CET 1)</b>	<b>125,792</b>	<b>113,776</b>
Less: Prescribed deductions against capital	(16,029)	(16,175)
<b>Aggregate amount of primary share capital &amp; reserves</b>	<b>109,763</b>	<b>97,601</b>
<b>Tier 2 capital</b>		
General allowance for credit impairment standardised approach	3,467	3,200
<b>Total Tier 2 Capital</b>	<b>3,467</b>	<b>3,200</b>
Less: Prescribed deductions against Tier 1 capital	-	-
<b>Aggregate amount of Tier 2 Capital &amp; Reserves</b>	<b>3,467</b>	<b>3,200</b>
<b>Total Share Capital</b>		
- Primary capital & reserves (CET 1)	125,792	113,776
Less: Prescribed deductions against Tier 1 capital	(16,029)	(16,175)
Tier 2 Capital	3,467	3,200
<b>Total qualifying Tier 1 capital</b>	<b>113,230</b>	<b>100,801</b>
<b>EXPOSURE FOR LEVERAGE RATIO</b>		
On balance sheet items	1,472,253	1,159,125
Derivative assets	2,352	4,044
Derivative assets and off-balance sheet items Derivatives	17,063	1,197
Off-balance sheet exposure with > 0% CCF	183,468	41,581
Regulatory adjustments against capital	-	-
<b>Total exposure for leverage ratio</b>	<b>1,675,136</b>	<b>1,205,947</b>
<b>LEVERAGE RATIO</b>		
<b>Total qualifying tier 1 capital</b>	<b>109,763</b>	<b>97,601</b>
<b>Total exposure for leverage ratio</b>	<b>1,675,136</b>	<b>1,205,947</b>
<b>Leverage ratio</b>	<b>6.55%</b>	<b>8.09%</b>
<b>Regulatory specified minimum leverage ratio</b>	<b>4.00%</b>	<b>4.00%</b>

(\*) unaudited

# Habib Overseas Bank Limited

## Notes to annual financial statements

for the year ended 31 December 2018 (continued)

### 31 RISK MANAGEMENT (Continued)

#### 31.2 CREDIT RISK

All lending operations are governed by the credit policy approved by the Board. Lending activities are administered and monitored by the Credit Committee which consists of five directors of the Bank and meets normally every month. The committee fully monitors Group exposures, excess over prescribed limits, grading of the advances and industry concentration in accordance with the credit policies. The objective of this policy is to build and maintain a quality advances book. All lending approvals are submitted for review by the next level of authority, which ensures ethical standards as well as accountability. This committee also critically examines prudential policies against identified risk facilities.

#### IFRS 7 DISCLOSURES Concentrations of credit risk

2018

Group credit risk analysis	Statement of financial position R	Off-Statement of financial position R	Expected Credit Loss R	Net Carrying Amount R
<b>Maximum exposure to credit risk per Financial assets</b>				
<b>Cash and balances with central bank</b>	41,880,176	-	-	41,880,176
Local and foreign cash	7,891,760	-	-	7,891,760
Mandatory reserve deposits with central banks	13,877,000	-	-	13,877,000
Other balances with central banks	20,111,416	-	-	20,111,416
<b>Loans and advances with Banks &amp; Customers</b>	1,223,325,215	-	6,549,766	1,216,775,449
Overdrafts and loans	389,775,918	-	6,415,044	383,360,874
Term loans (Bank Placement)	833,549,297	-	134,722	833,414,575
		-		
<b>Investments and negotiable securities</b>	195,932,734	-	1,211,730	194,721,004
Investment securities	195,932,734	-	1,211,730	194,721,004
<b>Other assets</b>	13,732,062	-		13,732,062
Derivative financial assets (FEC)	2,351,730	-		2,351,730
Other assets	11,380,332	-		11,380,332
<b>Contingent Liabilities</b>	-	28,207,622	237,963	27,969,659
Guarantees - irrevocable	-	28,207,622	237,963	27,969,659
Letters of credit and acceptances	-	-		-
	1,474,870,187	28,207,622	7,999,459	1,495,078,350

# Habib Overseas Bank Limited

## Notes to annual financial statements

### for the year ended 31 December 2018 (continued)

#### 31 RISK MANAGEMENT (Continued)

##### 31.2 CREDIT RISK

###### *Definition of default*

The Group considers a financial asset to be in default when:

The customer is more than 90 days past due on its contractual payments - Quantitative.

Customer insolvent, customer deceased, customer in breach of covenant - Qualitative.

An instrument is considered to no longer be in default when it no longer meets any of the default criteria for a consecutive period of 12 months.

###### *Incorporation of forward looking information*

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The forward looking component is included as part of overlaying Long run average PD values with expected changes in future macro-economic conditions. Once the PDs are overlaid with different projections of expected macro-conditions, management creates a scenario - weighted PD values which are then incorporated as part of the expected credit loss calculation.

###### *Measurement of ECL*

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

EAD is based on amounts the Group expects to be owed at the time of default (over the next 12 months or lifetime). For overdrafts, this would include both the drawn balance as well as the expected amount to be drawn down by the time of default.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

ECL is determined by multiplying the PD, EAD and LGD for each reporting month per individual exposure (adjusted for the likelihood of survival). This results in an ECL which is thus summed and discounted back to the reporting date using the original effective interest rate or the credit-adjusted effective interest rate for purchased/originated credit-impaired financial assets.

The lifetime PD is based by applying a maturity profile to the current 12 month PD. This looks at how defaults develop on a portfolio from the point of initial recognition through its lifetime. This is based using historical observed data.

The 12 month and lifetime EAD are based on the expected payment profile.

The 12 month and lifetime LGD are based on collateral type and projected collateral values, haircuts, time to repossession and recovery costs.

As described above, and subject to using a maximum of a 12 month PD for financial assets for which credit risk has not significantly increased, the Group measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Group considers a longer period. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance or terminate a loan commitment or guarantee.

However, for overdrafts that include both a loan and an undrawn commitment component, the Group measures ECL over a period longer than the maximum contractual period if the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Group can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Group becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Group expects to take and that serve to mitigate ECL. These include a reduction in limits, cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms.

# Habib Overseas Bank Limited

## Notes to annual financial statements

for the year ended 31 December 2018 (continued)

### 31 RISK MANAGEMENT (Continued)

#### 31.2 CREDIT RISK

The following table presents a reconciliation from the opening balance to the closing balance of the loss allowance for loans and receivables at amortised cost, and how significant changes in the gross carrying amount contributed to changes in the loss allowance:

Amortised Cost	12-month ECL		Subject to lifetime ECL				Total	
	Gross carrying amount	ECL allowance	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Gross carrying amount	ECL allowance	Gross carrying amount	ECL allowance
<b>At 1 January 2018</b>	<b>360,038,754</b>	<b>1,065,969</b>	<b>20,333,696</b>	<b>1,150,478</b>	<b>27,479,540</b>	<b>2,397,460</b>	<b>407,851,990</b>	<b>4,613,907</b>
Transfer to 12 month-ECL	2,040,993	-	-	-	(2,040,993)	-	-	-
Transfer to lifetime ECL (not credit impaired)	(54,568,121)	(345,376)	54,568,121	345,376	-	-	-	-
Transfer to lifetime ECL (credit impaired)	(26,028,600)	(14,940)	(6,801,766)	(585,250)	32,830,366	600,190	-	-
Changes in models or risk parameters	(21,685,272)	15,134	(1,731,986)	46,945	(1,967,933)	185,679	<b>(25,385,191)</b>	<b>247,758</b>
New financial assets originated	49,142,929	42,229	15,813,945	25,286	-	-	<b>64,956,874</b>	<b>67,515</b>
Derecognition	(48,638,647)	99,088	(9,009,109)	(197,639)	-	-	<b>(57,647,756)</b>	<b>(98,551)</b>
<b>At 31 December 2018</b>	<b>260,302,036</b>	<b>862,104</b>	<b>73,172,901</b>	<b>785,196</b>	<b>56,300,980</b>	<b>3,183,329</b>	<b>389,775,918</b>	<b>4,830,629</b>

Changes in models or risk parameters mainly relate to the change in PD calculation whereby the composition of the historical population was changed to remove those balances which did not have any debit balances and/or limits. Other changes were due to the collateral portfolio which impacted the LGD calculation.

#### Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost

	12-month ECL	Lifetime ECL not credit impaired	Lifetime ECL credit impaired	Total
<b>Financial assets at amortised cost</b>				
Grades 1: Standard	260,302,036	-	-	260,302,036
Grades 2: Special Mention	-	73,172,901	-	73,172,901
Grades 3: Substandard	-	-	42,446,457	42,446,457
Grades 4: Doubtful	-	-	9,046,962	9,046,962
Grades 5: Loss	-	-	4,807,562	4,807,562
Loss allowance	862,104	785,196	3,183,329	4,830,629
Carrying amount	259,439,932	72,387,705	53,117,652	384,945,289

# Habib Overseas Bank Limited

## Notes to annual financial statements

for the year ended 31 December 2018 (continued)

### 31 RISK MANAGEMENT (Continued)

#### 31.2 CREDIT RISK

2017

#### IFRS 7 DISCLOSURES

Group credit risk analysis	Statement of financial position R	Off-Statement of financial position R	Total R
<b>Maximum exposure to credit risk per financial assets</b>			
<b>Cash and balances with central banks</b>	43,272,212	-	43,272,212
Local and foreign cash	3,960,854	-	3,960,854
Mandatory reserve deposits with central banks	13,469,000	-	13,469,000
Other balances with central banks	25,842,358	-	25,842,358
<b>Loans and advances with Banks &amp; Customers</b>	959,973,363	-	959,973,363
Overdrafts and loans	407,851,991	-	407,851,991
Term loans (Bank Placement)	562,422,375	-	562,422,375
Less: impairments of loans and advances	(10,301,003)	-	(10,301,003)
<b>Investments and negotiable securities</b>	147,305,711	-	147,305,711
Investment securities	147,305,711	-	147,305,711
<b>Other assets</b>	13,482,752	-	13,482,752
Derivative financial assets (FEC)	4,044,112	-	4,044,112
Other assets	9,438,640	-	9,438,640
<b>Contingent Liabilities</b>	-	47,146,789	47,146,789
Guarantees - irrevocable	-	41,581,219	41,581,219
Letters of credit and acceptances	-	5,565,570	5,565,570
	1,164,034,038	47,146,789	1,211,180,827

# Habib Overseas Bank Limited

## Notes to annual financial statements

for the year ended 31 December 2018 (continued)

### 31 RISK MANAGEMENT (Continued)

#### 31.2 CREDIT RISK

2017

Company credit risk analysis	Statement of financial position R	Off-Statement of financial position R	Total R
<b>Maximum exposure to credit risk per financial assets</b>			
<b>Cash and balances with central bank</b>	43,272,212	-	43,272,212
Local and foreign cash	3,960,854	-	3,960,854
Mandatory reserve deposits with central banks	13,469,000	-	13,469,000
Other balances with central banks	25,842,358	-	25,842,358
<b>Loans and advances with Banks &amp; Customers</b>	959,973,363	-	959,973,363
Overdrafts and loans	407,851,991	-	407,851,991
Term loans (Bank Placement)	562,422,375	-	562,422,375
Less: impairments of loans and advances	(10,301,003)	-	(10,301,003)
<b>Investments and negotiable securities</b>	147,305,711	-	147,305,711
Investment securities	147,305,711	-	147,305,711
<b>Other assets</b>	13,437,192	-	13,437,192
Derivative financial assets (FEC)	4,044,112	-	4,044,112
Other assets	9,393,080	-	9,393,080
<b>Contingent Liabilities</b>	-	47,146,789	47,146,789
Guarantees - irrevocable	-	41,581,219	41,581,219
Letters of credit and acceptances	-	5,565,570	5,565,570
	1,163,988,478	47,146,789	1,211,135,267

# Habib Overseas Bank Limited

## Notes to annual financial statements for the year ended 31 December 2018 (continued)

### 31 RISK MANAGEMENT (Continued)

#### 31.3 COLLATERAL HELD

The Bank does not have a policy to sell or re-pledge the collateral in the absence of default by the owner of the collateral.

#### Collateral against loans and advances

The bank utilises the following financial and non-financial collateral to mitigate credit risk.

Type of collateral	2018	
	Value of collateral against credit exposure in R 000's	% of credit exposure to total exposure
<b>Financial Collateral</b>		
Cash collateral	26,345	6.84%
<b>Non-financial collateral</b>		
Mortgage bond	301,647	78,36%
Notarial bond over stock & equipment	22,700	5,90%
Other / unsecured	34,253	8,90%
<b>Total Exposure</b>	<b>384,945</b>	<b>100.00%</b>

Type of collateral	2017	
	Value of collateral against credit exposure in R 000's	% of credit exposure to total exposure
<b>Financial Collateral</b>		
Cash collateral	28,064	7.06%
Bank Guarantees	1,829	0.46%
<b>Non-financial collateral</b>		
Mortgage bond	295,437	74.31%
Notarial bond over stock & equipment	12,688	3.19%
Other / unsecured	59,533	14.95%
<b>Total Exposure</b>	<b>397,551</b>	<b>100.00%</b>

# Habib Overseas Bank Limited

## Notes to annual financial statements

for the year ended 31 December 2018 (continued)

### 31 RISK MANAGEMENT (Continued)

	Group		Company	
	2018	2017	2018	2017
	R	R	R	R

#### 31.4 IMPAIRED LOANS AND ADVANCES

The total loans and advances are R 389,775,918 (2017: R 397,550,988) of which R 56,166,553 (2017: R 21,092,485) are impaired advances.

##### Classification categories of advances

Standard	<b>260,302,036</b>	376,458,501	<b>260,302,036</b>	376,458,501
Special Mention	<b>73,172,901</b>	4,098,611	<b>73,172,901</b>	4,098,611
Sub-standard	<b>42,446,457</b>	-	<b>42,446,457</b>	-
Doubtful	<b>9,046,962</b>	3,377,512	<b>9,046,962</b>	3,377,512
Loss	<b>4,807,562</b>	13,616,364	<b>4,807,562</b>	13,616,364
	<b>389,775,918</b>	397,550,988	<b>389,775,918</b>	397,550,988

##### Collateral held against impaired advances

Doubtful	<b>10,000,000</b>	3,377,510	<b>10,000,000</b>	3,377,510
Sub-standard	<b>690,379</b>	-	<b>690,379</b>	-
Loss	<b>45,476,174</b>	9,300,234	<b>45,476,174</b>	9,300,234
Special Mention	-	4,098,611	-	4,098,611
	<b>56,166,553</b>	16,776,355	<b>56,166,553</b>	16,776,355

##### Specific provision held against impaired advances

Doubtful	<b>1,026,262</b>	-	<b>1,026,262</b>	-
Sub-standard	<b>910,642</b>	-	<b>910,642</b>	-
Loss	<b>1,246,425</b>	7,101,002	<b>1,246,425</b>	7,101,002
	<b>3,183,329</b>	7,101,002	<b>3,183,329</b>	7,101,002

#### 31.5 CREDIT ENHANCEMENTS

The bank did not take possession of any collateral or call for any credit enhancements during the year.

The outstanding loans and advances were secured by the following bank guarantees:

Habibsons bank guarantee	-	1,720,000	-	1,720,000
BNP Paribas bank guarantee	-	151,000	-	151,000
	-	1,871,000	-	1,871,000

# Habib Overseas Bank Limited

## Notes to annual financial statements

for the year ended 31 December 2018 (continued)

### 31 RISK MANAGEMENT (Continued)

#### 31.6 OPERATIONAL RISK

Operational risk arises out of incorrect processing of transactions, errors, fraud and forgery, system failure or other occurrences. Two executive directors monitor this risk as part of routine operations through a system of internal controls which, inter alia, requires segregation of duties and internal audit reviews. In this particular area, internal and external audit play a key role in identifying possible areas of improvement.

#### 31.7 MARKET RISK

All trading operations are customer/transaction driven and, therefore, the potential of any risk arising as a result of movement of exchange rates, commodity prices, share prices or volatility is minimal. The Bank does not trade for its own account.

##### 31.7.1 Financial Instruments FVTPL

The financial instruments through profit & loss are disclosed below:

	Group		Company	
	2018	2017	2018	2017
	R	R	R	R
<b>Financial Instruments Level 2</b>				
<b>Notional value</b>				
Derivative financial instrument assets	85,064,169	59,903,537	85,064,169	59,903,537
Derivative financial instrument liabilities	85,562,404	59,831,371	85,562,404	59,831,371
	(498,235)	72,166	(498,235)	72,166
<b>Financial Instruments Level 2</b>				
<b>Fair value TPL</b>				
Derivative financial instrument assets	2,351,730	4,044,112	2,351,730	4,044,112
Derivative financial instrument liabilities	1,853,495	3,972,219	1,853,495	3,972,219
	498,235	71,893	498,235	71,893

##### 31.7.2 SENSITIVITY ANALYSIS OF MARKET RISK

###### (a) INTEREST RATE RISK

Executive directors regularly monitor rate sensitive assets and liabilities as part of our ongoing process. Almost the entire advances book is prime related which acts as a safeguard against adverse movements in interest rates.

###### Interest rate sensitivity analysis

If the prime interest rate had been 50 basis points lower and all other variables remained constant, the Bank profit for the year ended 31 December 2018 would increase by:

	in 000's			
	2018	2017	2018	2017
	R	R	R	R
Increase in 1 months	2,190	247	2,190	247
Increase in 3 months	4,381	495	4,381	495
Increase in 6 months	6,571	742	6,571	742
Increase in 12 months	13,142	1,484	13,142	1,484
<b>Total increase in the year</b>	<b>26,284</b>	<b>2,968</b>	<b>26,284</b>	<b>2,968</b>

# Habib Overseas Bank Limited

## Notes to annual financial statements

for the year ended 31 December 2018 (continued)

### 31 RISK MANAGEMENT (Continued)

#### 31.7.2 INTEREST RATE RISK (Continued)

ASSETS	Group		Company	
	2018 R	2017 R	2018 R	2017 R
<b>DISCRETIONARY / ADMINISTERED RATE ITEMS</b>				
<b>FIXED INTEREST ITEMS</b>				
<b>CASH &amp; CASH EQUIVALENTS</b>				
<b>Money at call and short-term notice with banks</b>	<b>833,414,575</b>	562,422,375	<b>833,414,575</b>	562,422,375
Maturing within 1 month	<b>603,549,297</b>	410,161,267	<b>603,549,297</b>	410,161,267
Maturing after 1 month but within 3 months	<b>168,375,254</b>	141,040,367	<b>168,375,254</b>	141,040,367
Maturing after 3 months but within 1 year	<b>61,490,024</b>	11,220,741	<b>61,490,024</b>	11,220,741
	<b>833,414,575</b>	562,422,375	<b>833,414,575</b>	562,422,375
<b>Investments</b>				
Other short-term securities	<b>194,721,004</b>	147,305,711	<b>194,721,004</b>	147,305,711
Maturing within 1 month	<b>49,865,594</b>	9,968,703	<b>49,865,594</b>	9,968,703
Maturing after 1 month but within 3 months	<b>39,713,582</b>	39,608,675	<b>39,713,582</b>	39,608,675
Maturing after 3 months but within 1 year	<b>105,141,828</b>	97,728,333	<b>105,141,828</b>	97,728,333
	<b>194,721,004</b>	147,305,711	<b>194,721,004</b>	147,305,711
<b>NON-RATE SENSITIVE ITEMS</b>				
<b>Cash and balances with central bank</b>				
Coin and bank notes	<b>7,891,760</b>	3,960,854	<b>7,891,760</b>	3,960,854
Cash held with central bank	<b>13,877,000</b>	13,469,000	<b>13,877,000</b>	13,469,000
Balances with central bank	<b>20,111,416</b>	25,842,358	<b>20,111,416</b>	25,842,358
	<b>41,880,176</b>	43,272,212	<b>41,880,176</b>	43,272,212
<b>OTHER ASSETS</b>				
Property, plant and equipment	<b>4,367,503</b>	5,181,913	<b>3,957,146</b>	4,770,893
Intangible Assets	<b>15,890,946</b>	15,895,858	<b>15,890,946</b>	15,895,858
Investment in subsidiary	-	-	<b>1</b>	1
Derivative financial instruments (Forward exchange contracts)	<b>2,351,730</b>	4,044,112	<b>2,351,730</b>	4,044,112
Other assets (including deferred tax asset)	<b>13,484,906</b>	11,227,405	<b>13,465,211</b>	11,181,923
	<b>36,095,085</b>	36,349,288	<b>35,665,034</b>	35,892,787
<b>VARIABLE INTEREST RATE ITEMS</b>				
<b>Loans and advances (net of impairments)</b>				
<b>Loans and advances (net of impairments)</b>	<b>384,945,289</b>	397,550,988	<b>384,945,289</b>	397,550,988
Maturing within 1 month	<b>232,128,500</b>	258,530,230	<b>232,128,500</b>	258,530,230
Maturing after 1 month but within 3 months	<b>11,678,134</b>	14,986,204	<b>11,678,134</b>	14,986,204
Maturing after 3 months but within 1 year	<b>38,520,957</b>	27,851,729	<b>38,520,957</b>	27,851,729
Maturing after 1 year	<b>102,617,698</b>	96,182,825	<b>102,617,698</b>	96,182,825
	<b>384,945,289</b>	397,550,988	<b>384,945,289</b>	397,550,988
<b>TOTAL ASSETS</b>	<b>1,491,056,129</b>	1,186,900,574	<b>1,490,626,078</b>	1,186,444,073

# Habib Overseas Bank Limited

## Notes to annual financial statements

for the year ended 31 December 2018 (continued)

### 31 RISK MANAGEMENT (Continued)

31.7.2 INTEREST RATE RISK (Continued)	Group		Company	
	2018	2017	2018	2017
LIABILITIES	R	R	R	R
<b>DISCRETIONARY / ADMINISTERED RATE ITEMS</b>	<b>84,184,318</b>	78,456,421	<b>84,184,318</b>	78,456,421
<b>Deposits</b>				
Current deposits	72,355,191	67,524,554	72,355,191	67,524,554
Saving deposits	11,829,127	10,931,867	11,829,127	10,931,867
	<b>84,184,318</b>	78,456,421	<b>84,184,318</b>	78,456,421
<b>AMOUNT OWED TO DEPOSITORS</b>				
<b>FIXED INTEREST ITEMS</b>				
Deposits	236,470,141	197,658,994	236,470,141	197,658,994
Maturing within 1 month	111,422,842	101,670,994	111,422,842	101,670,994
Maturing after 1 month but within 3 months	41,884,806	45,628,000	41,884,806	45,628,000
Maturing after 3 months but within 1 year	82,880,493	50,360,000	82,880,493	50,360,000
Maturing after 1 year	282,000	-	282,000	-
	<b>236,470,141</b>	197,658,994	<b>236,470,141</b>	197,658,994
<b>NON-RATE SENSITIVE ITEMS</b>				
<b>Deposits</b>				
Current deposits	468,003,986	411,365,177	467,933,922	411,295,783
Call deposits	42,589,826	35,462,548	42,589,826	35,462,548
Saving deposits	62,210,777	72,255,297	62,210,777	72,255,297
Lien collateral deposits	15,549,793	27,627,569	15,549,793	27,627,569
Foreign exchange deposits	146,626,613	42,876,952	146,626,613	42,876,952
	<b>734,980,995</b>	589,587,543	<b>734,910,931</b>	589,518,149
<b>Equity &amp; other liabilities</b>				
Shareholder's equity	137,849,273	123,333,571	135,372,208	120,968,060
Derivative financial instruments (Forward exchange contracts)	1,853,495	3,972,219	1,853,495	3,972,219
Other liabilities	18,034,989	10,487,969	18,024,706	10,483,776
	<b>157,737,757</b>	137,793,759	<b>155,250,409</b>	135,424,055
<b>VARIABLE INTEREST RATE ITEMS</b>				
<b>Deposits</b>	<b>277,682,918</b>	183,403,857	<b>279,810,279</b>	185,386,454
Call deposits	259,664,253	166,222,459	261,791,614	168,205,056
Lien collateral deposits	18,018,665	17,181,398	18,018,665	17,181,398
	<b>277,682,918</b>	183,403,857	<b>279,810,279</b>	185,386,454
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>1,491,056,129</b>	1,186,900,574	<b>1,490,626,078</b>	1,186,444,073

# Habib Overseas Bank Limited

## Notes to annual financial statements

for the year ended 31 December 2018 (continued)

### 31 RISK MANAGEMENT (Continued)

#### 31.7.2 SENSITIVITY ANALYSIS OF MARKET RISK (Continued)

##### (b) FOREIGN EXCHANGE RISK

All forward and spot contracts in foreign exchange are transaction driven and as a policy the Bank does not speculate in currency transactions. Open currency positions are strictly controlled in accordance with the policy approved by the Board.

##### Foreign currency sensitivity analysis:

ASSETS	ZAR Equivalent	GBP	USD	EURO	SAR	AUD	CHF	CAD	PKR
Cash	1,576,042	-	92,863	14,550	-	-	-	-	-
Due from Banks Demand	152,457,189	-	10,538,409	48,745	-	-	-	-	90,963
Loans and Advances	1,268,140	-	88,128	-	-	-	-	-	-
Other Assets	1,230	-	85	-	-	-	-	-	-
<b>Total assets</b>	<b>155,302,601</b>	<b>-</b>	<b>10,719,485</b>	<b>63,295</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>90,963</b>

LIABILITIES	ZAR Equivalent	GBP	USD	EURO	SAR	AUD	CHF	CAD	PKR
Deposits	154,165,815	-	10,641,933	62,600	-	-	-	-	-
Due to Banks	-	-	-	-	-	-	-	-	-
Other Liabilities	1,108,349	-	77,024	-	-	-	-	-	-
<b>Total liabilities</b>	<b>155,274,164</b>	<b>-</b>	<b>10,718,957</b>	<b>62,600</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

<b>Net open position</b>	<b>28,437</b>	<b>-</b>	<b>528</b>	<b>695</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>90,963</b>
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Any adverse movement in exchange rate to the extent of 10% would have affected the risk by positive or negative R 3,783 (2017: positive R 25,787).

Effects of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies was a positive R 10,876 (2017: negative R 15,364).

##### 31.8 COMPLIANCE RISK

To ensure that the Bank manages its regulatory risk, that is, the risk that the Bank does not comply with applicable laws, regulations and supervisory requirements and anti-money laundering, an independent compliance function has been established at Group. A senior executive has been designated as compliance officer to oversee this function.

##### 31.9 INFORMATION TECHNOLOGY RISK

The Information Technology Department manages and monitors access to the computer system. A disaster recovery site has been set up and tested. The Bank has in place service level agreements with the vendors who have been providing services in different areas of computer operations. Anti-virus software has been installed on all computers.

##### 31.10 LIQUIDITY RISK

Liquidity has historically been maintained at a very high level in Money Market funds with major banks and treasury bills/government stocks. Executive directors monitor this risk so as to ensure that cash flows are adequate to meet all commitments, current as well as future.

# Habib Overseas Bank Limited

## Notes to annual financial statements

for the year ended 31 December 2018 (continued)

### 31 RISK MANAGEMENT

#### 31.10 LIQUIDITY RISK (Continued)

#### LIQUIDITY COVERAGE RATIO (LCR)

	Total	Specified factor	* in R '000 2018 Weighted value
<b>High quality liquid assets</b>			
Cash	7,892	100%	7,892
Balances with SARB	33,988	100%	33,988
Treasury bills	195,933	100%	195,933
<b>Total level 1 high-quality liquid assets</b>	<b>237,813</b>		<b>237,813</b>
<b>Cash outflows</b>			
Retail deposits	347,424	10%	34,742
Term deposits > 30 days maturity	48,506	0%	-
<b>Unsecured wholesale funding</b>			
Small business	421,064	10%	42,106
Term deposits >30days maturity	66,931	0%	-
Non-financial corporates	454,322	40%	181,729
Other legal entities	7,252	100%	7,252
	<b>1,345,499</b>		<b>265,829</b>
<b>Other expected outflows</b>			
<b>Off-balance sheet (letters of guarantee and credit)</b>			
Retail and small business	28,208	5%	1,410
Non-financial corporates	-	2.5%	-
<b>Unutilised facilities</b>			
Retail and small business	178,064	2.5%	4,452
Non-financial corporates	181	5%	9
	<b>206,453</b>		<b>5,871</b>
<b>Total outflows</b>	<b>1,551,952</b>		<b>271,700</b>
<b>Cash inflows</b>			
Retail and small business	3,916	50%	1,958
Wholesale clients other than financial institutions	-	50%	-
Financial institutions	639,062	100%	639,062
	<b>642,978</b>		<b>641,020</b>
<b>Other inflows</b>			
Derivative assets	7,233	100%	7,233
<b>Total inflows</b>	<b>650,211</b>		<b>648,253</b>
Total outflows			271,700
Total inflows			648,253
Total net cash outflows (capped 75% of outflows)			203,775
<b>Net cash outflows</b>			<b>67,925</b>
<b>LCR</b>			
High level 1 high quality assets			237,813
Net cash flows			67,925
<b>LCR</b>			<b>350.11%</b>
<b>Net stable funding ratio (NSFR)</b>			
Total available stable funding			1,118,417
Total required stable funding			328,835
<b>NSFR</b>			<b>340.11%</b>

(\*) unaudited

# Habib Overseas Bank Limited

## Notes to annual financial statements

for the year ended 31 December 2018 (continued)

### 31 RISK MANAGEMENT

#### 31.10 LIQUIDITY RISK (Continued)

#### LIQUIDITY COVERAGE RATIO (LCR)

			* in R '000 2017 Weighted value
<b>High quality liquid assets</b>	<b>Total</b>	<b>Specified factor</b>	
Cash	3,876	100%	3,876
Balances with SARB	39,311	100%	39,311
Treasury bills	147,306	100%	147,306
<b>Total level 1 high-quality liquid assets</b>	<b>190,493</b>		<b>190,493</b>
<b>Cash outflows</b>			
Retail deposits	287,587	10%	28,759
Term deposits > 30 days maturity	43,151	0%	-
<b>Unsecured wholesale funding</b>			
Small business	399,158	10%	39,916
Term deposits >30days maturity	52,836	0%	-
Non-financial corporates	-	100%	-
	<b>1,051,021</b>		<b>175,991</b>
<b>Other expected outflows</b>			
Off-balance sheet			
Letters of guarantee	27,294	5%	1,365
Letters of credit	19,853	3%	496
<b>Unutilised facilities</b>			
Retail and small business	73,078	2.5%	1,827
Non-financial corporates	23,100	5%	1,155
	<b>143,325</b>		<b>4,843</b>
<b>Total outflows</b>	<b>1,194,346</b>		<b>180,834</b>
<b>Cash inflows</b>			
Retail and small business	211,426	50%	105,713
Wholesale clients other than financial institutions	76,608	50%	38,304
Financial institutions	408,419	100%	408,419
	<b>696,453</b>		<b>552,436</b>
<b>Other inflows</b>			
Derivative assets	181	100%	181
<b>Total inflows</b>	<b>696,634</b>		<b>552,617</b>
Total outflows			180,834
Total inflows			552,617
Total net cash outflows (capped 75% of outflows)			135,625
<b>Net cash outflows</b>			<b>45,209</b>
<b>LCR</b>			
High level 1 high quality assets			190,493
Net cash flows			45,209
<b>LCR</b>			<b>421.36%</b>
<b>Net stable funding ratio (NSFR)</b>			
Total available stable funding			1,006,099
Total required stable funding			290,088
<b>NSFR</b>			<b>346.83%</b>

(\*) unaudited

# Habib Overseas Bank Limited

## Notes to annual financial statements

for the year ended 31 December 2018 (continued)

### 31 RISK MANAGEMENT (Continued)

#### 31.10 LIQUIDITY RISK ANALYSIS

Group	2018 R	Term Maturity					
		Demand 0 - 7 days	8 days - 1 month	2 - 3 months	4 - 12 Months	1 - 5 years	Indeterminate Maturity
<b>ASSETS</b>							
<b>Non-Current Assets</b>	<b>124,980,721</b>	-	-	-	-	<b>102,617,698</b>	<b>22,363,023</b>
Property, plant and equipment	4,367,503	-	-	-	-	-	4,367,503
Intangible Assets	15,890,946	-	-	-	-	-	15,890,946
Long-term loans and advances	102,617,698	-	-	-	-	102,617,698	-
Deferred tax asset	2,104,574	-	-	-	-	-	2,104,574
<b>Current Assets</b>	<b>1,366,075,408</b>	<b>793,437,006</b>	<b>141,365,696</b>	<b>221,656,366</b>	<b>207,848,352</b>	-	<b>1,767,988</b>
Cash and cash equivalents	875,294,751	550,929,473	94,500,000	168,375,254	61,490,024	-	-
Other short-term securities	194,721,004	9,998,034	39,867,560	39,713,582	105,141,828	-	-
Loans and advances to customers	282,327,591	230,341,636	1,786,864	11,678,134	38,520,957	-	-
Derivative financial instruments (Forward exchange contracts)	2,351,730	91,947	247,534	1,816,488	195,761	-	-
Other assets	11,218,929	2,075,916	4,963,738	72,908	2,338,379	-	1,767,988
Receiver of Revenue	161,403	-	-	-	161,403	-	-
<b>Total assets</b>	<b>1,491,056,129</b>	<b>793,437,006</b>	<b>141,365,696</b>	<b>221,656,366</b>	<b>207,848,352</b>	<b>102,617,698</b>	<b>24,131,011</b>
<b>EQUITY AND LIABILITIES</b>							
<b>Equity</b>							
Ordinary share capital	20,000,000	-	-	-	-	-	20,000,000
Reserves	117,849,273	-	-	-	-	-	117,849,273
<b>Total ordinary equity</b>	<b>137,849,273</b>	-	-	-	-	-	<b>137,849,273</b>
<b>Total Liabilities</b>	<b>1,353,206,856</b>	<b>1,130,961,319</b>	<b>86,934,852</b>	<b>43,225,439</b>	<b>91,803,246</b>	<b>282,000</b>	-
<b>Current Liabilities</b>	<b>1,353,206,856</b>	<b>1,130,961,319</b>	<b>86,934,852</b>	<b>43,225,439</b>	<b>91,803,246</b>	<b>282,000</b>	-
Derivative financial instruments (Forward exchange contracts)	1,853,495	84,627	234,662	1,340,633	193,573	-	-
Amount owed to depositors	1,333,318,372	1,121,570,883	86,700,190	41,884,806	82,880,493	282,000	-
Other liabilities	18,034,989	9,305,809	-	-	8,729,180	-	-
Receiver of Revenue	-	-	-	-	-	-	-
<b>Total equity and liabilities</b>	<b>1,491,056,129</b>	<b>1,130,961,319</b>	<b>86,934,852</b>	<b>43,225,439</b>	<b>91,803,246</b>	<b>282,000</b>	<b>137,849,273</b>
The bank has historically had a negative mismatch in the 0-7 days bucket as the majority of the bank's deposits are in current accounts. The bank however has an overall positive mismatch over the next 12 months.							
<b>REMAINING CONTRACTUAL LIABILITIES</b>							
<b>Balance sheet liabilities</b>	<b>1,353,206,857</b>	<b>1,130,961,320</b>	<b>86,934,852</b>	<b>43,225,439</b>	<b>91,803,246</b>	<b>282,000</b>	-
<b>Current Liabilities</b>	<b>1,353,206,857</b>	<b>1,130,961,320</b>	<b>86,934,852</b>	<b>43,225,439</b>	<b>91,803,246</b>	<b>282,000</b>	-
Derivative financial instruments (Forward exchange contracts)	1,853,495	84,627	234,662	1,340,633	193,573	-	-
Amount owed to depositors	1,336,189,837	1,124,442,348	86,700,190	41,884,806	82,880,493	282,000	-
Other liabilities	15,163,525	6,434,345	-	-	8,729,180	-	-
Current taxation	-	-	-	-	-	-	-
<b>Off-balance sheet liabilities</b>	<b>28,207,622</b>	<b>28,207,622</b>	-	-	-	-	-
Irrevocable guarantees	28,207,622	28,207,622	-	-	-	-	-
<b>Total liabilities</b>	<b>1,381,414,479</b>	<b>1,159,168,942</b>	<b>86,934,852</b>	<b>43,225,439</b>	<b>91,803,246</b>	<b>282,000</b>	-

# Habib Overseas Bank Limited

## Notes to annual financial statements

for the year ended 31 December 2018 (continued)

### 31 RISK MANAGEMENT (Continued)

#### 31.10 LIQUIDITY RISK ANALYSIS

Group	2017 R	Term Maturity					
		Demand 0 - 7 days	8 days - 1 month	2 - 3 months	4 - 12 Months	1 - 5 years	Indeterminate Maturity
<b>ASSETS</b>							
<b>Non-Current Assets</b>	119,049,361	-	-	-	-	96,182,825	22,866,536
Property, plant and equipment	5,181,913	-	-	-	-	-	5,181,913
Intangible Assets	15,895,858	-	-	-	-	-	15,895,858
Long-term loans and advances	96,182,825	-	-	-	-	96,182,825	-
Deferred tax asset	1,788,765	-	-	-	-	-	1,788,765
<b>Current Assets</b>	1,067,851,213	657,044,107	70,587,623	196,780,714	139,725,496	231,734	3,481,539
Cash and cash equivalents	605,694,587	402,722,027	50,711,452	141,040,367	11,220,741	-	-
Other short-term securities	147,305,711	-	9,968,703	39,608,675	97,728,333	-	-
Loans and advances to customers	301,368,163	254,243,004	4,287,226	14,986,204	27,851,729	-	-
Derivative financial instruments (Forward exchange contracts)	4,044,112	79,076	1,161,379	1,060,490	1,743,167	-	-
Other assets	9,106,326	-	4,458,863	84,978	849,212	231,734	3,481,539
South African Revenue Services	332,314	-	-	-	332,314	-	-
<b>Total assets</b>	1,186,900,574	657,044,107	70,587,623	194,780,714	139,725,496	96,414,559	26,348,075
<b>EQUITY AND LIABILITIES</b>							
<b>Equity</b>							
Ordinary share capital	20,000,000	-	-	-	-	-	20,000,000
Reserves	103,333,571	-	-	-	-	-	103,333,571
<b>Total ordinary equity</b>	123,333,571	-	-	-	-	-	123,333,571
<b>Total Liabilities</b>	1,063,567,003	878,408,044	81,647,099	46,678,596	56,833,264	-	-
<b>Current Liabilities</b>	1,063,567,003	878,408,044	81,647,099	46,678,596	56,833,264	-	-
Short-term borrowings	-	-	-	-	-	-	-
Derivative financial instruments (Forward exchange contracts)	3,972,219	77,476	1,125,099	1,050,596	1,719,048	-	-
Amount owed to depositors	1,049,106,815	872,596,815	80,522,000	45,628,000	50,360,000	-	-
Other liabilities	10,487,969	5,733,753	-	-	4,754,216	-	-
South African Revenue Services	-	-	-	-	-	-	-
<b>Total equity and liabilities</b>	1,186,900,574	878,408,044	81,647,099	46,678,596	56,833,264	-	123,333,571
<b>REMAINING CONTRACTUAL LIABILITIES</b>							
<b>Balance sheet liabilities</b>	1,063,567,003	878,408,044	81,647,099	46,678,596	56,833,264	-	-
<b>Non-Current Liabilities</b>	-	-	-	-	-	-	-
<b>Current Liabilities</b>	1,063,567,003	878,408,044	81,647,099	46,678,596	56,833,264	-	-
Short-term borrowings	-	-	-	-	-	-	-
Derivative financial instruments (Forward exchange contracts)	3,972,219	77,476	1,125,099	1,050,596	1,719,048	-	-
Amount owed to depositors	1,051,523,017	875,013,017	80,522,000	45,628,000	50,360,000	-	-
Other liabilities	8,071,767	3,317,551	-	-	4,754,216	-	-
South African Revenue Services	-	-	-	-	-	-	-
<b>Off-balance sheet liabilities</b>	47,146,789	47,146,789	-	-	-	-	-
Irrevocable guarantees	41,581,219	41,581,219	-	-	-	-	-
Irrevocable letters of credit and acceptances	5,565,570	5,565,570	-	-	-	-	-
<b>Total liabilities</b>	1,110,713,792	925,554,833	81,647,099	46,678,596	56,833,264	-	-

# Habib Overseas Bank Limited

## Notes to annual financial statements

for the year ended 31 December 2018 (continued)

### 31 RISK MANAGEMENT (Continued)

#### 31.10 LIQUIDITY RISK ANALYSIS

Company	2018 R	Term Maturity					
		Demand 0 - 7 days	8 days - 1 month	2 - 3 months	4 - 12 Months	1 - 5 years	Indeterminate Maturity
<b>ASSETS</b>							
<b>Non-Current Assets</b>	<b>124,569,841</b>	-	-	-	-	<b>102,617,698</b>	<b>21,952,143</b>
Property, plant and equipment	3,957,146	-	-	-	-	-	3,957,146
Intangible Assets	15,890,946	-	-	-	-	-	15,890,946
Investment in subsidiary	1	-	-	-	-	-	1
Long-term loans and advances	102,617,698	-	-	-	-	102,617,698	-
Deferred tax asset	2,104,050	-	-	-	-	-	2,104,050
<b>Current Assets</b>	<b>1,366,056,237</b>	<b>793,437,006</b>	<b>141,365,696</b>	<b>221,656,366</b>	<b>207,829,181</b>	-	<b>1,767,988</b>
Cash and cash equivalents	875,294,751	550,929,473	94,500,000	168,375,254	61,490,024	-	-
Other short-term securities	194,721,004	9,998,034	39,867,560	39,713,582	105,141,828	-	-
Loans and advances to customers	282,327,591	230,341,636	1,786,864	11,678,134	38,520,957	-	-
Derivative financial instruments (Forward exchange contracts)	2,351,730	91,947	247,534	1,816,488	195,761	-	-
Other assets	11,218,929	2,075,916	4,963,738	72,908	2,338,379	-	1,767,988
Receiver of Revenue	142,232	-	-	-	142,232	-	-
<b>Total assets</b>	<b>1,490,626,078</b>	<b>793,437,006</b>	<b>141,365,696</b>	<b>221,656,366</b>	<b>207,829,181</b>	<b>102,617,698</b>	<b>23,720,131</b>
<b>EQUITY AND LIABILITIES</b>							
<b>Equity</b>							
Ordinary share capital	20,000,000	-	-	-	-	-	20,000,000
Reserves	115,372,208	-	-	-	-	-	115,372,208
<b>Total ordinary equity</b>	<b>135,372,208</b>	-	-	-	-	-	<b>135,372,208</b>
<b>Total Liabilities</b>	<b>1,355,253,870</b>	<b>1,133,008,333</b>	<b>86,934,852</b>	<b>43,225,439</b>	<b>91,803,246</b>	<b>282,000</b>	-
<b>Current Liabilities</b>	<b>1,355,253,870</b>	<b>1,133,008,333</b>	<b>86,934,852</b>	<b>43,225,439</b>	<b>91,803,246</b>	<b>282,000</b>	-
Derivative financial instruments (Forward exchange contracts)	1,853,495	84,627	234,662	1,340,633	193,573	-	-
Amount owed to depositors	1,335,375,669	1,123,628,180	86,700,190	41,884,806	82,880,493	282,000	-
Other liabilities	18,024,706	9,295,526	-	-	8,729,180	-	-
Receiver of Revenue	-	-	-	-	-	-	-
<b>Total equity and liabilities</b>	<b>1,490,626,078</b>	<b>1,133,008,333</b>	<b>86,934,852</b>	<b>43,225,439</b>	<b>91,803,246</b>	<b>282,000</b>	<b>135,372,208</b>
<b>REMAINING CONTRACTUAL LIABILITIES</b>							
<b>Balance sheet liabilities</b>	<b>1,355,253,870</b>	<b>1,133,008,333</b>	<b>86,934,852</b>	<b>43,225,439</b>	<b>91,803,246</b>	<b>282,000</b>	-
<b>Current Liabilities</b>	<b>1,355,253,870</b>	<b>1,133,008,333</b>	<b>86,934,852</b>	<b>43,225,439</b>	<b>91,803,246</b>	<b>282,000</b>	-
Short-term borrowings	-	-	-	-	-	-	-
Derivative financial instruments (Forward exchange contracts)	1,853,495	84,627	234,662	1,340,633	193,573	-	-
Amount owed to depositors	1,338,247,134	1,126,499,645	86,700,190	41,884,806	82,880,493	282,000	-
Other liabilities	15,153,241	6,424,061	-	-	8,729,180	-	-
Receiver of Revenue	-	-	-	-	-	-	-
<b>Off-balance sheet liabilities</b>	<b>28,207,622</b>	<b>28,207,622</b>	-	-	-	-	-
Irrevocable guarantees	28,207,622	28,207,622	-	-	-	-	-
<b>Total liabilities</b>	<b>1,383,461,492</b>	<b>1,161,215,955</b>	<b>86,934,852</b>	<b>43,225,439</b>	<b>91,803,246</b>	<b>282,000</b>	-

# Habib Overseas Bank Limited

## Notes to annual financial statements

for the year ended 31 December 2018 (continued)

### 31 RISK MANAGEMENT (Continued)

#### 31.10 LIQUIDITY RISK ANALYSIS

Company	2017 R	Term Maturity					
		Demand 0 - 7 days	8 days - 1 month	2 - 3 months	4 - 12 Months	1 - 5 years	Indeterminate Maturity
<b>ASSETS</b>							
<b>Non-Current Assets</b>	118,638,420	-	-	-	-	96,182,825	22,455,595
Property, plant and equipment	4,770,893	-	-	-	-	-	4,770,893
Intangible Assets	15,895,858	-	-	-	-	-	15,895,858
Investment in subsidiary	1	-	-	-	-	-	1
Long-term loans and advances	96,182,825	-	-	-	-	96,182,825	-
Deferred tax asset	1,788,843	-	-	-	-	-	1,788,843
<b>Current Assets</b>	1,067,805,653	657,044,107	70,587,623	196,780,714	139,679,936	231,734	3,481,539
Cash and cash equivalents	605,694,587	402,722,027	50,711,452	141,040,367	11,220,741	-	-
Other short-term securities	147,305,711	-	9,968,703	39,608,675	97,728,333	-	-
Loans and advances to customers	301,368,163	254,243,004	4,287,226	14,986,204	27,851,729	-	-
Derivative financial instruments (Forward exchange contracts)	4,044,112	79,076	1,161,379	1,060,490	1,743,167	-	-
Other assets	9,106,326	-	4,458,863	84,978	849,212	231,734	3,481,539
South African Revenue Services	286,754	-	-	-	286,754	-	-
<b>Total assets</b>	1,186,444,073	657,044,107	70,587,623	194,780,714	139,679,936	96,414,559	25,937,134
<b>EQUITY AND LIABILITIES</b>							
<b>Equity</b>							
Ordinary share capital	20,000,000	-	-	-	-	-	20,000,000
Reserves	100,968,060	-	-	-	-	-	100,968,060
<b>Total ordinary equity</b>	120,968,060	-	-	-	-	-	120,968,060
<b>Total Liabilities</b>	1,065,476,013	880,317,054	81,647,099	46,678,596	56,833,264	-	-
<b>Non - Current Liabilities</b>	-	-	-	-	-	-	-
<b>Current Liabilities</b>	1,065,476,013	880,317,054	81,647,099	46,678,596	56,833,264	-	-
Short-term borrowings	-	-	-	-	-	-	-
Derivative financial instruments (Forward exchange contracts)	3,972,219	77,476	1,125,099	1,050,596	1,719,048	-	-
Amount owed to depositors	1,051,020,018	874,510,018	80,522,000	45,628,000	50,360,000	-	-
Other liabilities	10,483,776	5,729,560	-	-	4,754,216	-	-
<b>Total equity and liabilities</b>	1,186,444,073	880,317,054	81,647,099	46,678,596	56,833,264	-	120,968,060
<b>REMAINING CONTRACTUAL LIABILITIES</b>							
<b>Balance sheet liabilities</b>	1,065,476,013	880,317,054	81,647,099	46,678,596	56,833,264	-	-
<b>Current Liabilities</b>	1,065,476,013	880,317,054	81,647,099	46,678,596	56,833,264	-	-
Short-term borrowings	-	-	-	-	-	-	-
Derivative financial instruments (Forward exchange contracts)	3,972,219	77,476	1,125,099	1,050,596	1,719,048	-	-
Amount owed to depositors	1,053,436,220	876,926,220	80,522,000	45,628,000	50,360,000	-	-
Other liabilities	8,067,574	3,313,358	-	-	4,754,216	-	-
<b>Off-balance sheet liabilities</b>	47,146,789	47,146,789	-	-	-	-	-
Irrevocable guarantees	41,581,219	41,581,219	-	-	-	-	-
Irrevocable letters of credit and acceptances	5,565,570	5,565,570	-	-	-	-	-
<b>Total liabilities</b>	1,112,622,802	927,463,843	81,647,099	46,678,596	56,833,264	-	-