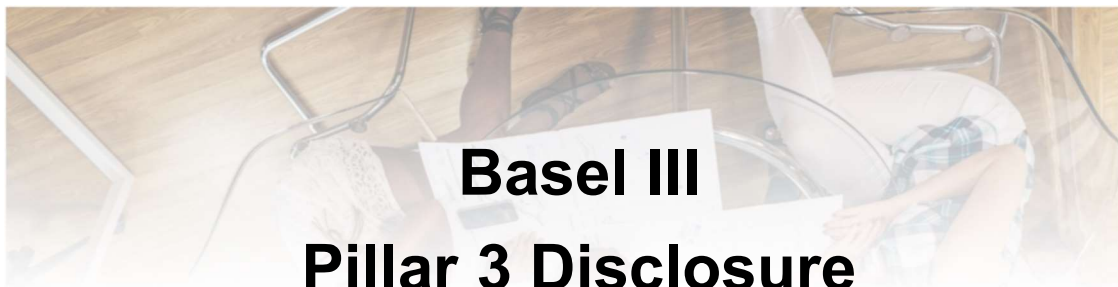


# COMMONWEALTH BANK OF SOUTH AFRICA



for the year ended 30 June 2018

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# 1. Introduction

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Commonwealth Bank of South Africa Limited (CBSA) was officially registered as a bank by the South African Reserve Bank (SARB) in September 2017. African Rainbow Capital (ARC) currently owns a 10% stake in CBSA's registered controlling company, Commonwealth Bank of South Africa (Holding Company) Limited (CBSA HoldCo). ARC has applied to the Prudential Authority (PA) in terms of section 37 of the Banks Act 94 of 1990 for permission to acquire the remaining 90% stake from Commonwealth Bank of Australia (CBA). ARC's proposed acquisition received all necessary regulatory approvals, and ARC became the sole shareholder in CBSA, through the bank's controlling company. The acquisition by ARC, which comprises CBSA's operations and all related intellectual property was concluded on 1 November 2018.

CBSA has embraced technology and partnerships to deliver innovative digital banking products to the market when it launches the bank towards the end of 2018. Since its registration as a bank, CBSA has been preparing and testing its operations in order to deliver on its vision of creating long-term value for its people, customers, and shareholders. This vision is supported by the bank's four capabilities: technology, people, strength, and productivity. Consistent with its strategy, CBSA operates responsibly in taking well-researched and -managed risks to create sustained top-tier shareholder value.

CBSA's purpose is to promote participation in the economy by providing affordable access to financial services and products embedded with education and training to improve the customer's financial wellbeing. CBSA will primarily target underserved consumers and small businesses. With the introduction of a 'twin peaks' model into the South African regulatory framework, a focus on conduct and the management of conduct risk within the business is paramount for CBSA. We are committed to treating the customer fairly, in a transparent and consistent manner, while promoting a corporate culture of ensuring our behaviour and actions put the customer at the centre of everything we do.

Although ARC is now the main shareholder it should be noted that this document is prepared in accordance with the policy approved by CBSA's board of directors and complies both with regulation 43 of the Regulations relating to Banks and with the Basel Committee on Banking Supervision's Pillar 3 disclosure requirements. It presents information on CBSA's capital adequacy, risk-weighted assets (RWA), and calculations for credit, market, and operational risks for the year ended 30 June 2018.

For the period under review, CBSA has not extended any counterparty credit, has not undertaken any securitisation transactions, and does not have derivative or counterparty credit risk exposures.

For this reason, disclosures relating to these activities are not applicable and have been excluded from this report.

All current balance sheet exposures are banking book exposures and all liquid assets are held to maturity, with a phased approach in terms of exposure into the retail and small and medium enterprise (SME) markets.

For the year under review, the group continues to maintain a robust capital, liquidity and funding position. The CET1 ratio was 146.64% as at 30 June 2018, an increase of 76.6% from 31 March 2018 and was 60.11 % as at 31 Dec 2017.

Throughout the full year ended 30 June 2018, the CET1 ratio was consistently well in excess of regulatory minimum capital adequacy requirements at all times.

## 2. Structure & Consolidated Supervision

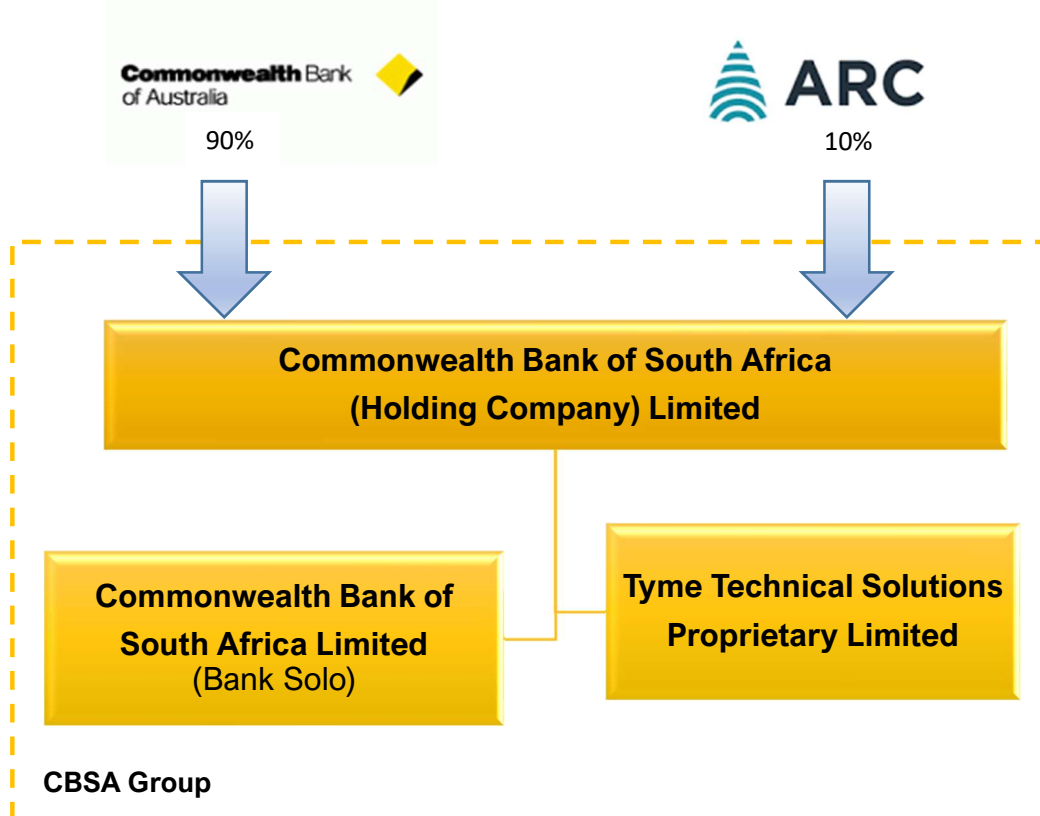


Figure 1: CBSA Group Structure<sup>1</sup>

The structure consists of Commonwealth Bank of South Africa (Holding Company) Limited (CBSA HoldCo) and two wholly-owned subsidiaries. CBSA HoldCo is the registered controlling company of Commonwealth Bank of South Africa Limited (CBSA), the registered bank. CBSA HoldCo's

<sup>1</sup> As at 30 June 2018

shareholders are Commonwealth Bank Australia (CBA), with a 90% stake, and African Rainbow Capital (ARC), with a 10% stake.

CBA's international retail banking footprint is managed by its International Financial Services (IFS) division, based in Hong Kong. IFS manages CBA's investment into CBSA.

CBSA is the banking entity within the CBSA group and contributes approximately 95% to the total consolidated balance sheet and risk-weighted assets (RWA). Tyme Technical Solutions Proprietary Limited (TTS) develops and provides branchless banking solutions to the CBSA group, which support and advance the banking activities in the banking entity. TTS currently makes up approximately 4% of the consolidated balance sheet due to bank placements held in its name. These activities are ancillary to the main banking business, contributing just over 4% of the total consolidated RWA. There are currently limited activities in this company.

All entities are reported under the Basel III Standardised Approach and fully consolidated in line with regulatory and International Financial Reporting Standards (IFRS) requirements. There is no difference between the balance sheet and the balance sheet under the scope of regulatory consolidation, as the structure does not contain any insurance or other entities which are to be excluded from the regulatory consolidation in terms of regulations 36(7)(a)(iii) and 36(10)(c)(ii) of the Regulations relating to Banks.

The capital adequacy of CBSA is not diluted by any minority shareholders or investments and all equity injected into the business qualifies 100% towards regulatory capital. Capital adequacy is measured against standardised prescribed and approved risk measurement approaches, as reflected in the table below.

Risk type	Risk measurement approach
Credit risk	Standardised approach
Counterparty credit risk (CCR)	Not applicable
Securitisation risk	Not applicable
Market risk	Standardised approach
Equity risk	Not applicable
Operational risk	Basic Indicator Approach

CBSA ensures that its plans and controls are adequate to manage all major risks to the bank, ie. :

- credit risk,
- market risk,
- liquidity risk,
- operational risk,
- reputational/  
conduct risk,
- compliance risk,
- cyber risk, and
- systemic risk.

This ensures it will remain a going concern, considering measurable and non-measurable risk types reported on a daily and monthly basis. CBSA also considers non-financial risks and the 'customer voice' when making risk-based decisions and in designing products.

### 3. Linkages between financial statements and regulatory exposures

All regulatory carrying value disclosures align to the CBSA group's annual financial statements as all consolidations are in line with IFRS requirements and no market valuations are currently performed for any of the exposures. The risks reported under the capital adequacy assessment are limited to the specific bank positing activities, rather than operational activities, and are therefore limited to the relevant nature of these exposures.

**L11 (Group): Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories**

At 30 June 2018  
R'000

	CBSA Group					Not subject to capital requirements nor capital deductions
	Published financial statements	Regulatory scope of consolidation	Carrying values of items subject to:			
			Credit risk	Counterparty credit risk	Securitisation	
<b>Assets</b>						
Cash and balances at central bank	5 000	5 000				5 000
Items in the course of collection from other banks						
Trading portfolio assets						
Financial assets designated at fair value						
Derivative financial instruments						
Short term negotiable securities	68 720	68 720	68 720			
Loans and advances to banks	972 316	972 316	972 316			
Loans and advances to customers						
Reverse repurchase agreements and other similar secured lending						
Intangible Assets	548 326	548 326				548 326
Property and equipment	57 445	57 445				57 445
Deferred income tax assets						
Available for sale financial investments						
Other Assets	64 710	64 710				64 710
<b>Total Assets</b>	<b>1 716 517</b>	<b>1 716 517</b>	<b>1 041 036</b>			<b>675 481</b>
<b>Liabilities</b>						
Deposits from banks						
Items in the course of collection due to other banks						
Customer accounts	9	9				9
Repurchase agreements and other similar secured borrowings						
Provisions	88 829	88 829				88 829
Trading portfolio liabilities	100 588	100 588			19 593	80 995
<b>Total Liabilities</b>	<b>189 426</b>	<b>189 426</b>			<b>19 593</b>	<b>169 833</b>

LI1 (Bank): Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

At 30 June 2018  
R'000

	CBSA Bank					Not subject to capital requirements nor deduction from capital
	Published financial statements	Regulatory scope of consolidation	Carrying values of items subject to:			
			Credit risk	Counterparty credit risk	Securitisation	
<b>Assets</b>						
Cash and balances at central bank	5 000	5 000				5 000
Items in the course of collection from other banks						
Trading portfolio assets						
Financial assets designated at fair value						
Derivative financial instruments						
Short term negotiable securities	68 720	68 720	68 720			
Loans and advances to banks	882 553	882 553	882 553			
Loans and advances to customers						
Reverse repurchase agreements and other similar secured lending						
Intangible assets	548 326	548 326				548 326
Property and equipment	57 445	57 445	57 445			
Deferred income tax assets						
Available for sale financial investments						
Other assets	61 155	61 155	61 155			
<b>Total assets</b>	<b>1 623 199</b>	<b>1 623 199</b>	<b>1 069 873</b>			<b>553 326</b>
<b>Liabilities</b>						
Deposits from banks						
Items in the course of collection due to other banks						
Customer accounts	9	9				9
Repurchase agreements and other similar secured borrowings						
Trading portfolio liabilities						
Financial liabilities designated at fair value						
Derivative financial instruments						
Provisions	88 829	88 829				88 829
Other Liabilities	100 136	100 136			19 593	80 543
<b>Total liabilities</b>	<b>188 974</b>	<b>188 974</b>			<b>19 593</b>	<b>169 381</b>

The main differences between the balance sheets for the CBSA group and the bank relate to the bank placements held by the non-bank entities (TTS and CBSA HoldCo), as these entities are non-trading entities. This difference should remain constant and the bank's contribution within the group is anticipated to grow even more as a result.

**LI2 (Group): Main sources of differences between regulatory exposure amounts and carrying values in financial statements**

At 30 June 2018

R'000

	CBSA Group			
	Total	Items subject to:		
		Credit Risk Framework	Securitisation Framework	Counterparty Credit Risk Framework
1 Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	1 716 517	1 041 036		
2 Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	189 426			19 593
<b>3 Total net amount under regulatory scope of consolidation</b>	<b>1 527 091</b>	<b>1 041 036</b>		<b>(19 593)</b>
4 Off-balance-sheet amounts				
5 Differences in valuations				
6 Differences due to different netting rules, other than those already included in row 2				
7 Differences due to consideration of provisions				
8 Differences due to prudential filters				
<b>9 Exposure amounts considered for regulatory purposes</b>	<b>1 527 091</b>	<b>1 041 036</b>		<b>(19 593)</b>

**LI2 (Bank): Main sources of differences between regulatory exposure amounts and carrying values in financial statements**

At 30 June 2018

R'000

	CBSA Bank			
	Total	Items subject to:		
		Credit Risk Framework	Securitisation Framework	Counterparty Credit Risk Framework
1 Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	1 623 199	1 069 873		
2 Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	188 974			19 593
<b>3 Total net amount under regulatory scope of consolidation</b>	<b>1 434 225</b>	<b>1 069 873</b>		<b>(19 593)</b>
4 Off-balance-sheet amounts				
5 Differences in valuations				
6 Differences due to different netting rules, other than those already included in row 2				
7 Differences due to consideration of provisions				
8 Differences due to prudential filters				
<b>9 Exposure amounts considered for regulatory purposes</b>	<b>1 434 225</b>	<b>1 069 873</b>		<b>(19 593)</b>

## 4. Key metrics (at consolidated level)

KM1 (Group): Key metrics (at consolidated group level)

At 30 June 2018  
R'000

	CBSA Group			
	30-Jun-18	31-Mar-18	31-Dec-17	30-Sep-17
<b>Available capital (amounts)</b>				
1 Common Equity Tier 1 (CET1)	978 766	599 809	552 978	
2 Tier 1	978 766	599 809	552 978	
3 Total capital	978 766	599 809	552 978	
<b>Risk-weighted assets (amounts)</b>				
4 Total risk-weighted assets (RWA)	667 466	856 384	919 942	
<b>Risk-based capital ratios as a % of RWA</b>				
5 Common Equity Tier 1 ratio (%)	146.64	70.04	60.11	
6 Tier 1 ratio (%)	146.64	70.04	60.11	
7 Total capital ratio (%)	146.64	70.04	60.11	
<b>Additional CET1 buffer requirements as a percentage of RWA</b>				
8 Capital conservation buffer requirement (2.5% from 2019) (%)	1.88	1.88	1.25	
9 Countercyclical buffer requirement (%)	0.00	0.00	0.00	
10 Bank D-SIB additional requirements (%)	0.00	0.00	0.00	
11 Total of bank CET1 specific buffer requirements (%) (row 8 + row 9+ row 10)	1.88	1.88	1.25	
12 CET1 available after meeting the bank's minimum capital requirements (%)	144.76	60.16	50.86	
<b>Basel III Leverage Ratio</b>				
13 Total Basel III leverage ratio measure	1 168 192	769 221	1 040 262	
14 Basel III leverage ratio (%) (row 2/row 13)	83.78	77.98	53.16	
<b>Liquidity Coverage Ratio</b>				
15 Total HQLA	94 044	74 207	73 681	
16 Total net cash outflow	0.138	0.141	0.013	
17 LCR ratio (%)	68 152 505	52 550 062	555 935 687	
<b>Net Stable Funding Ratio</b>				
18 Total available stable funding	2 703 484	1 894 972	1 668 011	
19 Total required stable funding	1 996 149	1 523 739	1 394 144	
20 NSFR ratio (%)	135.44	124.36	119.64	

The table above (KM1) provides an overview of the key regulatory metrics covering CBSA group's available capital and ratios, risk-weighted assets, leverage ratio, liquidity coverage ratio, and net stable funding ratio of the group's performance over time.

All key metrics are being monitored daily and incorporated as part of the bank's additional early warning indicators (EWIs) to ensure the continuous monitoring and evaluation of the bank's liquidity and capital adequacy positions. This is also part of the bank's going-concern planning through the Contingency Funding Plan (CFP), the Business Continuity Plan (BCP) as well as the bank's Recovery Plan strategies and processes.

The CBSA Group consolidated requirements are also reported in line with section 42 of the Banks Act and the minimum standards in respect of consolidated supervision prescribed by regulation 36 and in compliance with all directives, instructions and requirements relating to CBSA Bank. CBSA is the only banking entity in the CBSA group, and ratios pertaining to the group are therefore driven off the inflows and outflows from the bank.

## 5. Overview of Risk Management

---

CBSA seeks to establish a culture of disciplined risk-taking that enables the bank to deliver long-term value for its people customers, and shareholders.

A strong risk culture supports the effective application of the risk appetite. To ensure a strong risk culture we:

- acknowledge risk;
- maintain a risk-aware mindset;
- communicate in a timely manner with honesty and transparency;
- speak up when detecting potential issues and risks;
- are accountable for data quality; and
- promote and embed a strong risk culture.

CBSA's risk appetite is influenced by and should be read in the context of the bank's:

- vision of enhancing economic participation and inspiring financial well-being;
- values of integrity, accountability, collaboration, excellence and service; and
- standards of professional practice set out in stated corporate commitments.

The CBSA Risk Appetite Statement (RAS) articulates the high-level boundaries for the type and degree of operational risk that the board is willing to accept for its shareholders. Risk appetite is a central and essential element of the CBSA Operational Risk Management Framework (ORMF). Risk appetite is managed through limits and tolerances based on prescribed regulatory requirements for CBSA and internally set limits, as identified in respective policies.

The board directs management on its risk-taking activities in the context of the bank's business strategy, by means of the RAS, which articulates:

- **Risk appetite:** the degree of risk we are prepared to accept, expressed in terms of key business outcomes, and taking into consideration the interests of all stakeholders
- **Risk tolerances:** for each business outcome, the maximum level of risk that we are willing to operate within
- **Risk limits and triggers:** for each material risk type, management limits designed to cascade our risk appetite and risk tolerances to a day-to-day management level, with corresponding trigger levels for early intervention

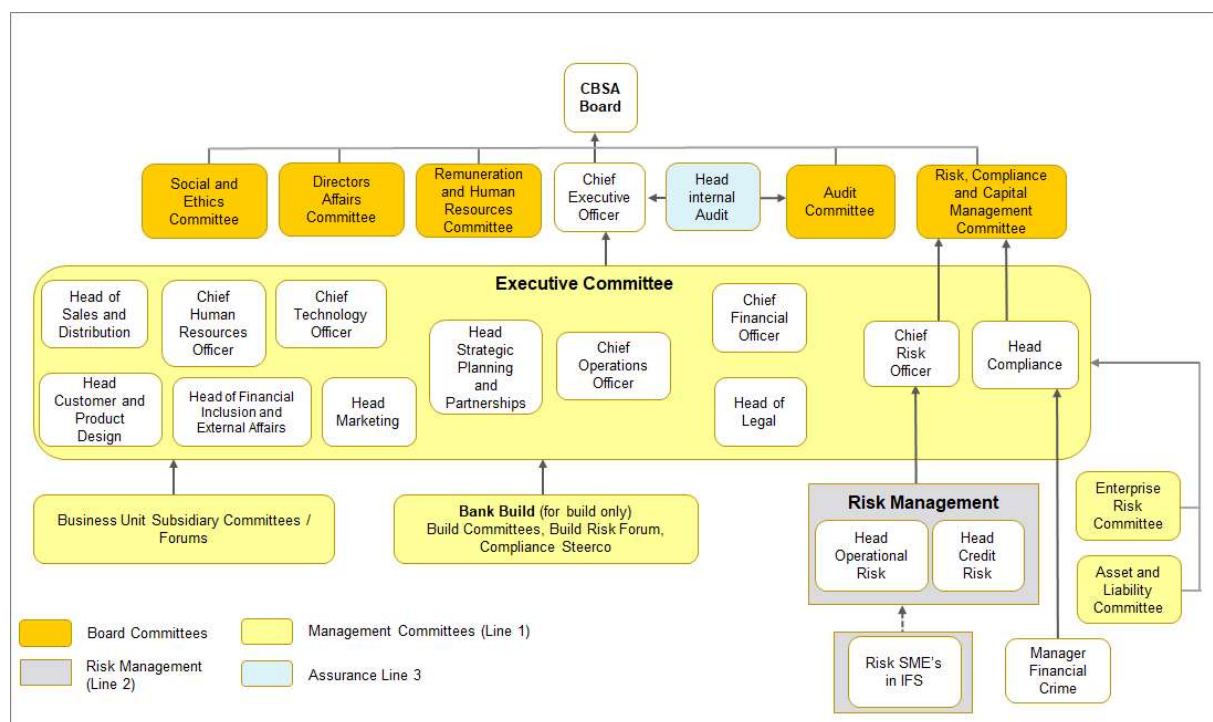


Figure 2: CBSA Risk Governance Structure

Risk governance therefore originates at board level, and cascades through the Chief Executive Officer (CEO) to CBSA via policies, delegated authorities, and regular review of outcomes. This is underpinned by a clear segregation of duties and ensures board-level oversight. Independent review of the risk management framework and its implementation is

carried out by CBA's Group Audit & Assurance and CBSA's Internal Audit functions, as appropriate.

The CBSA Chief Risk Officer (CRO) has ultimate responsibility for the risk oversight of all risk classes within CBSA, with support from the Head of Compliance, who ensures that regulatory requirements are complied with at all times. Risk governance is undertaken by a structured hierarchy of committees and forums, each with specific accountabilities. To ensure the required focus on compliance-related matters, the Head of Compliance reports directly to the CEO and is accountable for managing all compliance and anti-money-laundering risks. With the introduction of a 'twin peaks' model into the South African regulatory framework, a focus on conduct and the management of conduct risk within the business is paramount for CBSA. We are committed to treating the customer fairly, in a transparent and consistent manner, while promoting a corporate culture of ensuring our behaviour and actions put the customer at the centre of everything we do.

The board's Risk, Compliance and Capital Management Committee is a sub-committee of the CBSA board responsible for overseeing and advising the board on CBSA's risk appetite and risk management framework, monitoring the risk profile of CBSA, endorsing board-level policies (including limits) in respect of key risk types as determined by the board, setting delegations supporting strategy and appetite, and monitoring compliance with delegations. The CBSA Enterprise Risk Committee (ERC) is a management committee that ensures the implementation of CBSA board-level policies (including limits) in respect of key risk types as determined by the CBSA board, supporting strategy, risk appetite, and monitoring compliance with delegations.

CBSA operates utilising the 'Three Lines of Defence' model to ensure that risks are identified, managed, and monitored. The three lines of defence are

- business management (Line 1),
- risk management (Line 2), and
- audit and assurance (Line 3).

The first line of defence is business management. As risk is best managed at the place it occurs, business managers are responsible for managing the risks for their business. The risk management team, as Line 2, provides risk-management expertise and oversight for business management's risk-related activities. Line 3 is comprised of CBA's Group Audit & Assurance function, which provides independent assurance to key stakeholders regarding the adequacy and effectiveness of CBSA's system of internal controls, risk management, and governance procedures and processes. CBSA's internal audit function operates as part of Line 3, providing

further independent assurance regarding the adequacy and effectiveness of CBSA's system of internal controls, risk management, and governance procedures and processes.

The level of risk accepted is managed through the CBSA Risk Management Framework (RMF), which is illustrated in the diagram below. The RMF ensures that the degree of risk the bank is willing to accept, as determined by the RAS, is in line with CBSA's strategic plan and is executed through the Risk Management Approach. The Risk Management Approach is underpinned by the foundation components, together with key operational elements and the CBSA approach for each risk type identified as material. The material risk types consist of the following:

- **credit risk:** the risk arising from counterparties as a result of credit extension
- **market risk:** the potential of an adverse impact on CBSA's earnings from changes in interest rates, foreign exchange rates, equity and commodity prices, credit spreads, and any market risk leases or loan exposures
- **liquidity risk:** the risk arising from potential mismatches in funding requirements in both the banking and trading book. Note that the trading book is not applicable to CBSA at present
- **operational risk:** the risk of loss resulting from inadequate or failed internal processes, people, and systems, or from external events
- **reputational risk (conduct risk):** the risk of loss through not delivering on commitments, or through operating and behaving in a manner that adversely impacts the bank's customers, shareholders, staff, or reputation
- **compliance risk:** the risk of potentially contravening any applicable laws or regulations
- **cyber risk:** the potential damage or losses arising from unauthorised access to CBSA systems.



Figure 3: CBSA Risk Management Framework

- The RAS is formally reviewed on an annual basis and approved by the board.
- Reporting is designed to provide the board and senior management with a comprehensive view of the current material risks that CBSA faces, as well as any emerging risks that may require CBSA to amend its strategy or approach.
- The IFS Risk team provides additional guidance and oversight on risk and compliance risks.

## 6. Credit Risk

CBSA has a comprehensive and effective Risk Management Framework, of which the Credit Risk Framework (CRF) is part. The purpose of the CRF document is to provide an overview of the key components of credit risk management activities and how they support CBSA in achieving its strategic goals, through comprehensive identification, assessment, mitigation, monitoring, management, and reporting of credit risk.

While not a significant risk at present, credit risk at a portfolio level includes the management of concentration risk arising from interdependencies between customers (large credit exposures) and

concentrations of exposures to geographical regions, industry sectors, and products or portfolio types.

On a daily basis, CBSA calculates its risk exposures arising from large exposures to a single obligor and groups of related obligors, expressed as a percentage of its qualifying capital requirement (QCR), as required by the Credit Concentration Framework and defined within the Large Credit Exposure Policy (LCEP). These exposures are internally reported to the Asset and Liability Committee (ALCO) on a daily, monthly, and quarterly basis, as well as to the Prudential Authority in line with regulatory requirements and the CRF.

Credit risk arises from CBSA's current activities, which are limited to interbank placements, minimum reserving requirements, and investing in Treasury Bills for liquid asset requirements. This is generally the biggest risk in banking, but currently contributes less than operation risk to the consolidated RWA, as the bank has not yet extended credit to customers. Credit extension will be launched during 2019.

For regulatory capital purposes, CBSA has adopted the standardised approach to determine its RWA on credit exposure. CBSA is in the process of building a robust credit risk model and constantly revising reporting standards in order to comply with the latest regulatory and financial reporting requirements, including IFRS 9.

## 6.1 Credit Quality of Assets

The following tables reflect the credit quality of both on- and off-balance-sheet assets and the impact of impairments as at 30 June 2018

**CR1 (Group): Credit Quality of assets**  
At 30 June 2018  
R'000

	CBSA Group			
	a	b	c	d
	Carrying values of:		Allowances/ impairments	Net values (a+b-c)
Defaulted exposures	Non-defaulted exposures			
1 Loans		1 043 621		1 043 621
2 Debt securities		68 720		68 720
3 Off-balance sheet exposures				
<b>4 Total</b>		<b>1 112 341</b>		<b>1 112 341</b>

**CR1 (Bank): Credit Quality of assets**

At 30 June 2018

R'000

	CBSA Bank			
	a	b	c	d
	Carrying values of:		Allowances/ impairments	Net values (a+b-c)
Defaulted exposures	Non-defaulted exposures			
1 Loans		954 184		954 184
2 Debt securities		68 720		68 720
3 Off-balance-sheet exposures				
<b>4 Total</b>		<b>1 022 904</b>		<b>1 022 904</b>

There is no credit risk mitigation currently being considered in the calculation of the RWAs as the bank has not yet extended credit to customers, therefore pre- and post-mitigation exposures are identical.

All credit risk ratings applied to interbank exposures are based on the short-term credit assessment ratings required by regulation 23, on the basis that all banking exposures are denominated and funded in South African Rand and relate to claims with an original maturity of three months or less, which are not renewed or rolled, resulting in an effective maturity of more than three months.

There is no default information to disclose for the period under review, as the bank has to date only placed funds with the so-called 'big four' South African banks and has not yet extended credit to the public.

## 6.2 Credit Exposures by Asset Class

The following tables reflect the credit exposure per asset class, pre and post credit conversion factors (CCF) and credit risk mitigation (CRM), as at 30 June 2018.

**CR4 (Group): Standardised approach - credit risk exposure and Credit Risk Mitigation (CRM) effects**

At 30 June 2018

R'000

Asset classes	CBSA Group					
	Exposures pre CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
	On-balance- sheet	Off-balance- sheet	On-balance- sheet	On-balance- sheet	RWA	RWA Density (%)
1 Sovereigns and their central banks	68 720		68 720		0	0.00
4 Banks	1 043 621		1 043 621		208 724	20.00
13 Other assets	122 155		122 155		122 155	100.00
<b>14 Total</b>	<b>1 234 496</b>		<b>1 234 496</b>		<b>330 879</b>	<b>26.80</b>

**CR4 (Bank): Standardised approach - credit risk exposure and Credit Risk Mitigation (CRM) effects**

At 30 June 2018  
R'000

Asset classes	CBSA Bank					
	Exposures pre CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
	On-balance-sheet	Off-balance-sheet	On-balance-sheet	Off-balance-sheet	RWA	RWA density (%)
1 Sovereigns and their central banks	68 720		68 720		0	0.00
4 Banks	954 184		954 184		190 837	20.00
13 Other assets	118 600		118 600		118 600	100.00
<b>14 Total</b>	<b>1 141 504</b>		<b>1 141 504</b>		<b>309 437</b>	<b>27.11</b>

All exposures attracting credit risk are South African Rand denominated and placed with South African counterparts within South Africa. Due to the build phase the bank is currently in, placements are short-dated to ensure an optimal and efficient cashflow position.

## 6.3 Credit Exposures by Asset Class and Risk Weights

The following table reflects the risk weights per asset class and post credit conversion factors (CCF) and credit risk mitigation (CRM) as at 30 June 2018.

**CR5 (Group): Standardised approach - exposures by asset classes and risk weights**

At 30 June 2018  
R'000

Asset classes	CBSA Group										Total credit exposures amount (post CCF and post-CRM)
	Risk Weight										
	0%	10%	20%	35%	50%	75%	100%	150%	Others		
1 Sovereigns and their central banks	68 720										68 720
4 Banks			1 043 621								1 043 621
13 Other assets							122 155				122 155
<b>14 Total</b>	<b>68 720</b>		<b>1 043 621</b>				<b>122 155</b>				<b>1 234 496</b>

\* Banks subject to the simplified standardised approach should indicate risk weights determined by the supervisory authority in the columns.

**CR5 (Bank): Standardised approach - exposures by asset classes and risk weights**

At 30 June 2018  
R'000

Asset classes	CBSA Bank										Total credit exposures amount (post CCF and post-CRM)
	Risk Weight										
	0%	10%	20%	35%	50%	75%	100%	150%	Others		
1 Sovereigns and their central banks	68 720										68 720
4 Banks			954 184								954 184
13 Other assets							118 600				118 600
<b>14 Total</b>	<b>68 720</b>		<b>954 184</b>				<b>118 600</b>				<b>1 141 504</b>

\* Banks subject to the simplified standardised approach should indicate risk weights determined by the supervisory authority in the columns.

As noted previously, the bank has not provided any secured or unsecured credit-related facilities and currently has no off-balance-sheet credit exposure. End-to-end credit risk systems and processes will be built and tested before implementation.

**CR3 (Group): Credit risk mitigation techniques – overview**

At 30 June 2018 R'000		CBSA Group					
		Exposures secured by:					
	Exposures unsecured: carrying amount	Collateral	Collateral of which: secured amount	Financial guarantees	Financial guarantees, of which: secured amount	Credit derivatives	Credit derivatives, of which: secured amount
1	Loans	1 043 621					
2	Debt securities	68 720					
<b>3</b>	<b>Total</b>	<b>1 112 341</b>					
4	Of which defaulted						

**CR3 (Bank): Credit risk mitigation techniques – overview**

At 30 June 2018 R'000		CBSA Bank					
		Exposures secured by:					
	Exposures unsecured: carrying amount	Collateral	Collateral of which: secured amount	Financial guarantees	Financial guarantees, of which: secured amount	Credit derivatives	Credit derivatives, of which: secured amount
1	Loans	954 184					
2	Debt securities	68 720					
<b>3</b>	<b>Total</b>	<b>1 022 904</b>					
4	Of which defaulted						

## 7. Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people, and systems, or from external events. This definition includes legal risk but excludes strategic and reputation risk. Operational risk can widely occur in banks due to human error or mistakes. Examples of operational risk include incorrect information filled in during the client origination process or confidential information leaked due to system failure.

Operational risk can be categorised in the following way for a better understanding:

- **Human risk:** Potential losses due to human error, whether intentional or not;
- **IT/System risk:** Potential losses due to system failures and programming errors; and
- **Processes risk:** Potential losses due to inadequate or failed processes.

CBSA has a comprehensive and integrated Operational Risk Management Framework (ORMF) in place, which enables the bank to identify, assess, manage, and report operational risks on a consistent and reliable basis, addressing each of the following components:

- Governance;
- management, measurement, and systems;
- analytics, review, reporting; and
- people and culture.

Risks are being identified and subsequent controls implemented as part of the bank's build process. The ORMF will then mature over the ensuing twelve months. All medium and higher risks, as well as ineffective controls, will be approved through the relevant governance processes.

CBSA's board and senior management will remain ultimately responsible for ensuring that the bank's system of internal control is adequate and operating effectively.

The CEO of CBSA is responsible for implementing a system to identify and manage risks that are material to the business of CBSA, including a system of internal controls, assurance, and audits. The CEO receives his mandate from the board.

The CBSA Enterprise Risk Committee (ERC) is the primary committee that has oversight of operational risk management and is supported by the CBSA Chief Risk Officer (CRO) and the Head of Operational Risk for CBSA. The ERC reports to and receives its mandate from the Risk, Compliance and Capital Management Committee. The CBSA ERC & Executive Committee (EXCO) are responsible for overseeing operational risk management and measurement for the CBSA business.

To ensure operational risk governance practices are effective, senior management ensures that the Operational Risk Governance Principles are embedded within each governance forum. These principles ensure transparency and consistency of governance standards across CBSA.

There are currently no mitigation techniques applied within the ORMF. This function and risk mitigation techniques will grow in line with the business requirements and demands. These will be subjected to Line 1 and Line 2 controls and processes.

As indicated in the table below, the bank applies the basic indicator approach in calculating its Standardised Operational Risk RWA. These values have remained stable as the bank has not been launched, however, the numbers are expected to increase in line with bank launch exposures.

**Ops Risk (Group & Bank): Operational Risk - Basic Indicator Approach (BIA)**

At 30 June 2018 R'000	CBSA Group		CBSA Bank	
	30-Jun-18	30-Jun-17	30-Jun-18	30-Jun-17
Relevant risk exposure	169 063		165 172	
Capital requirements	25 359		24 776	
Risk weighted exposure equivalent amount	316 993		309 698	

## 8. Composition of Risk Weighted Assets (RWA)

The following table reflects the composition of the risk-weighted assets (RWA) and related minimum capital requirements.

**OV1 (Group & Bank): Overview of Risk Weighted Assets (RWA)**

At 30 June 2018 R'000	CBSA Group			CBSA Bank		
	RWA		* MCR	RWA		* MCR
	30-Jun-18	30-Jun-17	30-Jun-18	30-Jun-18	30-Jun-17	30-Jun-18
1 Credit risk (excluding counterparty credit risk)	<b>330 879</b>		<b>36 810</b>	<b>309 437</b>		<b>34 425</b>
2 Of which: standardised approach (SA)	330 879		36 810	309 437		34 425
6 Counterparty credit risk (CCR)						
11 Equity positions under the simple risk weight approach						
16 Securitisation exposures in the banking book						
20 Market risk	<b>19 593</b>		<b>2 180</b>	<b>19 593</b>		<b>2 180</b>
24 Operational risk	<b>316 993</b>		<b>35 265</b>	<b>309 698</b>		<b>34 454</b>
25 Amounts below thresholds for deduction (subject to 250% risk weight)						
26 Floor adjustment						
<b>27 Total (1+6+10+11+12+13+14+15+16+20+23+24+25+26)</b>	<b>667 465</b>		<b>74 256</b>	<b>638 728</b>		<b>71 059</b>

\* Minimum capital requirements (MCR) - Base requirement (8%); Pillar 2A add-on (1.50%) & Conservation buffer (1.875%)

## 9. Market Risk

CBSA operates within the set parameters of the Market Risk Policy, which has the following set objectives:

- ensure the board-approved requirements in terms of market risk are met;
- establish boundaries for market-risk-taking activities;
- establish a sound operating environment for market risk activities that are consistent with:
  - requirements of relevant regulators, including the Prudential Authority; and
  - the governance and control standards of CBSA and the risk principles expressed within the CBSA Risk Appetite Statement (RAS).

CBSA has ensured that this policy complies with the Banks Act and the Regulations relating to Banks (particularly regulation 28). The CBSA Market Risk Framework is a policy which outlines the overall market risk requirements for the bank and is supported by the Market Risk Standards, which outline how policy requirements are implemented for market risks across the bank. This policy is also the Market Risk Standard for CBSA and details the interest rate risk in the banking

book (IRRBB) and foreign exchange (FX) risk measurement methodologies and limit structures, including excess notification/escalation/approval levels, supporting controls, and definitions.

Market risk is the potential of an adverse impact on CBSA's earnings from changes in interest rates, foreign exchange rates, equity and commodity prices, credit spreads, and any market risk leases or loan exposures.

Market risk is generally divided it into four types based on the potential cause of the risk:

- **Interest rate risk:** Potential losses due to fluctuations in interest rate;
- **Equity risk:** Potential losses due to fluctuations in stock price;
- **Currency risk:** Potential losses due to international currency exchange rates (closely associated with settlement risk); and
- **Commodity risk:** Potential losses due to fluctuations in prices of agricultural, industrial, and energy commodities.

CBSA is not currently involved in capital markets where market risk is most concentrated for banks. The bank is therefore currently not exposed to equity and commodity risks. The current balance sheet is also completely funded and denominated in South African Rand.

Currency risk is limited to CBSA's exposure to suppliers and third parties who are paid in foreign currency. Mitigating strategies to manage this risk are being considered and will be implemented.

**MR1 (Group & Bank): Market risk under the standardised approach (SA)**

**At 30 June 2018**

**R'000**

	CBSA Group		CBSA Bank	
	Capital charge in SA		Capital charge in SA	
	30-Jun-18		30-Jun-18	
1 General interest rate risk				
2 Equity risk				
3 Commodity risk				
4 Foreign exchange risk		19 593		19 593
5 Credit spread risk - non-securitisations				
6 Credit spread risk - securitisations (non-correlation trading portfolio)				
7 Credit spread risk - securitisation (correlation trading portfolio)				
8 Default risk - non-securitisations				
9 Default risk - securitisations (non-correlation trading portfolio)				
10 Default risk - securitisations (correlation trading portfolio)				
11 Residual risk add-on				
<b>12 Total</b>		<b>19 593</b>		<b>19 593</b>

CBSA is mostly exposed to interest rate risk in the banking book due to the nature of its exposures. All exposures, including securities held (Treasury Bills), are held under the banking book with the intent of holding all positions to maturity.

The bank is monitoring net interest exposures at risk (NIER) as a percentage of its twelve-month forecasted net interest income (NII).

**Net Interest Income**  
**At 30 June 2018**  
**R'000**

	CBSA Bank	
	30-Jun-18	30-Jun-17
Percentage impact of a parallel rate shock on forecasted NII (%)	44.15	
Twelve-month forecasted NII (R'000)	42 632	
Cumulative total for 12 months post 2% parallel rate shock (R'000)	18 822	

The bank's strategy is to manage IRRBB through having an appropriate mix of assets and liabilities so as to achieve stable and sustainable net interest earnings in the long term.

In addition to the NIER limits, CBSA ALCO will establish interest rate repricing gap limits documented in the interest rate policy framework, supported by the CBSA Treasury Delegations Manual outlining the relevant delegated limits.

## 10. Composition of Capital

Regulatory capital currently consists of shareholders equity qualifying as common equity tier 1 capital (CET1). No additional innovative or debt-related instruments have been issued as qualifying additional tier 1 (T1) or tier 2 (T2) capital instruments, which are fully loss absorbent.

The capital contribution is in line with the major shareholding as depicted in the structure under section 2 'Structure and Consolidated Supervision' on page 4.

Regulatory deductions are made in line with the Basel III definition of capital, the requirements specified in sections 70 and 70A of the Banks Act and the specific prescription outlined in regulation 38.

The make-up of the regulatory capital instruments is detailed in the main features template, as published on the Bank's website. (<https://www.tymedigital.co.za>).

**CC1 (Group & Bank): Composition of regulatory capital**
**At 30 June 2018**
**R'000**

	CBSA Group		CBSA Bank	
	Amounts	* Ref	Amounts	* Ref
<b>Common equity tier 1 capital: instruments and reserves</b>				
1 Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	2 703 476	(a)	2 412 880	(a)
2 Retained earnings	-1 176 384	(b)	-978 654	(b)
3 Accumulated other comprehensive income (and other reserves)				
4 Directly issued capital subject to phase-out from CET1 (only applicable to non-joint stock companies)				
5 Common share capital issued by third parties (amount allowed in group CET1)				
<b>6 Common equity tier 1 capital before regulatory deductions</b>	<b>1 527 092</b>		<b>1 434 226</b>	
<b>Common equity tier 1 capital regulatory adjustments</b>				
7 Prudent valuation adjustments				
8 Goodwill (net of related tax liability)				
9 Other intangibles other than mortgage servicing rights (net of related tax liability)	548 326	(c)	548 326	(c)
10 Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability)		(d)		(d)
27 Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions				
<b>28 Total regulatory adjustments to Common Equity Tier 1</b>	<b>548 326</b>		<b>548 326</b>	
<b>29 Common equity tier 1 capital (CET1)</b>	<b>978 766</b>		<b>885 900</b>	
44 Additional tier 1 capital (AT1)				
<b>45 Tier 1 capital (T1= CET1 + AT1)</b>	<b>978 766</b>		<b>885 900</b>	
<b>58 Tier 2 capital (T2)</b>				
<b>59 Total regulatory capital (TC = T1 + T2)</b>	<b>978 766</b>		<b>885 900</b>	
<b>60 Total risk-weighted assets</b>	<b>667 466</b>	(e)	<b>638 729</b>	(e)
<b>Capital ratios and buffers</b>				
61 Common equity tier 1 (as a percentage of risk-weighted assets)	146.64		138.70	
62 Tier 1 (as a percentage of risk-weighted assets)	146.64		138.70	
<b>63 Total capital (as a percentage of risk-weighted assets)</b>	<b>146.64</b>		<b>138.70</b>	
64 Institution specific buffer requirement (capital conservation buffer plus countercyclical buffer requirements plus higher loss absorbency requirement, expressed as a percentage of risk-weighted assets)	1.88		<b>1.88</b>	
65 Of which: capital conservation buffer requirement	1.88		1.88	
66 Of which: bank-specific countercyclical buffer requirement				
67 Of which: higher loss absorbency requirement				
68 Common equity tier 1 (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirement.	136.76		128.82	
<b>National minima (if different from Basel III)</b>				
69 National common equity tier 1 minimum ratio (if different from Basel III minimum)	7.375		7.375	
70 National tier 1 minimum ratio (if different from Basel III minimum)	8.875		8.875	
71 National total capital minimum (if different from Basel III minimum)	11.125		11.125	
<b>Amounts below the thresholds for deduction (before risk weighting)</b>				
<b>Applicable caps on the inclusion of provisions in tier 2</b>				
76 Provisions eligible for inclusion in tier 2 in respect of exposures subject to standardised approach (prior to application of cap)				
77 Cap on inclusion of provisions in tier 2 under standardised approach	2 609		2 385	
78 Provisions eligible for inclusion in tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)				
79 Cap for inclusion of provisions in tier 2 under internal ratings-based approach				
<b>Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)</b>				

\* Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation

## 11. Reconciliation of regulatory capital to balance sheet

CBSA does not own any insurance entities nor any other entity which is considered outside the scope of regulatory consolidation, as defined under regulation 36. There is no difference between the financial balance sheet and the regulatory balance sheet (or balance reported under the scope of regulatory consolidation).

### CC2 (Group & Bank): Reconciliation of regulatory capital to balance sheet

At 30 June 2018  
R'000

	CBSA Group			CBSA Bank		
	Balance sheet as per published financial statements	Under regulatory scope of consolidation	* Ref	Balance sheet as per published financial statements	Under regulatory scope of consolidation	* Ref
	30-Jun-18			30-Jun-18		
<b>Assets</b>						
Cash and balances at central banks	5 000	5 000		5 000	5 000	
Items in the course of collection from other banks						
Trading portfolio assets						
Financial assets designated at fair value						
Derivative financial instruments						
Loans and advances to banks	972 316	972 316	(e)	882 553	882 553	(e)
Loans and advances to customers						
Reverse repurchase agreements and other similar secured lending						
Available for sale financial investments	68 720	68 720	(e)	68 720	68 720	(e)
Current and deferred tax assets			(d)			(d)
Prepayments, accrued income and other assets	64 710	64 710	(e)	61 155	61 155	(e)
Investments in associates and joint ventures						
Goodwill and other intangible assets	548 326	548 326	(c)	548 326	548 326	(c)
Of which: goodwill						
Of which: intangibles (excluding MSRs)	548 326	548 326		548 326	548 326	
Of which: MSRs						
Property, plant and equipment	57 445	57 445	(e)	57 445	57 445	(e)
<b>Total assets</b>	<b>1 716 517</b>	<b>1 716 517</b>		<b>1 623 199</b>	<b>1 623 199</b>	
<b>Liabilities</b>						
Deposits from banks						
Items in the course of collection due to other banks						
Customer accounts	9	9		9	9	
Repurchase agreements and other similar secured borrowing						
Trading portfolio liabilities						
Financial liabilities designated at fair value						
Derivative financial instruments						
Debt securities in issue						
Accruals, deferred income and other liabilities	100 588	100 588		100 136	100 136	
Current and deferred tax liabilities						
Subordinated liabilities						
Provisions	88 829	88 829	(e)	88 829	88 829	(e)
Retirement benefit liabilities						
<b>Total liabilities</b>	<b>189 426</b>	<b>189 426</b>		<b>188 974</b>	<b>188 974</b>	
<b>Shareholders' equity</b>						
Paid-in share capital	2 703 476	2 703 476	(a)	2 412 880	2 412 880	(a)
Of which: amount eligible for CET1	2 703 476	2 703 476		2 412 880	2 412 880	
Of which: amount eligible for AT1						
Retained earnings	(1 049 075)	(1 049 075)	(b)	(978 654)	(978 654)	(b)
Accumulated other comprehensive income	(127 309)	(127 309)	(b)			(b)
<b>Total shareholders' equity</b>	<b>1 527 091</b>	<b>1 527 091</b>		<b>1 434 225</b>	<b>1 434 225</b>	

## 12. Leverage ratio

The leverage ratio is defined as tier 1 capital expressed as a percentage of total exposures. The total exposures utilised in the calculation does not differ from the reported balance sheet exposures, as the balance sheet does not contain any securities financing transactions (SFTs), derivatives, or off-balance-sheet items which require the carrying value to be converted through a calculation or the application of specific factors.

There is no year-on-year comparative periods contained in this disclosure as the bank only started operating on 20 November 2017. The leverage ratio has however remained well above the regulatory minimum requirement due to the current correlation of the qualifying regulatory capital (QCR) in relation to the on-balance sheet exposures.

### LR1 (Group & Bank): Summary comparison of accounting assets vs leverage ratio exposure (January 2014 standard)

At 30 June 2018 R'000	CBSA Group		CBSA Bank	
	30-Jun-18		30-Jun-18	
<b>1 Total consolidated assets as per published financial statements</b>	<b>1 716 518</b>		<b>1 623 200</b>	
2 Adjustments for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation				
3 Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure				
4 Adjustments for derivative financial instruments				
5 Adjustment for securities financing transactions (ie repos and similar secured lending)				
6 Adjustments for off-balance-sheet items (ie conversion to credit equivalent amounts of off-balance-sheet exposures)				
7 Other adjustments	548 326		548 326	
<b>8 Leverage ratio exposure measure</b>	<b>1 168 192</b>		<b>1 074 874</b>	

### LR2 (Group & Bank): Leverage ratio common disclosure template (January 2014 standard)

At 30 June 2018 R'000	CBSA Group		CBSA Bank	
	30-Jun-18	30-Jun-17	30-Jun-18	30-Jun-17
<b>On-balance-sheet exposures</b>				
1 On-balance-sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	1 716 518		1 623 200	
2 (Asset amounts deducted in determining Basel III tier 1 capital)	548 326		548 326	
3 Total on-balance-sheet exposures (excluding derivatives and SFTs) (sum of row 1 and 2)	<b>1 168 192</b>		<b>1 074 874</b>	
<b>Derivative exposures</b>				
11 Total derivative exposures (sum of rows 4 to 10)				
<b>Securities financing transactions</b>				
16 Total securities financing transaction exposures (sum of rows 12 to 15)				
<b>Other off-balance-sheet exposures</b>				
19 Off-balance-sheet items (sum of rows 17 and 18)				
<b>Capital and total exposures</b>				
20 Tier 1 capital	<b>978 766</b>		<b>885 900</b>	
21 Total exposures (sum of rows 3, 11, 16 and 19)	<b>1 168 192</b>		<b>1 074 874</b>	
<b>Leverage ratio</b>				
22 Basel III leverage ratio	<b>83.78</b>		<b>82.42</b>	

# 13. Liquidity

CBSA manages its liquidity risk through the Liquidity Risk Framework (LRF); which prescribes the requirements, processes, risk measures, and strategies to be used to manage liquidity and funding risk.

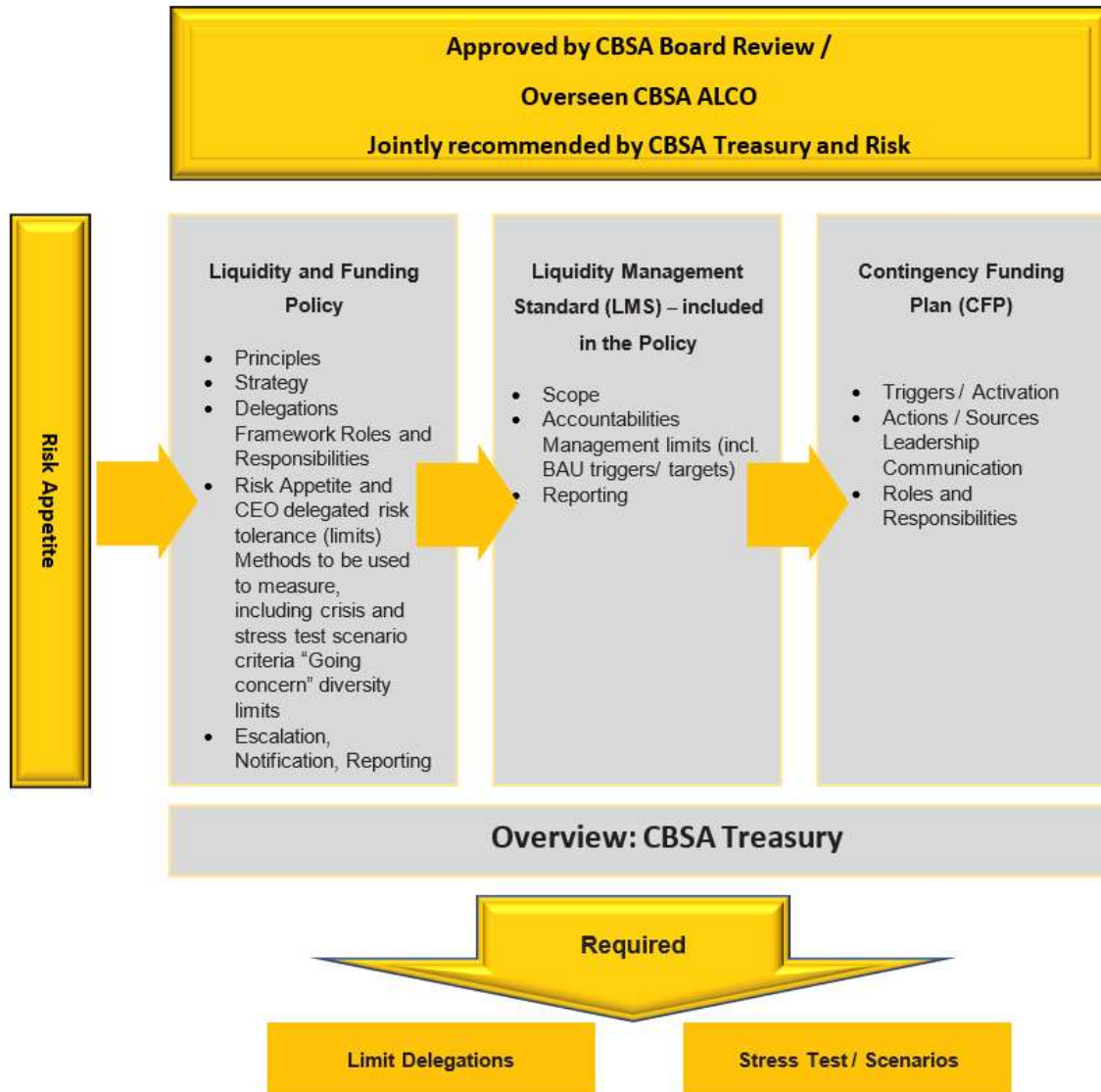


Figure 3: Liquidity Risk Framework

The LRF provides robust governance, risk management measures and techniques, and execution of liquidity risk and funding risk activities. It is consistent with CBSA and CBA risk management, governance, and control standards, except to any extent required by local regulatory conditions. The LRF has clearly documented and communicated responsibilities and accountabilities; and is adequate, in the view of the CBSA board, for managing liquidity risk at a prudent level under both normal conditions and in periods of stress. It furthermore also duly specifies, implements, and

maintains appropriate limits in respect of CBSA's funding sources, complies with the liquidity requirements of relevant regulators, and directly supports the qualitative requirements of the SARB/PA.

In addition to this framework, the CBSA board is also required to approve and review the following documents in the framework, at least annually:

- CBSA Liquidity Management Standard
- CBSA Contingency Funding Plan

CBSA calculates its liquidity coverage ratio (LCR) position daily, ensuring a buffer is maintained over the minimum regulatory requirement and CBSA's risk appetite limit. CBSA's high-quality liquid assets (HQLA), as defined by the Regulations relating to Banks, consist of Treasury Bills and central bank deposits.

CBSA manages its funding profile taking into consideration its overall liquidity management strategy outlined and defined by the Liquidity & Funding and Market Risk Policies. These policies are further supported by the Contingent Funding Plan (CFP) and Business Continuity Plan (BCP).

The above plans contain possible solutions and a crisis team make-up with specific roles and responsibilities for monitoring, avoiding, and managing a bank-specific trigger event or macro/systemic event, to remain a going concern and protect depositors' funds and shareholders' value. Crisis scenarios will be tested annually, or as frequently as required, to ensure the bank's processes and plans are robust enough to test the bank's risk management capabilities when placed under stress.

The Treasury function is responsible for the bank's funding and liquidity management. This function is critical in ensuring that the bank has sufficient funds to meet all its obligations as they fall due and to optimally and efficiently place or utilise surplus funds to ensure optimal return for the bank and its depositors and investors. This is all done within prescribed internal limits set out in the aforementioned policies, as well as in compliance with regulatory liquidity, market, and credit risk limits.

The bank will also consider more appropriate risk mitigation techniques in line with balance sheet growth and maturity.

## 13.1 Liquidity Coverage Ratio

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The liquidity coverage ratio (LCR) requires institutions to hold sufficient liquid assets to meet their 30-day net cash outflows projected under the Prudential Authority's prescribed stress scenario.

CBSA maintained an average daily LCR of >1000% for the reporting period to 30 June 2018.

The daily average used to calculate the above percentage consisted of 124 data points representative of the number of workings days during the last 6-month period of banking operations.

CBSA regularly benchmarks and aligns its policy framework against existing prudential and regulatory standards. Potential developments in South African and international standards and global best practice are also considered.

The high-quality liquid assets (HQLA) consist of the bank's initial purchase of a Treasury Bill (TB), as well as additional cash placed with the Prudential Authority (PA) in the bank's reserving account.

Net cash outflows are limited to a select few accounts opened for testing purposes only during the period under review. These test accounts were limited to staff members, as the bank has not launched any of its products to the public as at 30 June 2018. All in- and outflows within the prescribed 30-day horizon have been considered in line with the requirements specified under regulation 28, and with the exclusion of operational expenses.

## LIQ1 (Group & Bank): Liquidity Coverage Ratio (LCR)

At 30 June 2018  
R'000

	CBSA Group				CBSA Bank			
	Total unweighted value (average)		Total weighted value (average)		Total unweighted value (average)		Total weighted value (average)	
<b>High-quality liquid assets</b>								
1 Total HQLA			94 044				94 044	
<b>Cash outflows</b>								
2 Retail deposits and deposits from small business customers, of which:	5.520	6	0.552	0.552	5.520	6	0.552	0.552
3 Stable deposits								
4 Less stable deposits	5.520	6	0.552	0.552	5.520	6	0.552	0.552
5 Unsecured wholesale funding, of which:								
9 Secured wholesale funding			0.000				0.000	
10 Additional requirements, of which:								
14 Other contractual funding obligations								
15 Other contingent funding obligations	200 000		0.000		200 000		0.000	
<b>16 TOTAL CASH OUTFLOWS</b>			<b>21</b>				<b>0.5522</b>	
<b>Cash inflows</b>								
17 Secured lending (eg reverse repo)								
18 Inflows from fully performing exposures	863 706		863 706		773 706		773 706	
19 Other cash inflows								
<b>20 TOTAL CASH INFLOWS</b>	863 706		<b>863 706</b>		773 706		<b>773 706</b>	
	<b>Total adjusted value</b>				<b>Total adjusted value</b>			
21 Total HQLA			94 044				94 044	
22 Total net cash outflows			0.13838				0.13838	
23 Liquidity coverage ratio (%)			68 152 505				68 152 505	

## 13.2 Net Stable Funding Ratio

The current balance sheet and proposed phasing in of product offerings, and the proposed liquid assets to be held, place the bank in a position to be fully compliant with all prescribed limits. This is further influenced by the short-term nature of all current bank placements but offset by current regulatory capital adjustments.

The following table reflects a summary of the net stable funding ratios (NSFRs) per the Group and Bank respectively.

LIQ2 (Group): Net Stable Funding Ratio

At 30 June 2018

R'000

	CBSA Group				Weighted value
	Unweighted value by residual maturity				
	No maturity*	<6 months	6 months to <1 year	≥1 year	
<b>Available stable funding (ASF) item</b>					
1 Capital:	2 703 476				2 703 476
2 Regulatory capital	2 703 476				2 703 476
3 Other capital instruments					
4 Retail deposits and deposits from small business customers:		9			8
5 Stable deposits					
6 Less stable deposits		9			8
7 Wholesale funding:					
8 Operational deposits					
9 Other wholesale funding					
10 Liabilities with matching interdependent assets					
11 Other liabilities:		189 417			
12 NSFR derivative liabilities					
13 All other liabilities and equity not included in the above categories		189 417			
<b>14 Total ASF</b>					<b>2 703 484</b>
<b>Required stable funding (RSF) item</b>					
15 Total NSFR high-quality liquid assets (HQLA)					3 436
16 Deposits held at other financial institutions for operational purposes					
17 Performing loans and securities:		972 316			145 847
18 Performing loans to financial institutions secured by Level 1 HQLA					
19 Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions		972 316			145 847
25 Assets with matching interdependent liabilities					
26 Other liabilities:					1 846 865
27 Physical traded commodities, including gold					
28 Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs					
29 NSFR derivative assets					
30 NSFR derivative liabilities before deduction of variation margin posted					
31 All other assets not included in the above categories	1 724 710			122 155	1 846 865
32 Off-balance-sheet items					
<b>33 Total RSF</b>					<b>1 996 148</b>
<b>34 Net stable funding ratio (%)</b>					<b>135.44</b>

\* Items to be reported in the "no maturity" time bucket do not have a stated maturity. These may include, but are not limited to, items such as capital with perpetual maturity, non-maturity deposits, short positions, open maturity positions, non-HQLA equities and physical traded commodities.

LIQ2 (Bank): Net Stable Funding Ratio

At 30 June 2018

R'000

	CBSA Bank				Weighted value
	Unweighted value by residual maturity				
	No maturity*	<6 months	6 months to <1 year	≥1 year	
<b>Available stable funding (ASF) item</b>					
1 Capital:	2 412 880				2 412 880
2 Regulatory capital	2 412 880				2 412 880
3 Other capital instruments					
4 Retail deposits and deposits from small business customers:			9		8
5 Stable deposits					
6 Less stable deposits			9		8
7 Wholesale funding:					
8 Operational deposits					
9 Other wholesale funding					
10 Liabilities with matching interdependent assets					
11 Other liabilities:		188 965			
12 NSFR derivative liabilities					
13 All other liabilities and equity not included in the above categories		188 965			
<b>14 Total ASF</b>					<b>2 412 888</b>
<b>Required stable funding (RSF) item</b>					
15 Total NSFR high-quality liquid assets (HQLA)					3 436
16 Deposits held at other financial institutions for operational purposes					
17 Performing loans and securities:		882 553			132 383
18 Performing loans to financial institutions secured by Level 1 HQLA					
19 Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions		882 553			132 383
26 Other liabilities:					1 645 580
27 Physical traded commodities, including gold					
28 Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs					
29 NSFR derivative assets					
30 NSFR derivative liabilities before deduction of variation margin posted					
31 All other assets not included in the above categories	1 526 980			118 600	1 645 580
32 Off-balance sheet items					
<b>33 Total RSF</b>					<b>1 781 399</b>
<b>34 Net Stable Funding Ratio (%)</b>					<b>135.45</b>

\* Items to be reported in the "no maturity" time bucket do not have a stated maturity. These may include, but are not limited to, items such as capital with perpetual maturity, non-maturity deposits, short positions, open maturity positions, non-HQLA equities and physical traded commodities.

## 14. Annual Remuneration Disclosures

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The bank is required to make certain qualitative and quantitative remuneration disclosures on an annual basis in terms of Basel Pillar 3 disclosure requirements.

The following remuneration disclosures have been prepared in accordance with the CBSA board's approved policy.

The quantitative information relates to senior managers and material risk-takers for the financial year to 30 June 2018.

Role	Count as at 30-Jun-18	Description
Senior managers	10	This includes the Extended Leadership team
Material risk-takers	9	This level includes all Exco members

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### 14.1 Remuneration Governance Framework

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The remuneration committee is the main governing body for remuneration across the company. This committee develops the remuneration philosophy, framework, and policies for board approval.

The committee has a robust framework for the systematic review of risk and compliance issues impacting remuneration. The duties of the committee are to assist the CBSA board with regards to remuneration and human resources:

The committee assists the board with remuneration by performing the functions set out in section 64C(2) of the Banks Act, namely:

- overseeing the compensation system's design and operation;
- exercising competent and independent judgement on compensation policies, processes, and practices and the incentives created for managing risk, capital, and liquidity;
- evaluating practices by which compensation is paid for potential future revenues in respect of which the timing and likelihood of realisation remain uncertain;
- ensuring that all relevant decisions are consistent with the assessment of the bank or controlling company's financial condition and future prospects;
- working closely with the controlling company's risk and capital management committee to evaluate incentives created by the compensation system;
- ensuring that compensation policies, processes and procedures comply with regulatory requirements;

- conducting an annual compensation review. The review, to be independent of management, shall include assessing the entities' compliance with regulations, and additional requirements that may be specified in writing by the registrar;
- ensuring that the remuneration of employees in the risk control and compliance functions is determined independently of all relevant business areas, and is adequate to attract qualified and experienced staff;
- verifying that performance measures are based principally on the achievement of Board approved objectives; and
- consulting shareholders.

In addition to the statutory functions above, the board has mandated the committee to review and oversee human resources policies and strategies aimed at creating and sustaining the technical and managerial excellence required to support the attainment of CBSA's objectives;

During the financial year ended 30 June 2018, the committee convened twice.

## 14.2 Remuneration Policy

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The Remuneration Policy sets out:

- the remuneration principles that guide the design of CBSA's remuneration framework;
- the remuneration framework that delivers CBSA's remuneration principles; and
- the policies used to manage remuneration within the remuneration framework and CBSA's risk management framework.

The board has determined that CBSA's remuneration policies will:

- meet high standards of governance and all applicable regulatory requirements and guidelines;
- align with CBSA's vision, values, and strategy;
- be mindful of the interests of CBSA's stakeholders including shareholders, employees, customers, and the community;
- be communicated to relevant stakeholders in a way that is clear and easy to understand;
- support avoiding conflicts of interest; and
- encourage behaviour that supports the long-term financial soundness and risk management framework of CBSA.

CBSA's Remuneration Policy applies to all controlled entities of CBSA, including:

- all executives and employees on individual contracts;
- all employees covered by collective agreements; and

- all executive and non-executive directors on the CBSA board and the board of any majority-owned CBSA subsidiaries.

## 14.3 Remuneration Framework

The structure of remuneration arrangements for most employees consists of the following components:

- fixed remuneration (FR); and
- short-term incentive (STI) (at risk).

The following table outlines the key remuneration components. The variable remuneration components are based on performance against key financial and non-financial measures.

Element	Description	Applies to:
<b>Fixed Remuneration</b>	<ul style="list-style-type: none"> <li>• Base remuneration</li> <li>• <i>For the Chief Executive Officer (CEO) and Company executives:</i> Reviewed annually.</li> <li>• <i>For other employees:</i> Reviewed annually taking into account any change in scope of role performed by the individual, changes required to meet the principles of the Company Remuneration Policy, internal equity and market competitiveness. FR is approved by the individual's direct manager and the next level manager in the reporting line, Chief Human Resource Officer (CHRO) and CEO.</li> </ul>	All employees
<b>Variable Remuneration (at risk)</b>	<ul style="list-style-type: none"> <li>• The current variable remuneration instruments include: Cash (deferred and non-deferred);</li> <li>• Cash is the only instrument which can be payable upfront and not deferred. Some of the Company's arrangements allow for variable remuneration to be deferred as cash over an appropriate deferral period.</li> </ul>	See STI below
<b>Short-term incentive (STI)</b>	<ul style="list-style-type: none"> <li>• STI awards are discretionary and recognise annual performance over the financial year. Performance is measured using a key performance indicator (KPI), Risk and Values rating scale.</li> </ul>	Most employees (Employees are eligible to participate in variable remuneration arrangements applicable to their position)
<b>Long-term incentive (LTI)</b>	<ul style="list-style-type: none"> <li>• Selected employees participate in an Excess Return Bonus Scheme (ERB Scheme). The scheme is designed to significantly reward outperformance.</li> </ul>	Selected key staff participate

## Deferral of variable remuneration

The table below provides a summary of the main deferral arrangements applicable to different roles across CBSA. More senior roles (that have the potential to receive higher variable remuneration) have a greater portion of their variable remuneration deferred.

Role	Deferral Arrangement
<b>Executive general managers and general managers</b>	One third of STI award is deferred into equity that vests in three equal tranches over three years
<b>All other employees</b>	All employees with an STI award of R1,500,000 or greater, defer one third of their STI award into equity (as Deferred / Restricted Rights) that vests in three equal tranches over three years

Vesting of all deferred cash and equity-based awards is generally contingent upon the following:

- the employee remaining employed by CBSA throughout the vesting period (Typically, when an employee leaves due to retrenchment, retirement, or death, all unvested deferred STI awards stay on foot and vest at the normal time, subject to the remaining vesting conditions. Where an employee's exit is related to retrenchment, retirement, or death, any unvested long-term variable remuneration (LTVR) awards continue unchanged, with performance measured at the end of the performance period related to each award, unless otherwise determined by the board);
- the employee meeting all performance hurdles, in the case of LTI awards;
- a review of any risk and compliance issues associated with any individual; and
- the release, at vesting, of the deferred incentive amount not placing undue financial hardship on CBSA.

Awards are governed by the relevant plan rules, which are subject to board approval. If an individual resigns or is dismissed from CBSA before the end of the vesting period, deferred STI awards will generally be forfeited.

CBSA's deferral policy assists in managing the risk of losing key talent and allows the board to reduce, lapse, or forfeit the deferred components of remuneration where business outcomes are materially lower than expected.

## 14.4 Linking Remuneration to Performance

Variable remuneration is directly linked to both short-term and long-term performance goals.

All employees are assessed against specific KPIs.

Individual KPIs may include all or some of the CBSA performance metrics listed below. Any discretionary STI award is linked to both CBSA and individual performance outcomes.

The key performance areas for the CEO as at 30 June 2018 were:

Performance Category	Measures
Shareholder	<ul style="list-style-type: none"> <li>Contribute to the financial results of the Group and achieve the SA business plan</li> </ul>
Customer	<ul style="list-style-type: none"> <li>Deliver an exceptional customer experience</li> </ul>
Strategy	<ul style="list-style-type: none"> <li>Achieve role specific strategic initiatives that contribute to the success of SA and IFS overall</li> </ul>
People and Community	<ul style="list-style-type: none"> <li>Effective leadership</li> </ul>

## 14.5 Quantitative disclosures

Variable remuneration is directly linked to both short-term and long-term performance goals.

The table below provides a breakdown of the value of fixed and variable remuneration for senior managers and material risk-takers for the years ended 30 June 2017 and 30 June 2018. The fixed remuneration numbers for 2018 assume an average increase of 6%. For variable remuneration, the numbers are based on the STI targets and may differ insubstantially from the actual amounts awarded.

### REM1 (Group): Remuneration awarded during the financial year

30 June 2018 R'000	Senior managers		Material risk-takers	
	30-Jun-18	30-Jun-17	30-Jun-18	30-Jun-17
Number of employees	10	8	9	16
<b>Fixed remuneration</b>	<b>25 435</b>	<b>29 405</b>	<b>30 183</b>	<b>25 912</b>
Cash-based (non-deferred)	25 435	29 405	30 183	25 912
Other (non-deferred)				
<b>Variable Remuneration</b>	<b>7 312</b>	<b>9 772</b>	<b>16 213</b>	<b>8 038</b>
Cash-based (non-deferred)	7 312	9 772	12 303	7 435
Cash-based (deferred)			3 910	603
Shares and share-linked instruments (deferred)				
Other				

There were no guaranteed bonuses, sign-on bonuses, or severance packages for the financial year to 30 June 2018.

**REM3 (Group): Deferred remuneration**

Deferred and retained remuneration	Outstanding at beginning of year	Of which: exposed to ex post explicit and/or implicit adjustment	Amendment due to ex post explicit adjustments	Amendment due to ex post implicit adjustments	Outstanding at end of year
<b>Senior management</b>					
Cash					
Shares					
Cash-linked instruments					
Other					
<b>Material risk-takers</b>					
Cash	3 910				3 910
Shares					
Cash-linked instruments					
Other					
<b>Total</b>	<b>3 910</b>				<b>3 910</b>

## 15. Appendices

To assist readers, key terms and abbreviations, as they apply to CBSA and are used in this report, are set out below.

### Appendix A - Abbreviations

#### Key Abbreviations

Abbreviation	Description
ALCO	Asset and liability committee
ARC	African Rainbow Capital
ASF	Available stable funding
AT1	Additional tier 1 capital
BCP	Business continuity plan
BIA	Basic indicator approach
CBA	Commonwealth Bank of Australia
CBSA	Commonwealth Bank of South Africa Limited
CBSA HoldCo	Commonwealth Bank of South Africa (Holding Company) Limited
CCF	Credit conversion factor
CCP	Central counterparty
CCR	Counterparty credit risk
CEO	Chief executive officer
CET1	Common Equity Tier 1 capital
CFP	Contingency funding plan
CHRO	Chief Human Resource Officer
CRF	Credit Risk Framework
CRM	Credit risk mitigation
CRO	Chief Risk Officer
ERB	Excess Return Bonus
ERC	Enterprise Risk Committee
EWI	Early warning indicator
EXCO	Executive committee
FR	Fixed remuneration ( <i>refer terms for explanation</i> )
FX	Foreign Exchange
HQLA	High quality liquid assets
IFRS	International Financial Reporting Standard
IFS	International Financial Services ( <i>refer terms for explanation</i> )
IRRBB	Interest Rate Risk in the Banking Book
KPIs	Key performance indicators ( <i>refer terms for explanation</i> )
LCE	Large credit exposure
LCEP	Large Credit Exposure Policy
LCR	Liquidity coverage ratio
LRF	Liquidity Risk Framework
LTI	Long-term Incentive
LTVR	Long-term variable remuneration ( <i>refer terms for explanation</i> )
MSR	Mortgage Servicing Rights
NIER	Net interest exposures at risk
NII	Net interest income
NSFR	Net stable funding ratio
ORMF	Operational Risk Management Framework
PA	Prudential Authority
QCR	Qualifying capital requirement
RAS	Risk appetite statement
RSF	Required stable funding
RMF	Risk Management Framework
RWA	Risk-weighted asset
SARB	South African Reserve Bank
SFT	Securities financing transactions
STI	Short-term Incentive ( <i>refer terms for explanation</i> )

Abbreviation	Description
SME	Small to Medium Enterprises
T1	Tier 1 capital
T2	Tier 2 capital
TB	Treasury Bill
TTS	Tyme Technical Solutions Proprietary Limited
VR	Variable remuneration ( <i>refer terms for explanation</i> )

## Appendix B - Terms

### Key Terms

Term	Description
<b>Board</b>	The Board of Directors of the Company.
<b>Bank</b>	Commonwealth Bank of South Africa Limited
<b>CBA group</b>	Commonwealth Bank of Australia and its subsidiaries.
<b>Executives</b>	Key management personnel (excluding the CEO) who are members of the executive committee.
<b>Fixed Remuneration (FR)</b>	Consists of cash and non-cash remuneration, including any salary sacrifice items, paid regularly with no performance conditions (base remuneration) plus employer contributions to superannuation.
<b>Group</b>	Commonwealth Bank of South Africa (Holding Company) Limited and all its majority-owned subsidiaries.
<b>International Financial Services (IFS)</b>	CBA's international retail banking footprint is managed by its International Financial Services division, based in Hong Kong.
<b>Key performance indicators (KPIs)</b>	Quantitative and qualitative measures, agreed at the start of the performance year to communicate expected performance outcomes at the Company, business unit and / or team and individual level.
<b>Long-term variable remuneration (LTVR)</b>	A variable remuneration arrangement which grants instruments to participating Executives that may vest over a period of four years if, and to the extent that, performance hurdles are met.
<b>Short-term incentive (STI)</b>	Variable remuneration paid subject to the achievement of predetermined performance hurdles over one financial year.
<b>Twin Peaks Model</b>	The Twin Peaks model of financial sector regulation will see the creation of a prudential regulator – the Prudential Authority – housed in the South African Reserve Bank (SARB), while the FSB will be transformed into a dedicated market conduct regulator – the Financial Sector Conduct Authority.
<b>Variable Remuneration (VR)</b>	Remuneration that depends on minimum performance standards being achieved within a defined period.