HBZ Bank Limited

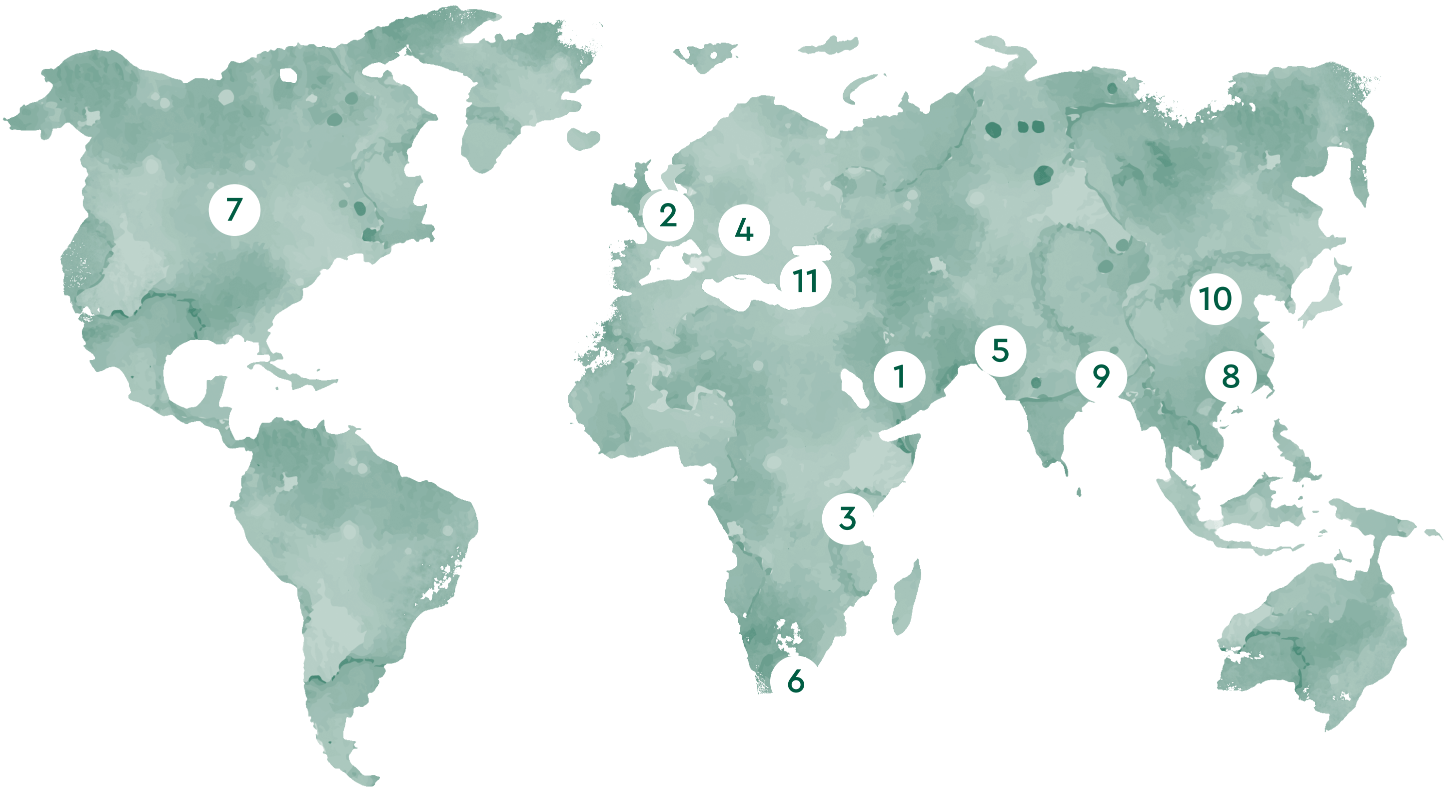
HBZ Bank Limited
(A subsidiary of Habib Bank AG Zurich)

South Africa

Annual Report

for the year ended 31 December 2023

International network summary



1	UNITED ARAB EMIRATES	Habib Bank AG Zurich, Dubai	8 Branches
2	UNITED KINGDOM	Habib Bank Zurich Plc	8 Branches
3	KENYA	Habib Bank AG Zurich, Nairobi	4 Branches
4	SWITZERLAND	Habib Bank AG Zurich	2 Branches
5	PAKISTAN	Habib Metropolitan Bank Limited	525 Branches
6	SOUTH AFRICA	HBZ Bank Limited	8 Branches
7	CANADA	Habib Canadian Bank	3 Branches
8	HONG KONG	Habib Bank Zurich (Hong Kong) Limited	2 Branches
9	BANGLADESH	Habib Bank AG Zurich	Representative Office
10	CHINA	Habib Bank AG Zurich	Representative Office
11	TURKEY	Habib Bank AG Zurich	Representative Office

Contents

Ten year review

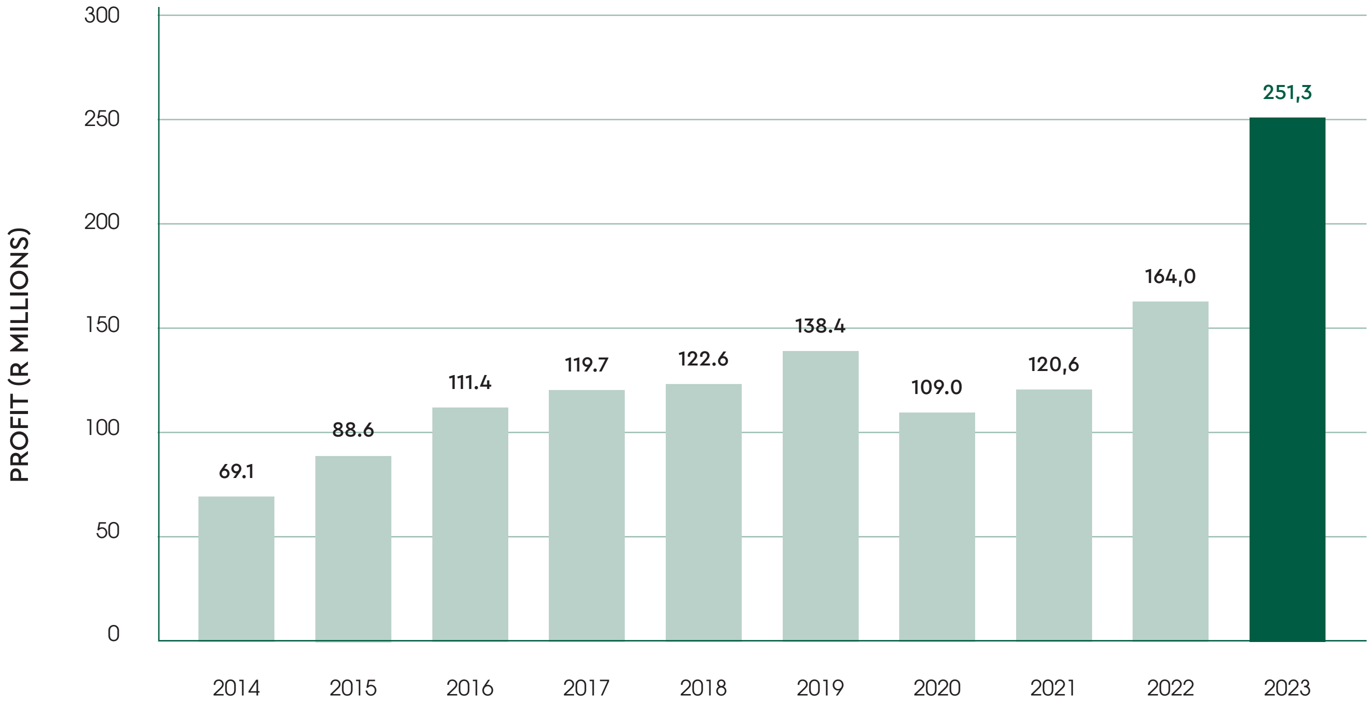
For the year ended 31 December 2023

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME (R MILLION)										
Profit before taxation	69,1	88,6	111,4	119,7	122,6	138,4	109,0	120,6	164,0	251,3
STATEMENT OF FINANCIAL POSITION (R MILLION)										
Loans and advances	1 347,8	1 619,0	1 537,9	1 468,1	1 714,3	1 908,9	2 036,8	2 134,1	2 127,4	2 125,5
Loans and advances growth %	15,2%	20,1%	(5,0%)	(4,5%)	16,8%	11,4%	6,7%	4,8%	(0,3%)	(0,1%)
Deposits and borrowings	3 514,2	4 049,4	3 820,5	4 369,7	4 856,2	5 330,2	6 183,3	7 291,0	7 746,5	7 841,6
Deposits and borrowings growth %	8,0%	15,2%	(5,7%)	14,4%	11,1%	9,8%	16,0%	17,9%	6,2%	1,2%
Total assets	3 853,6	4 419,6	4 232,8	4 861,4	5 344,2	5 916,4	6 825,7	7 922,5	8 459,1	8 681,1
Total assets growth %	7,8%	14,7%	(4,2%)	14,9%	9,9%	10,7%	15,4%	16,1%	6,8%	2,6%
PERSONNEL										
Number of employees	141	136	141	133	146	141	137	136	130	140

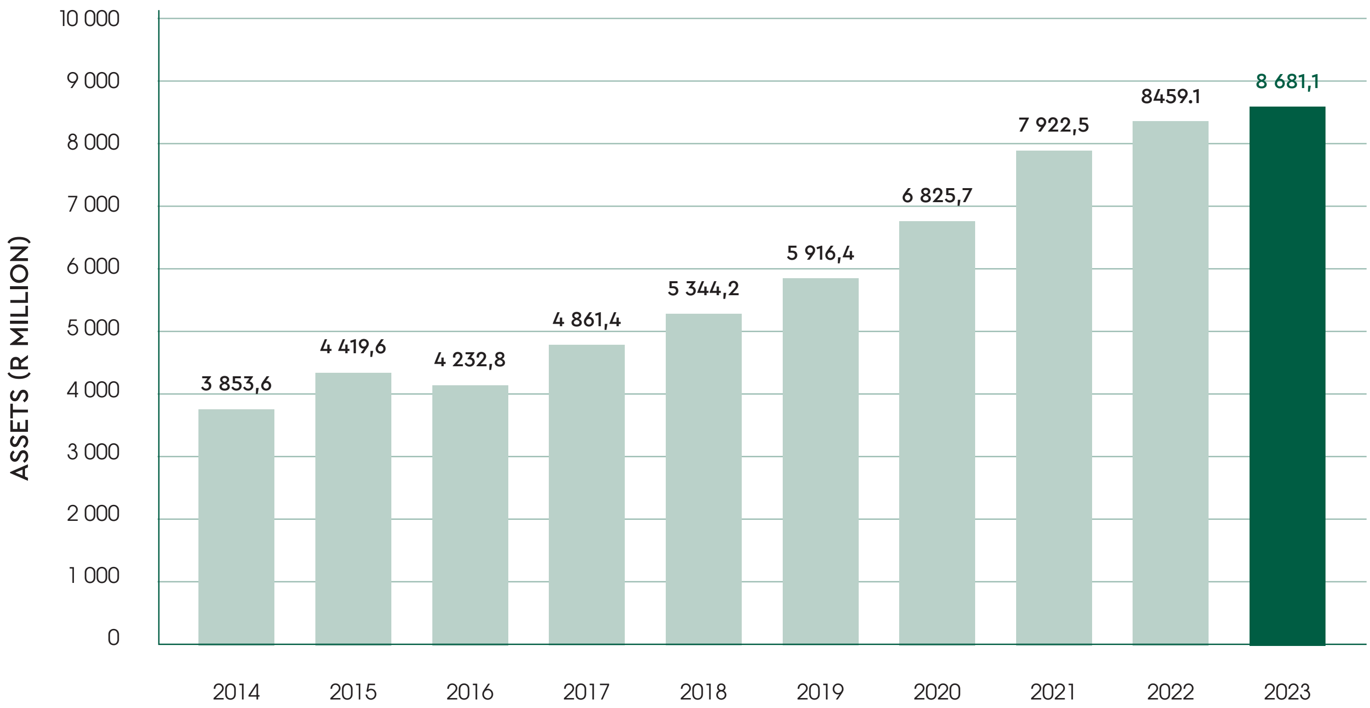
Ten year review

For the year ended 31 December 2023

PROFIT BEFORE TAX



TOTAL ASSETS



Board of Directors and Board Committees

NON-EXECUTIVE DIRECTORS

Yvette Singh (70) - Chairman - Independent Non-Executive Director

B.Com (Honours), MBL

Former Senior Deputy Registrar of Banks and Non-Executive Director of FirstRand Insurance Holdings (Pty) Ltd

Appointed to the Board in 2019

Oscar Grobler (70) – Lead Independent Director & Vice Chairman

Executive MBA (UCT); Executive Master's Degree (INSEAD)

Former Lead Executive - ABSA Group

Appointed to the Board in 2015

Muhammad Habib (64)# - Non-Independent Non-Executive Director

Bus. Admin (USA)

President, Habib Bank AG Zurich

Appointed to the Board in 1995

Swiss

Pierre Fourie (64) - Independent Non-Executive Director

CA(SA)

Former Director of KPMG Inc (retired)

Appointed to the Board in 2022

Nomavuso Mnxasana (67) - Independent Non-Executive Director

CA(SA), BCompt Hons

Former Non-Executive Director at Nedbank Ltd

Appointed to the board in 2020

Disebo Moephuli (59) - Independent Non-Executive Director

MBA, BA in Economics, Executive Leadership (INSEAD)

Former Chief Executive: Corporate & Investment Banking at Standard Bank

Appointed to the Board in 2023

Sharoda Rapeti (59) - Independent Non-Executive Director

Higher National Diploma - Electronic Engineering

Former Director at Deloitte, Technology Media and Telecommunications Industry Leader: Deloitte Africa

Appointed to the Board in 2023

EXECUTIVE DIRECTORS

Ashley Cameron (62) - Chief Executive Officer

B Com

Appointed to the Board in 2023

Anjum Iqbal (71) ^

B.Com, MBA

General Management, Habib Bank AG Zurich

Appointed to the Board in 2016

^ British

AUDIT COMMITTEE

Pierre Fourie - Chairman

Oscar Grobler

Nomavuso Mnxasana

DIRECTORS AFFAIRS COMMITTEE

Yvette Singh - Chairman

Pierre Fourie

Oscar Grobler

Nomavuso Mnxasana

CAPITAL ADEQUACY & RISK COMMITTEE

Oscar Grobler - Chairman

Pierre Fourie

Nomavuso Mnxasana

Anjum Iqbal

Ashley Cameron

REMUNERATION COMMITTEE

Oscar Grobler - Chairman

Pierre Fourie

Nomavuso Mnxasana

Board of Directors and Board Committees

SOCIAL, ETHICS & CONDUCT COMMITTEE

Nomavuso Mnxasana - Chairman

Oscar Grobler

Ashley Cameron

EXECUTIVE MANAGEMENT

Ashley Cameron

Chief Executive Officer

Zaakir Mitha

Chief Financial Officer

Farooq Anwar

Chief Operating Officer

Kosheek Maharaj

Chief Risk Officer

Michelle Sewchuran

Head of Compliance

CORPORATE

Thabisile Luthuli

Company Secretary & in-charge of governance affairs

REGISTERED OFFICE

1 Ncondo Place

Umhlanga Arch Umhlanga

Durban

KwaZulu-Natal

4320

REGISTRATION NUMBER

1995/006163/06

Chairman's Report

INTRODUCTION

I am pleased to present to all our stakeholders, the HBZ Bank Limited Annual Report for the year ended 31 December 2023. By the Grace of God, the Bank continued to demonstrate its resilience by delivering exceptional results, despite the challenge of continued high levels of inflation, high interest rates, load shedding, and a decline in infrastructure. Our management team, with the support of the Board, worked tirelessly to support our clients, by providing products and services that secure their business growth during the economic challenges. I remain optimistic about our future prospects and commitment to be the "Bank" of Choice for family enterprises across generations.

LEADERSHIP AND GOVERNANCE

Board succession planning is an ongoing key focus area of the Board, resulting in changes to the composition of the Board. We are delighted to welcome two new independent non-executive directors, Ms Disebo Moephuli and Ms Sharoda Rapeti appointed to the Board of Directors effective 1 November 2023. Ms Disebo Moephuli is a seasoned executive with more than 20 years of experience in leadership roles in the financial services sector and others. Ms Rapeti, a C suite level executive with more than thirty years of operational and Board experience across the Technology, Media, and Telecommunications (TMT), the Built Environment and Financial Services industries. We are looking forward to working with you and sharing your valuable experience.

After nine years of service, as part of the rotation, the Board will be bidding farewell to the Lead Independent Non-Executive Director, Mr Oscar Grobler, who will be stepping down at the 2024 Annual General Meeting. Mr Grobler, a seasoned banker with a wealth of knowledge has been a phenomenal contributor to the success and strong governance of the Bank. On behalf of the Board, it has been a privilege and honor to have served with you on the Board.

The Board remains focused on all aspects of good governance and stakeholder engagement, which is fundamental to the successful delivery of our strategy. With the increasingly stringent regulatory environment impacting the financial services sector, the Board increased its oversight and support to ensure that the Bank continues to comply with all regulatory requirements. The Compliance function continues to promote high levels of compliance with the core legislation governing the Bank (including the Regulations and Directives relating to Banks), by regularly monitoring compliance levels and communicating matters of importance to the Board.

Effective corporate governance is of vital importance to a sustainable business and is therefore critical in ensuring that the Bank conducts its affairs in a manner that protects the interests of all stakeholders. I would like to express my gratitude to my fellow members of the Board for their unwavering commitment to the affairs of the Bank. We are privileged to have a highly engaged Board with vast experience within the financial services sector.

ECONOMIC FACTORS

The economy remains under pressure, with the load shedding crisis subtracting 1.8% in GDP in 2023 according to the South African Reserve Bank, and a cumulative 15.3% in GDP over the last three years. The country's GDP growth rate for 2024 is forecasted at only 1.7% with electricity constraints having a major impact. Employment has improved in the formal and agricultural sectors; however, the overall unemployment rate remains high at 31.9% with a slightly higher unemployment rate of 32.79% forecast in 2024.

South Africa, until recently Africa's leading economy, has slipped into third place behind Egypt and Nigeria as of 2023 with a GDP of $381bn. South Africa's economic outlook in 2024 will be shaped by global economic trends, geopolitical developments, domestic infrastructural challenges, and effective government's implementation of reform commitments.

The increases in the interest rates have brought about significant challenges for businesses in South Africa. As the cost of borrowing increases, companies grapple with the pressure to adapt to higher financing expenses. The rise in interest rates has introduced a new dimension of complexity to the economic landscape. It is testing the resilience of South African businesses across various sectors. The countries interest rate hike cycle started in November 2021 and has seen increases of 475bps to date. In 2023 interest rates have risen by 125bps, however the outlook is that interest rates will start to decrease in 2024, with four 25 basis point cuts expected to be implemented by the South African Reserve Bank in 2024.

Whilst the 2023 year brought about challenges for the South African economy, reprieve was noted in the form of inflation being kept within the South African Reserve Bank's target range of 3 – 6%. Inflation eased in December 2023 to 5.1% from 5.5% in November and 5.9% in October with the average rate for the year at 6%. Inflation is expected to ease even further to 5.0% in 2024 and 4.6% in 2025.

Chairman's Report

OPERATING PERFORMANCE

Our motivation and confidence levels remain heightened. We continue to support our stakeholders at all levels and are grateful for our operating performance as management continue to navigate this low-growth environment with resilience. The Bank achieved exemplary results with Profit before Tax increasing by 53% to R251.32 million (2022: R164.02 million). Total assets increased by 2.6% to R8.7 billion (2022: R8.5 billion), Advances decreased slightly by 0.1% to R2.125 billion (2022: R2.127 billion) whilst deposits increased by 1.2% to R7.8 billion (2022: R 7.7 billion). The Capital Adequacy Ratio increased from 15.55% to 19.01% during the year.

LOOKING FORWARD

South African's are preparing for the most competitive 2024 elections, with global investors both monitoring the potential financial and political impact the elections will have in the economy. The year 2024 marks exactly 30 years since the first inclusive elections in South Africa. The elections represent an assessment on how the ruling party is addressing the evolving social and economic challenges facing the country. They will also be a test of the country's ability to use democratic processes to forge new domestic alliances to address these challenges and set the country on a path of reform.

The country remains on the greylisting by the Financial Action Task Force (FATF), however the FATF report acknowledged South Africa's progress in addressing 18 out of the 20 identified deficiencies, with 15 of them being upgraded to 'no longer deficient'. South Africa is now considered fully or largely compliant in 35 out of 40 FATF recommendations, including 5 out of 6 core recommendations. The enactment of key laws, including the General Laws (Anti-Money-Laundering and Combating Terrorism Financing) Amendment Act and the Protection of Constitutional Democracy Against Terrorism and Related Activities Amendment Act, contributed to the positive changes. Despite the progress made, South Africa still has 5 remaining deficiencies in technical compliance. Efforts to address these deficiencies are ongoing, with authorities aiming to resolve them by the next FATF follow-up report in October/November 2024.

The South African Reserve Bank (SARB) has established SA's first deposit insurance body, the Corporation for Deposit Insurance (CODI), to help protect bank depositors as well as with confidence in the financial sector. The establishment of CODI supports the SARB's mandate to protect and enhance financial stability by monitoring the financial environment and mitigating systemic risks that might disrupt the financial system.

ACKNOWLEDGEMENT AND APPRECIATION

I am thankful to all our external stakeholders, to our shareholder for engaging with us, our customers for trusting us with their financial needs, and to suppliers and business associates, who are critical to the success and sustainability of our business over the past year.

A special note of thanks to the South African Reserve Bank; Prudential Authority; Financial Sector Conduct Authority; Financial Intelligence Centre and other Regulatory authorities for their continued guidance and support.

I am grateful to my Board colleagues for your commitment and your sound judgement in deliberations. I acknowledge the Chairs of Board Committees for their guidance and for their collaborative, intuition and robust approach to working with the executive management. I also extend my appreciation to our executive management team led by Mr Cameron, for their committed leadership of the Bank over the past year. Finally, a special thank you to each and every employee for their continued commitment, hard work and dedication, for which we are grateful.

Y Singh
Chairman

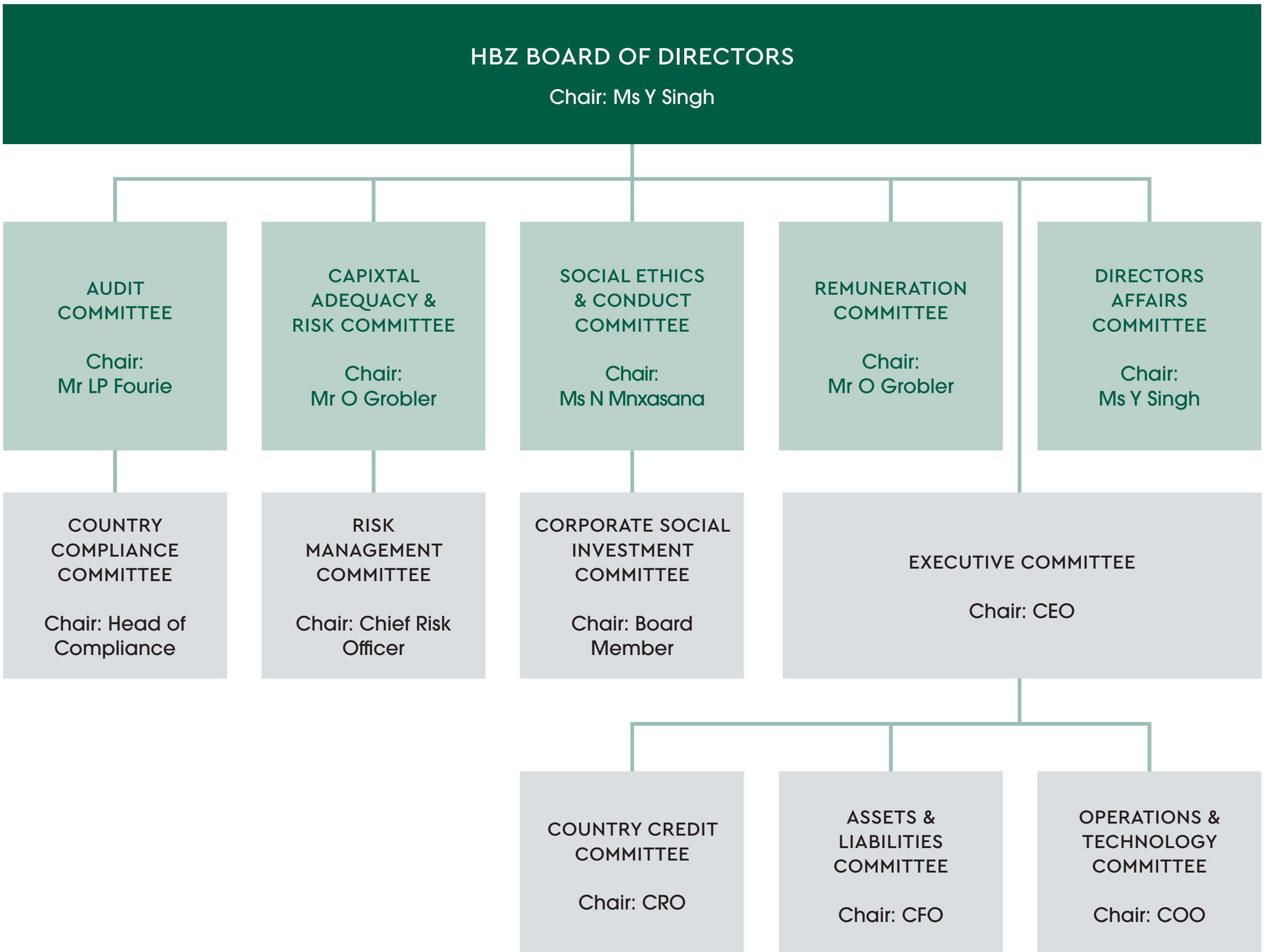
Corporate Governance Report

The Board of Directors is the highest governing body responsible for the strategic guidance of the Bank and financial soundness, governance structures and practices, and all statutory compliance obligations, and risk management and compliance obligations. The application of sound corporate governance practices ensures that an adequate and effective process of corporate governance, which is consistent with the nature, size and complexity of the bank remains a fundamental aspect of the Bank's operational business. The approach to sound corporate governance extends beyond compliance. We believe that good governance creates and preserves value by ensuring responsible and ethical behavior, as well as enhances accountability, leadership focus, risk management and performance management.

The Corporate Governance Framework is reviewed on an annual basis to ensure that the Bank complies with all applicable legislation, regulations, codes, policies, principles, and rules. As a Board, we are fully committed in the application of the principles of transparency, integrity and accountability as set out in the Code of Corporate Practices and Conduct as advocated in the King Commission's report on Corporate Governance and Regulation 39 of the Banks Act and its Regulations.

The Board executes its duties and responsibilities through the monitoring of adherence to the approved policies and frameworks supported by Board Committees. The Board ensures that risks are adequately identified, measured, managed, monitored, and mitigated to ensure that good governance is effectively maintained. Effective control is maintained through a structure of well-functioning Board Committees, which provide in-depth focus on specific areas of the Bank's corporate governance protocols.

GOVERNANCE STRUCTURES



Corporate Governance Report

BOARD OF DIRECTORS

Charter

The Board has a written Charter that is reviewed annually, and where necessary, the Charter was updated in line with the Banks Act, Companies Act and King IV recommendations. The Charter confirms the Board's accountability, fiduciary duties, conflict of interest process, appointments and tenure. The Board is fully committed to infusing into its activities the standards of integrity, accountability and transparency required to achieve effective corporate governance.

Board composition and Diversity

In accordance with Principle 7 of King IV, the Board is deemed to be suitably constituted and comprises of majority of six (6) independent Non-Executive Directors, one (1) Non-Executive Director and two (2) Executive Directors. The Bank is committed to promoting diversity at board level and recognizes that diversity of thought and skills encourages constructive debate among Directors. The Board periodically considers its composition in terms of business and industry knowledge, skills, experience, age, gender and independence to ensure it remains diverse and able to discharge its roles and responsibilities objectively and effectively.

INDEPENDENT DIRECTOR BY GENDER

INDEPENDENT DIRECTOR BY RACE

INDEPENDENT DIRECTOR BY TENURE OF INDEPENDENT NON-EXECUTIVE DIRECTOR SERVED

The Board is comfortable that the collective expertise and diversity in culture and experience of the Board is appropriate to oversee the implementation of the approved strategy and to facilitate long-term value for stakeholders.

Determining Independence

In line with the Governance Framework, the Board, through its Directors Affairs Committee, reviews the Directors' independence assessment. The process includes an assessment of each Director's circumstances and performance to ensure the Directors remain independent and objective in order to facilitate robust debates. The Board is satisfied that the Independent Directors exercise objective judgement and there is no interest, position, association or relationship which, when judged from the perspective of a reasonable and informed third party, is likely to influence unduly or cause bias in decision-making.

The Independent Non-Executive Directors of the Bank:

- Are not representatives of the shareholder
- Do not have a direct or indirect interest in the Bank or its holding company
- Have not been employed by the Bank or the Group in any capacity
- Have not been appointed as the designated auditor or partner in the Group's external audit firm, or senior legal adviser for the preceding three financial years
- Are not a member of the immediate family of an individual who is, or has during the preceding three financial years, been employed by the Bank or the Group
- Are not professional advisers to the Bank or the Group, other than as a Director
- Are free from any business or other relationship (contractual or statutory) which could be seen to interfere materially with their capacity to act in an independent manner
- Do not receive remuneration contingent upon the performance of the Bank

Corporate Governance Report

The Chairman

The Chairman of the Board is an independent Non-Executive Director. According to the charter, a Lead Independent Director, among others, provides leadership in situations where the Chairman is deemed to have conflicting interests and leads the performance appraisal of the Chairman. In terms of Board approved policies, there is equal balance of power and authority at Board level and no one individual has unfettered decision-making powers.

The Chief Executive Officer

The Chief Executive Officer (CEO) is appointed by the Board. The roles and duties of the Chairman and the CEO are separated. The CEO chairs the Executive Committee, thereby leading the implementation and execution of approved strategy, policy and operational planning. The CEO is accountable and reports to the Board on the progress made on the approved business plan.

Appointing and inducting Directors

The Directors' Affairs Committee identifies and recommends to the Board suitably qualified and experienced individuals for appointment as Non-Executive Directors. It is the responsibility of the Chair of the Board to take the lead with the assistance of the Company Secretary to provide a comprehensive induction programme for new Non-Executive Directors. A formal Induction programme aligned to the Induction Policy informs new Directors about the Bank and selected operations. The induction programme includes engagements with the executive management team responsible for the day-to-today management of the businesses.

During the year under review, the Board appointed Ms Disebo Moephuli and Ms Sharoda Rapeti to the Board of Directors effective 1 November 2023.

Rotation and changes to the Board

Mr Oscar Grobler, will retire at the next Annual General Meeting as the Lead Independent Non-Executive Director, Chairman of the Capital Adequacy & Risk Committee and Chairman of the Remuneration Committee having reached the 9-year rotation period. Mr ZA Khan, stepped down as the CEO on 31 March 2023 and retired on 30 June 2023 and Mr A Cameron, has occupied the role of the Chief Executive Officer since 1 April 2023.

Meetings and attendance

The Board met four times during 2023 apart from special meetings and regular informal interaction between management and Directors. When Directors are unable to physically attend a meeting, a Director may attend the meeting through teleconference, which is made available during the proceedings to allow them to adequately participate in the decision making process and conclusions reached thereafter. Members attended all scheduled meetings during the year.

Board members	Number of meetings attended
Y Singh (Chairman)	4/4
O Grobler	4/4
M Habib*	4/4
LP Fourie	4/4
N Mnxasana	4/4
D Moephuli@	1/4
S Rapeti@	1/4
A Iqbal#	4/4
A Cameron#	4/4
ZA Khan^	1/4

* Non-Independent Non-Executive Director
\# Executive Director
@ appointed 1 November 2023
^ retired 30 June 2023

The Board discharges its duty through policies and frameworks supported by five Board Committees. Comprehensive management reports are distributed to the Board for each meeting and relevant reports are distributed to the Board Committees to facilitate in-depth perspective. The Chairs of each Board Committees tables a report on a quarterly basis on the Committee's activities and provides recommendations to the Board to facilitate in-depth discussions.

On a monthly basis all Directors receive financial information that includes, but are not limited to, the statement of comprehensive income and the statement of financial position. Prior to the formulation of the annual budget, the Board meets with management to agree on the proposed strategy and consider the Bank's long-term risks.

All Directors are regularly kept abreast of statutory, regulatory, accounting, non-financial and industry developments that may affect the Bank. Furthermore, all Directors have full access to management, the Company Secretary and independent professionals as well as unrestricted access to all relevant documentation as they deem necessary may be required to discharge their duties.

Board duties and responsibilities

The Board Charter provides an overview of policies and practices of the Board in respect of matters such as corporate governance, declarations and conflicts of interest, Board meeting documentation and procedures, composition of the Board and the nomination, appointment, induction, training and evaluation of Directors and members of Board Committees.

There is a balance of power and authority at Board level, to ensure that no one Director has unfettered powers of decision-making. The performance of the Board is evaluated against the guidelines set out in the work plan of the Charter.

Corporate Governance Report

The Board further has a fiduciary duty to act in good faith, with due care, skill and diligence, and in the best interest of the Bank.

The powers and responsibilities of the Board include the following:

- oversee and monitor that the Bank is seen as a responsible corporate citizen by having regard to not only the financial aspects of the business of the Bank but also the impact that business operations have on the environment and the society within which it operates
- develop clear definitions of the levels of appropriate materiality in order to determine the scope and delegation of its authority to ensure specific powers are reserved for the Board
- review the Corporate Governance process annually and report to the Prudential Authority («PA») as set out in Regulation 39(18) of the Banks Act
- review reports from management on strategic matters and discuss emerging matters that could affect the business
- perform an annual assessment of the Internal Capital Adequacy Process of the Bank and report to the Prudential Authority
- ensure that Board and Committee members receive appropriate and ongoing training so they can properly discharge their duties in the best interests of the Bank
- monitor performance through various Board Committees

Delegation of Authority

The authority to implement and execute the approved strategy is in place with documented Delegation of Authority. The Delegation of Authority is reviewed annually by management and approved by the Board to ensure authority remains aligned to the risk appetite, strategy and appropriately balance governance oversight with operational efficiency. The Board is satisfied holistically that the Governance Framework and Delegation of Authority provide role clarity and contribute towards effective exercise of authority.

Board performance and independent evaluations

The Board generally conducts annual self-assessments. For 2023, the Director Affairs Committee resolved to defer the performance assessment of the Board to 2024, given the changes in the composition of the Board. An independent service provider will be appointed to facilitate an assessment in mid-2024.

Key governance matters addressed during the 2023:

Operational, Strategic and financing

- The Board approved the Compensation policies in consultation with the Shareholder
- Oversaw the implementation of the Short-Term Incentive Scheme to provide a competitive value proposition for high-performing employees, while aligning to the interests of the Shareholder

Succession and talent management

- Oversaw the appointment of the executive management as well as key position succession planning
- Approved the Board Committees Chairman's succession planning

Corporate and performance reporting

- Approved the 2022 Annual Financial Statements and Annual Report
- Reviewed and approved the Board and Board Committee Charters
- Quarterly Board meeting agendas regularly included detailed feedback by Board Committee Chairmen on the key matters dealt with by the Committees, as well as recommendations on policies and policy amendments for approval
- Confirmed the Bank's compliance with the Large Exposure Framework

Board Committees

The Board is supported by five Board Committees and the responsibilities of each Committee, and the skills and qualifications required for Committee membership are clearly defined in a written Terms of Reference approved by the Board. The details of the Committee members are on page 4 of this annual report.

Audit Committee

The Audit Committee operates under Board approved Terms of Reference, assisting the Board to fulfil its oversight responsibility on corporate governance. Its specific responsibility is to ensure accurate financial reporting and the existence of adequate financial systems and controls. The Committee discharges its responsibility by evaluating the operations and findings of both internal and external audit and by assessing the appropriateness and adequacy of the accounting procedures and the systems of internal financial and operational control.

Composition and attendance

In accordance with the Committee's Terms of Reference, the Committee consists of not less than three (3) Independent Non-Executive Directors, one of whom is the Chairman of the Committee. The Chairman of the Committee is not the Chairman of the Board. The Chairman and members of the Committee are elected by the Board and appointments are confirmed by the Shareholder at the Annual General Meeting.

The Chief Executive Officer, Chief Financial Officer, Head of Internal Audit, Head of Compliance and External Auditors are standing attendees of the Committee meetings but do not vote at meetings. All other members of the Board also have a right of attendance only. Internal audit and external auditors have unfettered access to members of the Committee.

Four meetings were held during 2023 with attendance in accordance with requirements.

Committee members	Number of meetings attended
LP Fourie (Chairman)	4/4
O Grobler	4/4
N Mnxasana	4/4

Main statutory and regulatory duties:

The duties and responsibilities of the Committee are:

- assist the Board in its evaluation of the adequacy and efficiency of the internal control systems, accounting practices, information systems and auditing processes applied within the Bank, as the case may be in the day-to-day management of its business
- to introduce such measures as in the Committee's opinion may serve to enhance the credibility and objectivity of annual financial statements and reports prepared with reference to the affairs of the Bank, as the case may be
- nominate a registered auditor who is independent of the Bank for appointment as an auditor of the Bank, as the case may be
- determine the terms of engagement of, and the fees to be paid to, the auditor
- ensure that the appointment of the auditor complies with the provisions of the Companies Act and any other legislation relating to the appointment of auditors
- determine, subject to the provisions of the Companies Act, the nature and extent of any non-audit services that the auditor may provide to the Bank, as the case may be, or that the auditor shall not provide to the Bank or a related company as defined in the Companies Act
- receive and shall appropriately deal with any concerns or complaints, whether from within or outside the Bank as the case may be, or on its own initiative, relating to:
  - the accounting practices and internal audit of the Bank
  - the content or auditing of the financial statements of the Bank
  - the internal financial controls of the Bank
  - any other related matter
- make submissions to the Board on any matter concerning the accounting policies of financial control of records of and reporting by the Bank
- perform any other function determined by the Board, including the development and implementation of a policy and plan for a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes within the bank

During the 2023 financial year, the Committee assisted the Board with the following:

- Monitored the integrity of the annual financial statements and recommended them to the Board for approval
- Reviewed quarterly chief financial officer reports, business performance reviews, the budget and received quarterly reports on the tax position and status of tax compliance of the Bank
- Assessed the quality, performance and delivery of the internal audit plan, scope of work performed and level of resources and coverage of the audit plan
- Reviewed the performance of the CFO and the performance and independence of the Head of Internal Audit and Head of Compliance, which were confirmed to be satisfactory
- Reviewed the Annual Report and considered the accuracy and completeness thereof

Planned focus areas in 2024:

- continue to monitor business and financial performance in line with anticipated strategic outcomes
- continue to monitor Anti-money laundering (AML) and financial crime compliance activities as well as compliance management
- enhancing the completeness of the combined assurance approach

The Committee's activities are detailed in the Audit Committee report.

CAPITAL ADEQUACY AND RISK COMMITTEE

The Capital Adequacy and Risk Committee is well-established with Board approved Terms of Reference that clearly sets out its responsibility, authority, and functions. The Terms of Reference are reviewed by the Committee and approved by the Board annually. The Board appoints the Chairman of the Committee.

Composition and attendance

The Committee is made up of both Independent Non-Executive and Executive Directors with an Independent Non-Executive Director being the Chairman. Four meetings were held during 2023 with attendance in accordance with requirements.

Committee members	Number of meetings attended
O Grobler (Chairman)	4/4
LP Fourie	4/4
N Mnxasana	4/4
ZA Khan*	1/4
A Cameron#	4/4
A Iqbal#	4/4

* retired on 30 June 2023

\# Executive Directors

Corporate Governance Report

Main statutory and regulatory duties:

The duties and responsibilities of the Committee are:

- at least once per annum, assess the capital management strategy of the Bank by the Internal Capital Adequacy Assessment Process
- assist the Board in the ongoing management of the capital requirements of the Bank to ensure that capital is maintained to meet future growth after taking to account stress-testing scenarios
- assist the Board in its evaluation of the adequacy and efficiency of the risk policies, procedures, practices and controls applied within the Bank in the day-to-day management of its business
- assist the Board in the identification of the build-up and concentration of various risks to which the Bank is exposed
- assist the Board in developing a risk mitigation strategy to ensure that the Bank manages risk in an optimal manner
- assist the Board in ensuring that a formal risk assessment is undertaken at least annually
- assist the Board in identifying and regularly monitoring all key risks and key performance indicators to ensure that its decision-making capability and accuracy of its reporting is maintained at a high level
- establish and implement a process of internal controls and reviews to ensure the integrity of the overall risk and capital management process
- facilitate and promote communication, through reporting structures, regarding the matters within its authority, between the Board and the executive officers of the Bank
- to ensure the establishment of an independent risk management function, the head of which shall act as the reference point for all aspects relating to risk management within the Bank, including the responsibility to arrange training of members of the Board in the different risk areas to which the Bank is exposed
- introduce such measures as may serve to enhance the adequacy and efficiency of the risk management policies, procedures, practices and controls applied within the Bank
- co-ordinate the monitoring of risk management on a globalized basis
- establish and implement policies and procedures designed to ensure that the Bank identifies, measures, and reports all material risks
- establish and implement a process that relates capital to the level of risk

During the 2023 financial year, the Committee assisted the Board with the following:

- ongoing management of the capital requirements of the Bank to ensure that capital is maintained to meet future growth expectations, after considering stress-testing scenarios. Despite the economic challenges, the capital adequacy ratio maintained by the Bank was above the prudential and Board minimum requirement
- evaluation of the adequacy and efficiency of the risk policies, procedures, practices, and controls applied within the Bank in the day-to-day management of its business
- monitoring the identification of the buildup and concentration of various risks to which the Bank is exposed
- review of annual refresh of the risk appetite statements and metrics
- monitoring the risk mitigation strategy to ensure that the Bank manages risk in an optimal manner

Planned focus areas in 2024:

- continue to focus on the core activities of the committee as outlined in its Terms of Reference
- monitor and enhance the Bank's approach to outsourcing and third-party risk management
- monitor climate change related risks and opportunities
- Consider detailed risk reports from the CRO, the residual risk profile, as well as key risk trends, including key top-of-mind topics on various risk exposures

DIRECTORS' AFFAIRS COMMITTEE

The Directors' Affairs Committee has Board approved Terms of Reference that clearly sets out its responsibility, authority, and functions. The Terms of Reference are reviewed annually. The Board appoints the Chairman of the Committee. The Committee consists of Independent Non-Executive Directors only.

Composition and attendance

In line with the Terms of Reference, two (2) meetings were held during 2023, Executive Directors and the Chief Financial Officer were invited to attend. Attendance at these meetings was in accordance with requirements of the Terms of Reference.

Committee members	Number of meetings attended
Y Singh (Chairman)	2/2
O Grobler	2/2
LP Fourie	2/2
N Mnxasana	2/2
D Moephuli#	0/2
S Rapeti#	0/2

appointed 1 November 2023

Main statutory and regulatory duties:

The main duties and responsibilities of the Committee:

- assist the Board to establish and maintain a Board Directorship continuity program entailing-
  - a review of performance of, and planning for successors to the executive Directors
  - measures to ensure continuity of Non-Executive Directors

  - regular review of the composition of skills, experience and other qualities required for the effectiveness of the board
  - an annual self-assessment of the Board as a whole and of the contribution of each individual Director
- assist the Board in the nomination of successors to the key positions in the Bank in order to ensure that a management succession plan is in place
- assist the Board in determining whether the services of any Director should be terminated
- perform an annual assessment of each Director to determine whether:
  - the Director classified as an Independent Director continue to exercise objective judgement
  - there is no interest, position, association or relationship which, when judged from the perspective of a reasonable and informed third party, likely to influence unduly or cause bias in decision-making of the Director

During the 2023 financial year, the Committee assisted the Board with:

- considering the Director's declaration with regard to their status as an Independent Director to meet the independent criteria that they will continue to exercise objective judgement and have no interests to influence unduly or cause bias in their decision making
- evaluating the adequacy, efficiency and appropriateness of the corporate governance structures and practices of the Bank
- reviewing Director's compositions skills, experience and qualifications and assessed whether there was a need for additional skills within the Board
- recommending the appointment of Independent Non-Executive Directors

Planned focus areas in 2024:

- appoint an external service provider to conduct the Board and Board Committee external effectiveness evaluations, consider the outcomes from, and provide feedback to the Board on, the independent Board and committee effectiveness evaluations
- oversee Board and executive succession planning
- continue to assess the independence and performance of Non-Executive Directors to ensure a balanced and independent Board

SOCIAL, ETHICS AND CONDUCT COMMITTEE

The Social, Ethics and Conduct Committee has Board approved Terms of Reference that clearly sets out its responsibility, authority and functions. The Terms of Reference are reviewed annually.

Composition and attendance

The Board appoints the Chairman of the Committee who is an Independent Non-Executive Director. The Committee is made up of Non-Executive and Executive Directors. The Board increased the number of meetings per year from three meetings to four meetings during the period under review.

Committee members	Number of meetings attended
N Mnxasana (Chairman)	4/4
O Grobler	4/4
A Cameron	4/4
ZA Khan#	1/4

retired in June 2023

Main statutory duties

The main duties and responsibilities of the Committee:

- Govern the ethics of the Bank in a way that supports the establishment of an ethical culture, which shall include the following practices.
  - Set the direction for ethics in the Bank
  - Approve codes of conduct and ethics policies as well as ensure that they include all stakeholders and key ethical risks
  - Ensure that stakeholders are familiar with codes of conduct and ethics related policies
  - Delegate implementation of codes of conduct and ethics policies to management and provide ongoing oversight of this management, including results in such matters as recruitment, employee remuneration, supplier selection, breach management, whistle-blowing and independent assessment
  - Report on how ethics within the Bank is being managed, the focus areas, monitoring measures and how ethical out-comes are addressed
  - Ensure management has implemented effective staff training on the above topics plus:
    (i) Fraud Prevention
    (ii) Data protection
    (iii) Treat Customer Fairly
    (iv) Information Security
  - Ensuring that management has Codes of Conduct in place to address:
    (i) Whistle blowing
    (ii) Anti-bribery and corruption
    (iii) Conflicts of interest
- Monitor the Bank's activities and ensure that policies are in place to ensure that the Bank is and is seen to be a responsible corporate citizen by ensuring governance on the following:
  - Economy: Economic development; Fraud and corruption; Broad-based Black Economic Empowerment; Responsible and transparent tax practices

- Environment: Environmental impact; Pollution; Waste disposal; Biodiversity, Climate change
- Workplace: Employment Equity; Decent work; Employee safety and health; Employee Relations; Education of employees; Fair remuneration; Organizational Ethics
- Society: Community development; Donations and sponsorships; Public health and safety; Advertising; Consumer protection; Consumer relations; Human rights and Stakeholder relations
- Receive an independent assessment report (conducted by the internal audit function) to assess the adequacy and effectiveness of the Bank's ethics management processes and structures

During the 2023 financial year, the Committee assisted the Board with the:

- monitoring of the Banks activities with regard to social and economic development, business conduct, transformation, market conduct including the customer complaint process, ethics, and corporate social investments
- ensuring management has implemented effective staff training on the above topics as well as Fraud Prevention, Data protection, Treat Customer Fairly (TCF), and Information Security
- reporting to the Shareholder at the Bank's Annual General Meeting on the matters within its mandate

Planned focus areas in 2024:

- monitor progress on employment equity plans and barriers to achieving targets
- monitor the Bank's corporate citizenship approach, as well as objectives that promote equality, prevent unfair discrimination and corruption, and support CSI, corporate sponsorships and donations
- continue to monitor the effectiveness of the compliance framework and the approach to regulatory compliance and mandatory compliance training

Refer to Social, Ethics and Conduct Committee Report for further details of the Committee's activities.

REMUNERATION COMMITTEE

The Committee has Board approved Terms of Reference that sets out its responsibility, authority and functions. The Terms of Reference are reviewed annually. The Board appoints the Chairman of the Committee.

Composition and attendance

The Chairman is an Independent Non-Executive Director. The Remuneration Committee comprises of Independent Non-Executive Directors only. The Committee met twice during 2023 over and above special meetings to execute its duties as a nomination committee.

Committee members	Number of meetings attended
O Grobler (Chairman)	2/2
LP Fourie	2/2
N Mnxasana	2/2

Main statutory and regulatory duties:

The duties and responsibilities of the Committee are:

- exercising competent and independent judgement on compensation policies, processes and practices 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 realization remain uncertain
- ensuring that all relevant decisions are consistent with an assessment of the Bank's financial condition and future prospects
- working closely with the Bank's Capital Adequacy & Risk Committee in the evaluation of the incentives created by the compensation system
- ensuring that the Bank's compensation policy, processes and procedures are in compliance with the relevant requirements specified in the Regulations and such further requirements as may be specified in writing by the Authority
- conducting an annual compensation review independently of management, which review shall, among other things, assess the Bank compliance with the Regulations and such further requirements as may be specified in writing by the Authority
- 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
- ensuring that performance measures are based principally on the achievement of the board approved objectives of the Bank and its relevant functions
- consulting with Shareholders/ Stakeholders

Refer to Remuneration Report for details of the Committee's activities.

COMPANY SECRETARY

Our Company Secretary continued in her role as Board and Board Committee adviser on governance matters. The Company Secretary is not a Director of the Bank and is deemed by the Board to be suitably independent in accordance with the relevant practices recommended by King IV. In addition, the Board is satisfied that an arm's length relationship exists between it and the Company Secretary. The Company Secretary is responsible for engaging with

Corporate Governance Report

the Board Chairman and Board Committee Chairs on meeting topics, ensuring compliance with Board and Board Committee governance, Terms of Reference, and relevant legislation and regulations governing the Bank.

The Company Secretary is responsible for the duties as stipulated in Section 88(2) of the Companies Act 71 of 2008 as amended. The Board recognizes the pivotal role the Company Secretary plays in the Corporate Governance process and is thus empowered by them to ensure these duties are properly fulfilled.

In addition to her statutory duties the Company Secretary is required to:

- Provide the Directors with guidance on how their responsibilities should be properly discharged in the best interests of the Bank
- Induct new Directors appointed to the Board
- Assist the Chairman of the Board in determining the annual Board plan
- Ensure that the Directors are aware of legislation relevant to the Bank

The Company Secretary reports directly to the Board. The Board ensures that the office of the Company Secretary is empowered and that the position carries the necessary authority to fulfill the regulatory and statutory duties as required.

EXECUTIVE COMMITTEE

The Chief Executive Officer and Executive Officers in charge of one or more risk management functions of the Bank are accountable to the Board for developing, implementing, and monitoring corporate governance processes, integrating these into the day-to-day activities of the Bank, and to provide the Board with sufficient information to assess the level of corporate governance.

The Executive Committee is chaired by the Chief Executive Officer and meets on a quarterly basis and as and when necessary. To ensure application of sound governance principles within the Bank, the Committee has the following management committees to assist it with the execution of its duties:

- Assets and Liabilities Committee (ALCO), chaired by the Chief Financial Officer
- Operations & Technology Committee (OTCO), chaired by the Chief Operations Officer
- Credit Committees, chaired by Chief Risk Officer
- Corporate Social Investment (CSI) Committee, chaired by an Independent Non-Executive Director

To enhance productivity and promote efficiencies, the Executive Committee resolved to dissolve the Human Resources Committee and undertook to attend to the required HR duties and responsibilities.

In addition, the following independent management committees are in place with a reporting line to Board Committees:

- Country Compliance Committee, chaired by the Head of Compliance
- Risk Management Committee, chaired by the Chief Risk Officer

All Committees are made up of skilled persons who add value to the Committees' affairs. They all have Terms of References that are reviewed annually. Each Committee meets at least quarterly with minutes kept of all meetings.

COMPLIANCE

The Bank has an independent compliance function responsible for guiding management to ensure that the Bank complies with the letter and spirit of all statutes, regulations, supervisory requirements, and industry codes of conduct, that apply to the Bank's businesses. The compliance department has implemented and developed effective processes to address compliance matters within the Bank and has unrestricted access to the Chairman of the Audit Committee and Chairman of the Board. To ensure independence of the function, the Head of Compliance reports directly to the Audit Committee.

Details of the activities of the compliance function are elaborated upon in the Risk Management section of this annual report.

RISK MANAGEMENT

The Bank has an effective independent risk management function under the direction of a Chief Risk Officer. The risk management function is a key component of the Bank's second line of defense, responsible for overseeing risk-taking activities across the Bank and has authority to do so. The risk department has developed and implemented the risk management framework which includes the Bank's Board approved risk culture, risk appetite and risk limits. To ensure independence, the Chief Risk Officer reports directly to the Capital Adequacy & Risk Officer.

Details of the activities of the risk function are provided in the Risk Management section of this annual report.

Corporate Governance Report

INTERNAL CONTROL

The Directors of the Bank are responsible for ensuring that the Bank maintains accounting records and implements effective systems of control. Management is responsible for the implementation and maintenance of these controls.

The Directors report that the Bank's internal controls are designed to provide assurance regarding the:

- integrity, accuracy and reliability of the accounting records
- accountability of the safeguarding and verification of assets
- detection and prevention of risks associated with fraud, potential liabilities, loss and material misstatements
- effectiveness and efficiency of operations
- compliance with applicable laws and regulations

Processes are in place to monitor the effectiveness of internal controls, which identify material breakdowns and ensure that corrective action is taken. These ongoing processes were in place throughout the year under review.

INTERNAL AUDIT

The Bank's independent internal audit function exists to assist management in discharging their responsibility effectively. The department is headed by the Head of Internal Audit, a senior, suitably qualified and experienced executive officer with a reporting line to the Audit Committee. Internal audit operates independently from Executive Management and has unrestricted access to the Chairman of the Audit Committee and all other staff and information needed by them in the execution of their duties.

REGULATION AND SUPERVISION

The Bank is subject to external regulation and supervision by various statutory bodies and regulators. The Bank strives to achieve open and active communication with these bodies, specifically the Financial Surveillance Department of the South African Reserve Bank, the Prudential Authority, the Corporation for Deposit Insurance, the Financial Sector Conduct Authority, the National Credit Regulator, the Payments Association of South Africa and the Financial Intelligence Centre.

Where appropriate the Bank participates in discussion groups with the various regulators to ensure that current and up to date knowledge and insight is gained to maintain efficient and compliant operation within the regulatory framework.

PUBLIC DISCLOSURE OBLIGATIONS

The Bank has a disclosure policy in place to ensure that it complies with all relevant public disclosure obligations as required by relevant regulations. Both quarterly and bi-annually the Bank publishes disclosures on its website. In addition, the annual report of the holding company, Habib Bank AG Zurich, and ESG report for Habib Bank AG Zurich and its subsidiaries are available on the Bank's website.

Risk Management Framework

RISK MANAGEMENT PHILOSOPHY

The primary purpose of Risk Management Framework at HBZ Bank Limited (hereinafter referred to as "the Bank") is to ensure the long-term financial sustainability and operational resilience of the Bank by endeavoring to implement best banking practices while fostering a sound and prudent risk culture across all business lines.

The Bank has a sound risk culture coupled with an appropriate and enabling risk appetite that is supported by effective governance structures, robust policy frameworks and a risk-focused culture. Strong governance structures and policy frameworks facilitate the embedding of risk considerations in business processes and ensure that consistent standards exist across the Bank. In line with its corporate governance framework, the Board retains ultimate responsibility for providing strategic direction, approving risk appetite and ensuring that risks are identified and understood, evaluated and quantified, managed and reported on.

The Bank defines risk as any factor, which could cause the Bank not to achieve its desired business objectives or results in adverse outcomes, including reputational damage. The Bank acknowledges that risk is an inherent and unavoidable consequence of banking and hence seeks to take calculated business risks in line with its risk appetite. The Board enforces a conservative culture with respect to its overall appetite for risk and fully endorses and supports efforts to attain international best practice in risk management.

Risk management at the Bank is guided by the following fundamental principles:

- Protection of the Bank's financial strength by managing risk exposures and avoiding potential undue risk concentrations
- Protection of the Bank's reputation through a sound risk culture, and through full compliance with regulatory requirements and acceptable ethical standards and principles
- Systematically identifying, classifying, and measuring risks applying best practice
- Ensuring management accountability, whereby Business Line Management, as opposed to risk control, owns all risks assumed throughout the Bank and assumes responsibility for the continuous and active management of all risk exposures to ensure that risk and return are balanced
- Sets up independent risk control functions or units, which monitor effectiveness of business's risk management and oversee risk-taking activities
- Discloses risks to the executive committee, Board of Directors, Regulators, and other stakeholders with an appropriate level of comprehensiveness and transparency
- Maintains a strongly defined risk management structure
- Engages in independent review and oversight of the risk process
- Performs continuous evaluation of the risk appetite of the Bank through clearly defined limits
- Communicates and coordinates between the committees, executive management and other role-players in the risk management framework, without compromising segregation of duties, controls or review

COMBINED ASSURANCE

The Audit and Compliance Committee promotes a coordinated approach to all assurance activities. It reviews the work of the external auditors, internal auditors, compliance and independent assurance providers, and concludes on their adequacy to address all significant financial risks facing the Bank which can impair the integrity of information used for decision-making and external reporting.

The Bank has five lines of assurance to incorporate all assurance role players, and to emphasise that assurance is about having an adequate and effective control environment and strengthening the integrity of reports for better decision making. The five lines of assurance includes:

- First line - functions that own and manage risk and opportunity
- Second line - functions that facilitate and oversee risk and opportunity
- Third line - internal assurance providers
- Fourth line - external assurance providers
- Fifth line - Board and Board Committees

ORGANISATIONAL STRUCTURE AND GOVERNANCE

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

In line with international best practice, various Board Committees oversee policy formulation and implementation, and monitor the risk management processes and exposures. The main Board Committees are the Audit Committee (AC) and the Capital Adequacy and Risk Committee (CARC). The Risk Management Committee (RMC), the Assets and Liabilities Committee (ALCO) and Credit Committee are management committees appointed to further enhance the Bank's risk management framework.

The Bank's risk management framework includes direct Board and senior management involvement to determine both quantitative and qualitative risk measurements, policies and procedures, control structures, and compliance with relevant regulations. The Executive and Non-Executive Directors are widely represented on the various risk management committees and processes. At every Board meeting, the

Risk Management Framework

Chairman of CARC reports on the effectiveness of the Bank's risk management and control framework.

RISK ASSESSMENT

The Board reviews the relevant risk areas on an annual basis. The risk assessment is based on exposure data and risk analysis, which are provided by the risk department of the Bank. This covers liquidity risk, market risk, credit risk, concentration risk, operational risk and other risk types as are relevant. For its risk assessment the Board takes into consideration mitigating factors such as the effectiveness of the system of controls.

COMMITTEES THAT MANAGE RISK

Capital Adequacy and Risk Committee

This Board Committee comprises at least five members with a minimum of three Independent Non-Executive Directors. The Chairman of the Committee is an independent non-executive director appointed by the Board. The Committee has the power to investigate any activity within the scope of its terms of reference. In the fulfilment of its responsibilities, the Committee may call upon the Chairmans of the other Board Committees, any of the Executive Directors, officers or company secretary to provide it with information necessary to carry out its mandate subject to following a Board approved process.

The Committee has full access to the Bank's records, facilities and any other resources necessary to discharge its responsibilities. It has the right to obtain independent outside professional advice to assist with the execution of its duties, at Bank's cost, subject to following a Board approved process.

The main responsibilities of the CARC is to:

- Annually evaluate the capital management strategy via the Internal Capital Adequacy Assessment Process (ICAAP)
- Manage the Bank's capital requirements to ensure capital is maintained to meet future growth taking into account stress-testing scenarios
- Evaluate the adequacy and efficiency of the risk policies, procedures, practices and controls applied in the day-to-day management of its business
- Manage the risk mitigation strategy to ensure the Bank manages the risks in an optimal manner
- Ensure a formal risk assessment is undertaken at least annually
- Identifying and regularly monitoring all key risks and key performance indicators to ensure that its decision-making capability and accuracy of its reporting is maintained at an acceptable level
- Establish a process of internal controls and reviews to ensure the integrity of the overall risk and capital management process
- Ensure the establishment of an independent risk management function
- Introduce such measures as may be deemed necessary to enhance the adequacy and efficiencies of the risk management policies, procedures, practices and controls applied within that Bank

Four meetings were held during 2023 with attendance in accordance with requirements. Minutes were kept and filed as per the charter. The charter is reviewed on an annual basis.

Risk Management Committee (RMC)

The RMC is a management appointed committee that has a written charter clearly setting out its responsibility, authority and functions. The charter is reviewed on an annual basis. The RMC reviews the Risk Management Framework of the Bank and oversees the control and enhancement of systems, policies, practices and procedures to ensure effectiveness of risk identification and compliance with internal guidelines and external requirements in support of the Bank's strategy. The main responsibility of RMC is to:

- Ensure risks are identified, measured, controlled, monitored and reported
- Review the Bank's risk profile and appetite
- Set and review policies, control standards, risk exposure limits or other control levers
- Initiate stress tests and scenario plans and review their results
- Review the credit risk regulations, policies, procedures and credit impairment provisions
- Review the operational risk regulations, policies, procedures, IT and third-party application systems, key risk indicators, and events
- Review the risks associated with material outsourced services that are provided to the Bank
- Ensure that all risk reports that are presented to management and the Board are in compliance with the Bank's Risk Data Aggregation and Risk Reporting framework
- Review all risks individually and anticipate any resulting risk issues
- Review all issues raised by the Group and Bank's Internal and External Audit Departments

In performing its duties, the RMC maintains an effective working relationship with the CARC and the ALCO.

The RMC is chaired by the Chief Risk Officer (CRO) and is made up of the Chief Executive Officer (CEO), Chief Financial Officer (CFO), the Chief Operating Officer (COO) and Head of Compliance. The Company Secretary, Internal Audit and the Operational Risk Manager attend as observers. Area Managers are invited to attend as and when decided by the Committee. During 2023 the RMC met as per its charter.

Credit Management Committee (CMC)

This management committee is chaired by the CRO and comprises the CEO, Senior Credit Manager and Area Managers (KZN and Gauteng). The CMC is the credit decision making body within the Bank and approves all credit proposals and reviews and monitors all credit risks which fall within their Board approved competency.

The Committee met as per its charter and minutes were kept in line with the approved charter.

Assets and Liabilities Committee (ALCO)

An integral element in managing risk is the overall management of the assets and liabilities of the Bank. The ALCO was set up by Management with a written charter to oversee the arrangement of the Bank's statement of financial position, to maintain profitability, to minimise interest rate risk, to maintain adequate liquidity and manage the capital adequacy requirements of the Bank. The Committee presents a report at each Risk Management Committee meeting on the effectiveness of the management of the risks it monitors. The charter is reviewed on an annual basis.

The main responsibilities of this Committee are to:

- Review the liquidity and interest rate risk process
- Consider the maturity of assets on the statement of financial position
- Review and monitor capital risk and the capital adequacy process
- Assess the various liquidity and interest-rate shock scenarios and their impact on earnings and capital
- Allocate the assets and liabilities to reduce risk and increase profitability
- Monitor the Bank's exposure to currency risk
- Monitor the performance of activities and placement of Islamic banking funds
- Review the interest rate sensitivity reports on a regular basis to ascertain and manage the interest rate risk in the banking book («IRRBB»)
- Recommend the ICAAP on an annual basis to the CARC

The Committee is chaired by the CFO and is made up of the CEO, CRO, and Treasury Manager. During 2023 the ALCO met as per its charter and minutes were kept and filed.

Compliance Committee

This management committee is chaired by the Head of Compliance and is made up of the CEO, CFO, CRO, COO and Area Managers. The committee has a written charter and is responsible for overseeing the compliance function in the Bank. The charter is reviewed on an annual basis.

The committee has the authority to consider any matters relating to compliance and the combating of money laundering and terrorist financing risks that it deems necessary. In this regard the Committee has the authority to seek any information it requires from any officer or employee of the Bank, and such officers or employees shall respond to these inquires.

The main functions of this committee are to:

- Ensure compliance with regulatory requirements affecting the Bank
- Identify the money laundering and terrorist financing risks that are relevant to the Bank
- Review the compliance monitoring process
- Ensure that any recommendations above are incorporated into the Bank's procedures and monitoring infrastructure
- Review the compliance and combating of money laundering and terrorist financing training requirements
- Review the list of high-risk countries, the list of high-risk accounts, the list of frozen accounts, the list of accounts that are under investigation by any regulatory body (SARS, FIC, National Prosecuting Authority and SAPS)
- to review the following reports:
    - list of high-risk accounts and provide recommendations
    - list of accounts that the Bank has reported to the FIC as suspicious in nature
- to review the account opening procedures to ensure that they meet local regulatory requirements
- to review reports from the Head of Compliance on the following:
    - observations from branch compliance inspections
    - accounts opened since the last meeting (to ensure they have been correctly risk assessed)
    - number and type of outstanding compliance monitor transactions
- to report on all market, conduct related issues affecting the Bank and the Banks level of compliance
- to review the list of new acts or regulations promulgated since the last Compliance Committee meeting, assess their impact on the Bank and ensure that the Bank is in compliance with them (if applicable to the Bank)

The Committee met as required in 2023 and minutes were kept and filed as per the charter.

Risk Appetite

The Bank defines risk appetite as the level of risk it is willing to assume to achieve its strategic objectives and business strategy within its risk bearing capacity and regulatory requirements. It is a written articulation of the type and level of risk across the Bank's risk families it will accept, monitor and manage in pursuit of its business strategy before action is deemed necessary to reduce or mitigate these risks. Risk Appetite encompasses both qualitative as well as quantitative measures, as appropriate. It also encompasses risks which are more difficult to quantify such as reputational risk.

Risk Management Framework

RISKS DIRECTLY IMPACTING THE BANK AND THE MANAGEMENT THEREOF

The Board has appointed the CARC to oversee the Risk Management Framework of the Bank. The risk drivers represent the categorization of risk against which underlying risk appetite metrics are defined and the Bank's risk appetite is developed and maintained. Following risk drivers form the higher level of the Bank's risk taxonomy:

RISK CLASS	RISK TYPE
Strategic & Business risk	Strategic risk Business risk Concentration risk Solvency risk Capital adequacy risk
Liquidity risk	Liquidity funding risk
Market risk	Interest rate risk
Credit risk	Credit risk - general Counterparty risk Settlement risk
Operational risk	Operational risk (incl. IT risk) Cyber risk Fraud risk Physical security risk
Legal, compliance & tax risk	Legal risk Compliance risk (incl. AML) Tax risk
Conduct risk	Conduct risk
Reputation risk	Reputation (including Shariah risk)
Systemic risk	Systemic risk

Incorporated within the above-mentioned risk drivers, and in line with Regulation 39 of the Banks Act are key risks including concentration risk, detection and prevention of criminal activities risk. The Bank is not exposed to commodity risk nor from equity risk arising from positions held in the Banks banking book.

STRATEGIC AND BUSINESS RISK

1. Strategic risk

Strategic risk is the current and prospective impact on earnings or capital arising from inappropriate business models, adverse business decisions or improper implementation of such decisions, or lack of responsiveness to industry changes.

The Bank pro-actively manages this risk by ensuring that:

- Established governance and ownership for strategic risk management is in place
- Effective integration of all stakeholders responsible for strategy and risk management
- Risk review processes are in place that allow for independent oversight and challenge of strategies, which are linked to risk appetite setting
- Risk frameworks are in place to assess risk impacts on key business variables
- Strategic objectives and direction of the organisation including the associated risks are determined at Board level
- Board strategic planning and decision-making processes are thorough
- The Board has sufficient information about how the business is performing, and about relevant aspects of the economic, commercial, and technological environments
- The Board is balanced in skills, knowledge, and experience to assess the variety of strategic risks the organisation faces
- The Bank has the ability to respond to abrupt changes or fast-moving conditions
- Strategic risks are avoided or not accepted if the possible impacts are too great, or where the probability of success is so low that the returns offered are insufficient to warrant taking the risk
- Change risk assessments are performed for all new initiatives such as the launch of new products, business processes and the set up of new branches

Risk Management Framework

2. Business Risk

Business risk is the risk to earnings, capital and sustainability from potential changes in the business environment as well as planned new business and expansion activities.

The Bank has processes, policies and procedures in place to mitigate this risk. The Bank's approach to risk mitigation includes:

- Acknowledging that business risk is influenced by numerous factors including sales volume, pricing, overhead costs, competition, overall economic climate, and government regulations
- The Board makes decisions about the objectives and direction of the Bank
- The Board strategic planning and decision-making processes are thorough
- The Board has sufficient information about prevailing market and economic conditions
- The Board is balanced in skills, knowledge and experience to assess the variety of factors that may impact its performance
- The Bank has the ability to respond timeously to internal and external changes

3. Concentration Risk

Concentration risk is the risk of losses arising that are large enough to threaten the Bank's existence due to a single exposure or group of exposures to a counterparty, industry, geographic area or with one type of security.

The fundamental principles that the Bank applies in the management of concentration risk include:

- Clearly defined rules for the grouping together of exposures to the same client
- Monitoring of exposures to counterparty, industry, commodity, geographic area or one type of security
- Clearly defined per party exposure limits
- Management and supervision of concentration risk within individual risk areas e.g. Credit risk, Market risk, Liquidity risk (concentration in both assets and liabilities), Operational risk concentration (i.e. any single/group operational risk exposures and loss events)
- Continual monitoring of industry and geographic exposures at Board level
- Perform stress testing where applicable in the identification of concentration risk
- Identify concentration risks when planning to enter into new activities, products and markets
- Review the concentration risk at each Risk meeting
- Where issues of concern are identified, appropriate action to be taken for e.g. reduce threshold on risk concentrations, adjust business strategy to address undue concentrations, diversify asset allocation or funding in line with the risk appetite

4. Solvency Risk

Solvency is defined as having enough value in the form of assets in the Bank to cover all of the liabilities of the bank. Solvency Risk is therefore the risk that the Bank cannot meet maturing obligations because it has a negative net worth.

As part of the risk management system the Bank undertakes a risk and solvency assessment, which is used to ensure adequate capitalisation, and access to additional sources of capital to deal with a wide range of scenarios. The risk and solvency assessment is an integral part of the Bank's strategy and is taken into account on an ongoing basis in strategic decision-making.

Solvency risk is further mitigated by the fact that the major risks that could impact the Bank is well managed individually and collectively which ensures there is no risk of insolvency. Signs of failure in any of these risks would be a precursor to solvency risk being red flagged.

5. Capital Adequacy Risk

Capital Adequacy risk is the risk that the Bank has insufficient capital resources to meet the minimum regulatory requirements and to support its growth and strategic objectives.

The Bank's capital management process is intended to develop and use effective risk management techniques in monitoring and managing its risks to ensure it has adequate capital to support all the risks. A relationship exists between the amount of capital held by the Bank against its risks and the strength and effectiveness of the Bank's risk management and internal control processes.

It is the Board's view that increasing capital should not be the only option for addressing increased risks confronting the Bank. Other means of addressing risk, such as strengthening risk management, applying internal limits, strengthening the level of provisions and reserves, and improving internal controls, must also be considered. Furthermore, capital should not be regarded as a substitute for addressing fundamentally inadequate controls or risk management processes.

The Board has developed an Internal Capital Adequacy Assessment Process (ICAAP) and set capital targets that are commensurate with the Bank's risk profile and control environment, to ensure the Bank has adequate capital to support its risks beyond the core minimum requirements. During 2023 the Board reviewed the capital management and capital adequacy processes and confirmed that it achieved the objectives specified.

Risk Management Framework

LIQUIDITY RISK

1. Liquidity risk

Liquidity risk is the risk that Bank will be unable to meet commitments, repayments and withdrawals timeously and cost effectively.

The Bank controls liquidity at source by having strong internal controls, ensuring a wide deposit base, simplifying the product range and having a centralised treasury function. The Bank is conservative in its management of liquidity risk. The Bank maintains a large proportion of funds on a short-term basis to mitigate the risk of unexpected cash flow requirements. This is enhanced through an ALCO and an Assets and Liabilities Management (ALM) process which addresses liquidity risk pro-actively. The focused range of products offered by the Bank facilitates the management of this risk. There is an effective system in place to monitor the Bank's liquidity and reports are received by the Bank's executive management.

The liquidity management process includes a Contingency Funding Plan and Recovery Plan which takes into account various stress test scenarios and funding sources. The Bank does comprehensive stress test scenarios for cases where an intra-day liquidity shortfall is predicted and where a sudden drain in funds occurs resulting from a "run" on the Bank or a single large Bank placement becoming irrecoverable.

The Bank has the following sources of funding in a stress situation:

- Use available interbank lines
- Sell government stock
- Approach the market to raise funds

The Bank complies with Basel III principles relating to liquidity risk management, specifically the liquidity coverage ratio and the net stable funding ratio. Regarding interest rate risk the focused range of products offered by the Bank facilitates the management of liquidity risk.

MARKET RISK

1. Interest Rate Risk

Interest rate risk is the risk of losses to the Bank due to adverse variations in interest rates.

The Bank takes active measures to limit potential interest rate losses by:

- Ensuring that the majority of the Bank's borrowings and lending activities are at variable rates allowing for relatively stable interest rate margins
- The ALCO reviewing and monitoring the interest rate matching at every meeting
- Managing rate-sensitive assets and liabilities over various time horizons and various economic and environmental scenarios at every ALCO meeting
- Review the interest rate management process at each Capital Adequacy and Risk Committee meeting including considering the impact of a rate increase / decrease on the Banks profitability
- The focused range of products offered by the Bank facilitates the management of interest rate risk

CREDIT RISK

1. Credit Risk

Credit risk is the risk of financial loss arising from the possibility that commitments by counterparties are not honoured either in part or totally.

The Board acknowledges that credit risk management is critical to the Bank and hence aims to optimize the amount of credit risk it takes to achieve its return objectives.

In line with the requirements of the South African Reserve Bank (SARB), the Bank applies the Standardised Approach to calculate regulatory credit risk capital as stipulated in the Basel III Accord.

The fundamental principles that the Bank applies in the management of credit risk include:

- A clear definition and in-depth understanding of its niche client base
- A centralised credit department to manage credit applications and related security
- Independent credit risk manager and credit administration manager
- Detailed credit granting procedures including rigorous assessment of the creditworthiness of all parties
- Detailed and documented account opening procedures, know-your-customer and due diligence requirements
- An emphasis on diversification of the Banks client base limiting single party exposure as well as exposures to certain industries
- Formation of high-level credit committees with clearly defined limits
- Periodic and routine review of facilities against inter alia updated financial information
- Detailed credit inspection, quality review and prompt follow-up by high level management, the independent external and internal auditors
- Executive & non-executive's involvement in decision making and review
- Strict adherence to the regular revaluation of collateral held as security
- Continual monitoring of all large exposures at board level
- A detailed credit risk classification system of clients
- Early detection of potentially bad loans through branch-wise monthly watch-list reports
- Structured procedure for recovery of non-performing accounts as per bank's impairment policy

Risk Management Framework

- A clear policy on the appropriate provisioning in respect of the estimated loss inherent in the advances book
- The Board approves and monitors all large exposures that are in excess of 10% of the Bank's capital

2. Counterparty risk

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

The Bank pro-actively manages this risk by:

- Having the board approve bank limits for interbank placements and investments in sovereigns
- Spreading the interbank placements amongst the banks to avoid concentration
- Ensuring that Forward Exchange Contract (FECs) are only purchased from banks approved by the board
- Only dealing with banks and sovereigns situated in countries that have a well-regulated banking industry

3. Settlement Risk

Settlement risk is the risk that a 3rd party bank may fail to settle or honour a trade. The three main risks associated with such transactions are principal risk, replacement cost risk and liquidity risk, which arise due to the possibility that a counterparty may fail to settle a trade.

The Bank pro-actively manages this risk by:

- Currency matched funding
- Sub-limits by currency
- Independent limit adherence control
- Staff prohibited from foreign exchange speculation and having uncovered forward positions
- Allowing only short-term open positions on NOSTRO accounts within extremely conservative limits stipulated by the board for each currency. These limits are reviewed on an annual basis and are lower than the 10% of qualifying net capital and reserves limit stipulated by the South African Reserve Bank
- Monitoring on a daily basis:
  - the overbought and oversold positions to ensure all forward positions are covered
  - the open position of the group to ensure it is within the limit stipulated by the Board
- Monitoring on a monthly basis the open position of the group to ensure it is within the limit stipulated by the SARB
- Setting Board approved formal, meaningful counterparty exposure limits for FX trading and settlement
- Having Board approved policies and procedures that are comprehensive, consistent with relevant laws, regulations and supervisory guidance and provide an effective system of internal controls. The policies and procedures are clearly documented and periodically reviewed
- Only dealing with correspondent banks that have been carefully selected by Bank and approved by the Board This selection includes evaluating the risks and benefits of using one or more correspondent banks to settle its FX transactions in each currency
- Ensuring that all FX deals are settled via payment-versus-payment (PVP) settlement. PVP is a mechanism that ensures the final transfer of a payment in one currency if and only if, a final transfer of a payment in another currency occurs, thereby removing principal risk. In a basic PVP arrangement, a trade will settle only if a bank and its counterparty pay in the correct amount. If the counterparty fails to pay in, a bank will receive back the currency it was selling, thus providing protection against principal risk
- Signing a legally enforceable collateral arrangement (ISDA credit support annexes) to mitigate its replacement cost risk. Collateral arrangements should describe the parties' agreement on all aspects of the margining regime, including collateral eligibility, timing and frequency of margin calls and exchanges, thresholds, valuation of exposures and collateral and liquidation

OPERATIONAL RISK

1. Operational Risk (including IT Risk)

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This excludes strategic risk, legal risk and reputation risk. Operational risk is further divided into the following risk types:

- Internal fraud
- External fraud
- Employment practices and workplace safety
- Clients, products and business practices
- Damage to physical assets
- Business disruption and system failure
- Execution, delivery and process management

Management has appointed an Operational Risk Manager, independent of Branch Operations, whose role is to develop and maintain the Operational Risk Management Policy.

In line with the requirements of the SARB, the Bank uses the Basic Indicator Approach to calculate regulatory operational risk capital.

The Bank takes active measures to limit potential operational risk losses by:

- Continuously updating procedure manuals to incorporate best practice methodologies
- Centralising operational processes to improve accuracy and efficiency
- Regularly reviewing accounts including reporting large transactions with meaningful comments
- Appropriate investment in computer technology to support operations

- Regular testing of security equipment and processes
- Effective Business Continuity Management and Disaster Recovery process is in place
- Having independent internal and external audit checks and review of controls
- Having an independent Risk Management Committee, made up of senior management, that meets quarterly with a detailed agenda that includes addressing the major operational risk issues
- Having comprehensive insurance cover for any material losses
- Outsourcing critical and material services for activities that are performed by third parties on behalf of the bank
- Having a risk data aggregation risk reporting policy to ensure management is provided with accurate information for decision making purposes
- The Bank has an internal operational risk loss reporting mechanism to identify and quantify operational losses. Significant loss events and incidences are reported to the Board immediately when they occur

2. Cyber Risk

Cyber Risk is the risk of financial loss, disruption or damage to the reputation of the Bank from some sort of failure of its information technology systems, network and transaction sites.

Cyber risk is a key focus area, with global and local reports of the increasing incidents and sophistication of cyber-attacks on organisations. Advanced cyber and malware attacks, distributed denial of service (DDoS) and ransomware attacks are also an increasing threat to financial institutions.

Relating to cyber risk, the Bank possesses an established formal governance framework which outlines the risk-based approach pursued and sets out how the Bank responds to cyber risk threats.

The Bank actively manages this risk through the following measures:

- Systems designed and engineered to the best levels of security
- Staff awareness and training on cyber risk related matters
- Communication with customers to validate critical transactions
- Regular updates on external events at other institutions and organisations such as scams, hacking of email, e-banking breaches, etc
- In depth assessment of incidents affecting the Bank, reporting of events to senior management to minimize financial and reputational damage
- Wherever possible insurance cover for financial losses caused by cyber risks
- Responsibility for managing cyber risk is clearly defined
- Policies and procedure manual covering information security and access control
- Implementation of cyber security activity plans and controls
- Assessing risks, implement mitigation measures and test controls
- Identifying weak points that can lead to cyber-attacks
- Monitoring and review of cyber risk at the periodic Risk Management Committee meeting

3. Fraud Risk

Fraud risk is the risk of regulatory sanction and reputational and financial losses due to fraud, crime and misconduct from staff and or external third parties.

The Bank's fundamental principles of managing fraud risk are to:

- Instil in employees a sound culture and an ethical and value's driven ethos
- Appropriate and meaningful staff training on internal and external fraud, including sharing best practices
- The preparation and continual updating of Code of Conducts and Ethics manual
- Ensure there is an effective Complaints and Whistle Blowers process installed, supported by well documented manuals
- Ensuring immediate and effective action is taken against any persons implicated in fraudulent activities
- Maintaining adequate and effective internal controls
- Ensuring timeous and accurate processing of transactions
- Reviewing of suspicious transactions including eliminating transactions with blacklisted companies and individuals
- Ensuring appropriate investment in computer technology to support operations
- Independent internal and external audit to check and review controls
- Ensuring an independent Risk Management Committee, made up of senior management, that meets quarterly with a detailed agenda including fraud risk issues
- Ensuring that the Bank has extensive insurance cover for any material losses

4. Physical Security Risk

Physical security risk is the risk of financial loss from damage to the physical assets of the bank or the injury to staff or customers.

To manage this risk, the Bank has ensured that:

- Branches have adequate fire and smoke alarms and access alarms linked directly to a response company
- Each branch has an effective CCTV monitoring system with functioning back up and these systems are tested regularly
- There is comprehensive insurance cover for any material loss
- There is adequate medical aid, life and disability cover for staff

This risk is reviewed at each Capital Adequacy and Risk Committee meeting.

Risk Management Framework

LEGAL, COMPLIANCE AND TAX RISKS

1. Legal risk

Legal risk is the risk that the Bank will conduct activities or carry out transactions in which it is inadequately covered or is left exposed to potential litigation. It is the possibility that a failure to meet legal requirements may result in unenforceable contracts, litigation, fines, penalties or claims for damages or other adverse consequences.

Legal risk sub types include:

- Inadequate documentation or technical defects in the manner in which transactions are carried out
- Infringements of laws or regulations or an act or omission such as negligence or some other act giving rise to civil or criminal liability

In line with our established policies the Bank ensures that new / changed activities, products, systems and organizational structures do not create unnecessary, unacceptable or unavoidable legal risk.

The Bank outsources potential litigation matters to approved panel of attorneys.

2. Compliance & Regulatory Risk

Compliance risk is the risk of financial loss due to the procedures implemented to ensure compliance to relevant statutory, regulatory and supervisory, industry codes of conduct and internal control requirements not being adhered to, or such controls are inefficient and ineffective.

Compliance risk includes Regulatory risk which arises when the Bank does not comply with applicable laws and regulations or supervisory requirements. As the number of statutory regulations and directives from Central Banks' increase there is a continual need to monitor the Bank's adherence to these laws. The Bank identifies compliance risk as a separate risk within its risk management framework.

The Bank has a Compliance department appointed to oversee the management of Compliance Risk with the aim of facilitating effective management of this risk by ensuring:

- The engagement of the Head of Compliance with the appropriate qualifications, training and skills
- An independent Compliance Committee, made up of senior management, has been set up, that meets quarterly with a detailed agenda addressing all major compliance and AML issues
- The compliance function operates independently from internal audit and branch operations
- An effective system is in place to monitor high risk transactions and reports are escalated to the relevant compliance officials
- The compliance function confirms that the bank complies with all relevant statutory, regulatory and supervisory requirements
- The compliance department is adequately staffed and is represented in each branch-by-Branch Compliance Officers
- The Head of Compliance presents a report at each Board meeting on any non-compliance with laws and regulations or supervisory requirements

When new acts, regulatory requirements and codes of conduct are introduced, compliance addresses these by providing training and advice on these issues, developing policies and procedures affecting regulatory issues and regularly monitoring adherence to these policies and procedures. Education and practical workshops form an important part of this process.

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

3. Tax Risk

Tax risk is the risk of non-compliance with tax laws, unintended consequences of company transactions, and financial reporting risks.

The Bank has mitigated this risk through the following measures:

- Appointment of Chief Financial Officer and Financial Manager with relevant qualifications
- Consultation with external tax experts on complex tax matters
- Audit of tax compliance by the Bank's external auditors

CONDUCT RISK

1. Conduct risk

Conduct Risk is the risk of poor outcomes for the Banks customers which may arise from the provision of banking services and products and advice. More specifically it is defined as inherent risks in product design and service delivery which may result in:

- failure or events which lead to poor customer outcomes
- failure to ensure good customer outcomes even if the customers are unaware

Conduct risk represents a culture of personal responsibility for certain designated control functions that are personally liable for various forms of misconduct.

The Bank has mitigated this risk through the following measures:

- Conduct risk is addressed in both Bank's governance structure and its operational model by establishing and embedding a strong organisational culture
- The Bank has in place robust controls, adequate skill sets and appropriate decision-making arrangements to deliver on its objective of understanding customer requirements and fair treatment

Risk Management Framework

- Ensuring compliance with the Code of Conduct
- The Bank's strategic and business objectives efficiently, effectively, ethically and equitably ensure:
  - a balance of interests of the shareholders and other interested persons who may be affected by the conduct of directors or executive officers of the bank or controlling company, within a framework of effective accountability
  - commitment by the bank to adhere to corporate behaviour that is universally recognized and accepted as correct and proper
- Establish processes, procedures, and controls to minimize or avoid potential conflicts of interest between the business interests of the Bank /controlling company and personal interests of Directors
- Responsible conduct by all Directors and officers of the Bank
- Understanding employee engagement and ensuring that employees are appropriately skilled and trained
- Risk awareness and Ethics training
- Ensuring compliance with applicable laws

REPUTATIONAL RISK

Reputational risk is the risk of adverse publicity should the Bank contravene applicable statutory, regulatory and supervisory requirements or by providing a service that does not comply with proper industry standards.

The Bank pro-actively manages this risk by ensuring that:

- There are strong internal values that are regularly and pro-actively reinforced
- The Bank subscribes to sound corporate governance practices, which require that activities, processes and decisions are based on carefully considered principles
- The Bank's policies and practices are regularly updated and reinforced through transparent communication, accurate reporting, continuous performance assessment, internal audit and regulatory compliance review
- The Bank has clearly defined risk management practices, to effectively monitor these risks
- The internal controls are effective
- There is an internal audit function
- The Bank has a clear policy on privacy issues regarding the use of customer information which complies with the relevant rules and regulations
- There is compliance with all relevant statutory, regulatory and supervisory requirements

SYSTEMIC RISK

Systemic risk is the risk of disruption to financial services that is caused by an impairment of all or parts of the financial system and has the potential to have serious negative consequences for the real economy.

It refers to the risks imposed by inter-linkages and inter-dependencies in a system, where the failure of a single entity or cluster of entities can cause a cascading failure, which could potentially bankrupt or bring down the entire system.

The fundamental principles adopted by the Bank in managing systemic risk are:

- To ensure exposure to other banks is diversified
- To set limits for dealings with other banks approved by the Board
- To monitor the macroeconomic situation

Social, Ethics and Conduct Committee Report

It is with great pleasure that I present the Social, Ethics and Conduct Committee (the Committee) for the financial year ended 31 December 2023. This report stands as a testament to our commitment to transparency, accountability, and ethical conduct, as mandated by the Companies Act of South Africa (No. 71 of 2008, as amended) and the King IV Report on Corporate Governance for South Africa, 2016 (King IV) principles.

As custodians of integrity, we are proud to affirm that the Committee has diligently fulfilled its obligations outlined in our terms of reference and the applicable legislation, particularly the Companies Act. I am pleased to announce that there are no instances of material non-compliance to disclose.

Ethical conduct lies at the heart of our corporate values. It is the cornerstone upon which trust is built, and relationships flourish. The responsibility for upholding these principles transcends any single entity; it is a collective commitment shared by the Board, management, and every member of our organisation. We firmly believe that ethical leadership begins at the top, cascading down through policies, systems, and processes, ensuring consistency and fairness in our dealings.

In an era where businesses are not only evaluated by their financial performance, but also by their social and ethical impact, the role of the Social, Ethics and Conduct Committee becomes paramount. It serves as a beacon, guiding us through the complex terrain of corporate governance, and reminding us of our duty to our stakeholders and society at large.

As we navigate the ever-evolving landscape of business, let us remain steadfast in our dedication to ethical conduct. Together, we can foster a culture of integrity that not only sustains our organisation but also contributes positively to the communities in which we operate.

COMPOSITION

The Committee operates according to a written charter, containing the composition, role, responsibilities, and duties of the Committee. The charter is reviewed annually.

The following Directors are members of the Committee:

- Ms N Mnxasana (Chairman)
  Independent Non-Executive Director
- Mr O Grobler
  Independent Non-Executive Director
- Mr A Cameron
  Executive Director

The Head of Compliance, Chief Financial Officer, Chief Risk Officer, Chief Operating Officer, and HR Manager are standard attendees at Committee meetings. The Chairman may invite any member of senior management, as appropriate, to attend Committee meetings.

RESPONSIBILITIES

The Committee's objectives and responsibilities are recorded in its terms of reference and are aligned with the Committee's statutory functions. The Committee's responsibilities are also aligned with the King IV recommendations, in that it should have oversight of organisational ethics, responsible corporate citizenship, sustainable development, and stakeholder relationships. In summary, the Committee has a duty to:

- monitor the social, economic, governance, employment, and environmental activities of the Bank
- bring matters relating to these activities to the Board's attention as appropriate
- report annually to the Shareholder on the matters within its scope of responsibilities

The specific activities that the Committee is required to monitor include adherence to legislation, regulations and codes of best practice relating to:

- Social and economic development, including the Bank's standing relative to the United Nations Global Compact Principles, the Organisation for Economic Co-operation and Development's recommendations regarding combating corruption, and the Employment Equity Act and Broad-based Black Economic Empowerment (BBBEE) Act
- Good corporate citizenship, including the Bank's positioning and efforts to promote equality, prevent unfair discrimination, combat corruption, contribute to the development of communities in which its activities are predominantly conducted or within which its products or services are predominantly marketed, and its record of sponsorships, donations and charitable giving
- The environment, health, and public safety, including the impact of the Bank's product-related activities
- Consumer relationships, including the Bank's advertising, public relations, and compliance with consumer protection laws
- Labour and employment, including the Bank's standing relative to the Labour Organisation Protocol on decent work and working conditions, employment relationships, and contribution toward employees' education and development
- Monitoring that management has policies and procedures in place to empower previously disadvantaged persons, including the Employment Equity Plan
- Ensuring that management has policies and procedures in place to Treat Customers Fairly (TCF)
- Ensuring that the Bank's financial products and services perform or are executed as the Bank has led financial customers to expect, which expectations include those created through advertising and disclosure

Social, Ethics and Conduct Committee Report

FUNCTIONING

The Committee met four (4) times during the period under review, and meeting attendance details are included in the Report on Corporate Governance.

GOOD CORPORATE CITIZENSHIP

The Board has delegated responsibility for ensuring that the Bank is a responsible corporate citizen to the Committee. In ensuring the good corporate citizenship, the duties of the Committee include, among others:

- Reviewing and recommending the Corporate Social Investment (CSI) Policy to the Board for approval
- Monitoring, on an ongoing basis, progress in the implementation of community development initiatives and material sponsorships and evaluating whether or not the objectives are being realised

We promote fairness, equality, and transparency by supporting efforts in the communities in which we operate. Our interventions aim to strengthen trust and social cohesion, build strong governance, advocate for gender equality, and help shape policy for the benefit of society.

The Bank allocates 1% of net profit after tax to CSI projects. Details of the CSI projects are on page 30 of the financial statements.

ETHICS GOVERNANCE

The Bank's core values of respect, honesty, responsibility, trust, and commitment lie at the heart of its culture and how it aims to combat unethical conduct. These core values filter into how we engage with each other, our customers, business partners, and other stakeholders that the Bank has a relationship with.

Our ethics governance is supported by a range of policies that guide employees on ethical conduct and set ethical standards to promote behaviour consistency across all levels of employment. The Committee oversees the strengthening of ethical standards by reviewing the Whistleblowing Process Policy, Conflicts of Interest Policy, and Code of Ethics and Conduct to ensure these remain relevant and effective. The Bank has a Conduct Risk Framework in place, with leading and lagging indicators to enable management and the Committee to identify relevant triggers. The Committee monitors management's responses to customers, labour, conduct and ethics.

Employees and third parties can make use of an independent whistleblowing facility. To ensure the confidentiality of matters disclosed through the whistleblowing line, the process is overseen by the Lead Independent Non-Executive Director.

EMPLOYMENT EQUITY

Diversity is essential for any organisation's ability to innovate and adapt in a fast-changing world. As such, we remain committed to achieving greater representation at all levels of the business through the effective implementation of our Employment Equity Plan. Key components of our strategy include:

- Recruitment and retention of individuals from designated groups. Each division has contributed to the Employment Equity plan by carefully considering and building targeted numbers for designated groups
- Monitoring progress towards achieving the Employment Equity Plan goals

TRANSFORMATION

One of the Committee's primary roles is to assist the Board in ensuring that it discharges its fiduciary duties and obligations in respect of the South African business transformation. The Board recognises the critical role it plays in the development and empowerment of historically disadvantaged individuals in South Africa, and that transformation is essential to the economic and social sustainability of the country. We strive to ensure that management embraces transformation across the South African business and aligns with the Financial Sector Charter as a transformation policy based on the terms of the Broad-based Black Economic Empowerment (BBBEE) Act (53 of 2003).

CONCLUSION

No material non-compliance with legislation and regulations, nor material regulatory fines or penalties relevant to the areas within the Committee's mandate have been brought to its attention during the reporting period.

The Committee reviews the Bank's engagements with consumers and the status of consumer relationships, monitors complaints and reports regarding its products, and receives quarterly reports on material matters affecting consumers who use our products.

The Social, Ethics and Conduct Committee is satisfied that, for the year under review, it has complied with its statutory responsibilities and the responsibilities assigned to it by the Board.

For and on behalf of the Social, Ethics and Conduct Committee

N Mnxasana
Chairman of the Social, Ethics and Conduct Committee
Umhlanga
28 March 2024

Social Investment Responsibility

Corporate Social Responsibility has been part of the Bank's ethos since our inception. Giving is part of our DNA and we have a legacy of sharing and caring that we wish to continue and uphold. Throughout 2023, the Bank has remained steadfast in our commitment to Corporate Social Investment (CSI), striving to make a meaningful impact in the communities within which we operate. This report provides an overview of our progress in CSI for the year, highlighting key projects, employee engagement initiatives, funding allocations, and future plans.

CSI COMMITTEE

The CSI Committee, appointed by the Board of Directors and reporting quarterly to the Social, Ethics and Conduct Committee, oversees all CSR funding. Chaired by an Independent Non-executive Director, the CSI Committee is responsible for considering, approving, and monitoring all CSI-related projects, programmes, and activities. Its functions include identifying suitable causes and assessing requests for funding or support, approving and funding social responsibility projects, and following up on and monitoring funded projects or initiatives.

EMPLOYEE ENGAGEMENT COMMITTEE

The Employee Engagement Committee was strategically formed to allow employees to dedicate their time and participate in fostering a culture of social responsibility and community involvement within the organisation. This year, the Employee Engagement Committee was granted a R100 000 budget for CSI initiatives in line with employees' values and interests.

Further, we empowered employees to initiate their own projects, leading to increased participation and ownership of CSI initiatives. Employee engagement statistics demonstrate a high level of involvement, with a significant number of employees actively contributing to project planning, implementation, and volunteering efforts.

The Employee Engagement Committee delivered feminine hygiene care packs to two all-girls schools in the KZN region that support girls who primarily come from orphaned or single-parent households.

OUR PROJECTS

The Bank engages in a diverse range of projects aimed at addressing pressing social challenges and improving the lives of stakeholders and communities. These projects encompass education, healthcare, community development, and environmental sustainability initiatives. Our CSI funding is strategically allocated to maximize impact and address critical needs identified within target communities.

Each project is meticulously planned and executed, with a focus on sustainability and long-term impact. From building schools and healthcare facilities to providing access to clean water and promoting environmental conservation, our projects aim to create lasting positive change and empower communities to thrive.

Below are highlights of five projects that we engaged in during 2023:

MASHAKA PRIMARY SCHOOL

Mashaka Primary School's project focused on the construction of a computer lab and providing teacher training to enhance digital literacy skills among students. The lab's establishment aimed to bridge the digital divide and equip students with essential technological skills for the future.

FUNDING

The project received funding of R575 000, covering construction costs, equipment procurement, and teacher training expenses.

IMPACT

The completed computer lab has transformed the learning environment at Mashaka Primary School, enabling students to access educational resources and engage in interactive learning activities. Teacher training has empowered educators to effectively integrate technology into their teaching methods.

Social Investment Responsibility

SUNFIELD HOME SCHOOL

Sunfield Home School's project involved establishing a fully equipped computer lab to improve access to technology in education. The lab aimed to enhance digital literacy skills among students and provide them with opportunities for academic enrichment.

FUNDING

The project received funding of R575 000, which covered the cost of computer hardware, software licenses, furniture, and infrastructure setup.

IMPACT

The newly established computer lab at Sunfield Home School has provided students with access to modern technology and educational resources, enabling them to develop essential digital skills and prepare for future academic and career opportunities.

DALMENY PRIMARY SCHOOL

Dalmeny Primary School's project focused on procuring custom-built desks and chairs to support the school's feeding scheme and enhance the learning environment for students. The initiative aimed to address infrastructure deficiencies and improve student comfort and wellbeing.

FUNDING

The project received funding of R200 000, which was allocated towards the purchase and customisation of desks and chairs to meet the school's specific requirements.

IMPACT

The provision of custom-built desks and chairs has significantly enhanced the learning environment at Dalmeny Primary School, ensuring that students have access to comfortable and functional furniture. Additionally, the support provided to the school's feeding scheme has contributed to addressing food insecurity among students, promoting their overall health and wellbeing.

THE CATARACT PROJECT

The Cataract Project extends vital cataract surgeries to underprivileged communities, offering a beacon of hope in the face of adversity. The medical team comprises volunteers, who offer their expertise and personal time on weekends, bearing the costs themselves. Across the nation, 72 life-changing surgeries are performed every weekend, each valued at R2 000.00 per patient.

FUNDING

We approved a donation of R500 000 to the Cataract Project, covering the costs of 250 vision-saving surgeries.

IMPACT

Our involvement has enabled the Cataract Project to conduct 250 surgeries nationwide in underserved and marginalised communities. This support transforms lives, restoring vision and enhancing wellbeing, reflecting our commitment to making a tangible social impact.

SINAKEKELE CHILDREN

The Sinakekele Children NGO reached out to the Bank for assistance with converting a container into a classroom for their Grade RRR children. This is the only available preschool facility in the area and is for many the only affordable day-care and preschool option.

FUNDING

We donated R420 538 towards constructing a Chromadek classroom, as well as providing additional resources for orphaned and underprivileged Grade RRR children.

IMPACT

Our involvement with the Sinakekele Children's School has made a profound impact on the educational landscape of the community. The new container classroom addresses a critical need for accessible preschool facilities in the area and ensures that parents, unable to afford daycare centres outside the region, have a viable educational option for their young children. This initiative not only fosters educational development but also exemplifies our dedication to uplifting underserved communities and creating a brighter future for generations to come.

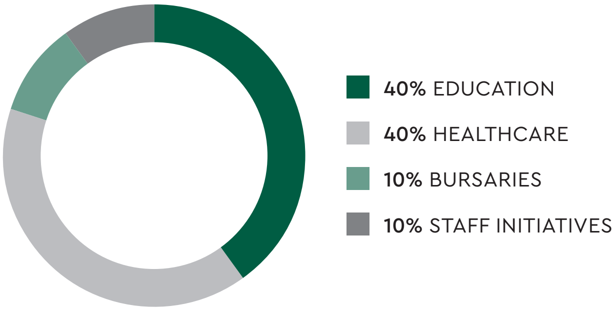
OUR COMMITMENT

The Bank is committed to prioritising projects that have a sustainable impact on communities, focusing on areas such as education, healthcare, and community development. We allocate funding strategically to ensure equitable distribution and maximum social return on investment.

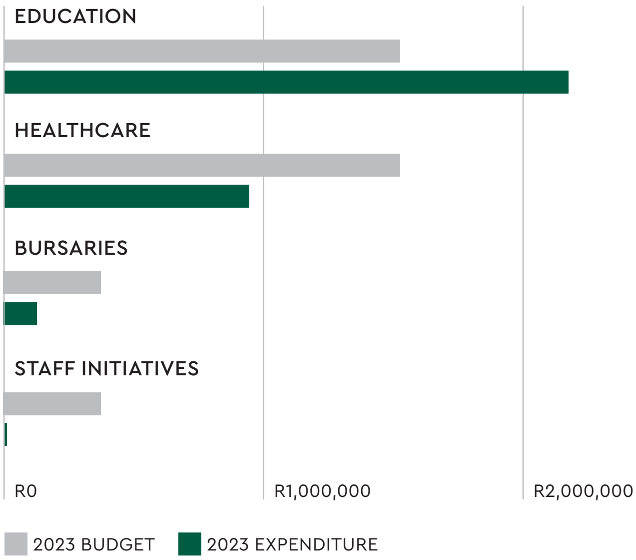
In the current financial year, we allocated a total of R3.91 million to CSI initiatives. Of this amount, R3.5 million has been dedicated to ongoing projects, including infrastructure development, healthcare provision, and educational support. Additionally, R1.2 million has been earmarked for new projects, with a focus on addressing emerging community needs and expanding our reach to underserved populations.

Social Investment responsibility

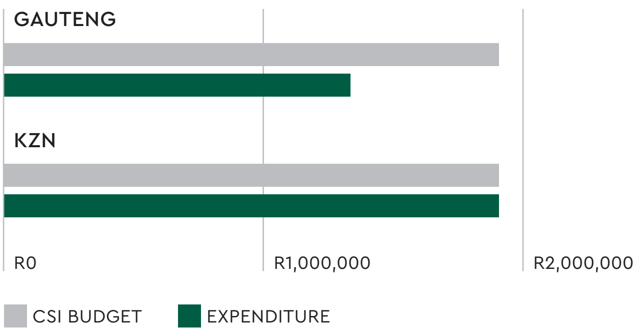
FUNDING PERCENTAGE BY FOCUS AREA



FUNDING BY FOCUS AREA



FUNDING BY PROVINCE



FUTURE PLANS AND ONGOING INITIATIVES

Looking ahead, we remain committed to expanding our reach and deepening our impact through strategic partnerships, innovative initiatives, and community-driven projects. Our future plans include:

- Strengthening collaborations with stakeholders to amplify our impact
- Implementing robust monitoring and evaluation mechanisms to track project outcomes
- Scaling up successful initiatives to reach more communities and address emerging challenges

ENVIRONMENTAL AND SOCIAL GOVERNANCE

The Bank, as a subsidiary of the international Habib Bank AG Zurich (Group), underscores our commitment to Environmental and Social Governance (ESG) through the Group's forthcoming ESG Report. As part of an international organisation renowned for its financial expertise and ethical practices, we recognise the importance of sustainable operations and responsible corporate citizenship. The Group's ESG Report, currently in the drafting phase, interrogates our dedication to transparency and accountability, providing stakeholders with comprehensive insights into our environmental impact, social initiatives, and governance practices. We eagerly anticipate the release of this report, which will be featured on our website, reaffirming our pledge to uphold ESG principles and contribute positively to the communities we serve.

WITH THANKS

We are proud of the progress made in CSI this year and we are grateful for the dedication and support of our employees, partners, and stakeholders. As we continue on our journey of social responsibility, we remain committed to making a positive difference in the lives of those we serve and the communities we operate in. Together, we can build a brighter and more sustainable future for all.

Remuneration Report

The Remuneration Committee is constituted to enable the Committee to exercise competent and independent judgement on remuneration policies, practices and incentives. Governance of the remuneration includes fairness of pay and ensures that the Bank remunerates responsibly and transparently. The level of salaries the Bank pays is one of a number of elements in its strategy to retain, motivate and, where necessary, recruit high-quality people. The Bank has a formal Compensation Policy that sets out the remuneration principles.

COMPOSITION

The Committee is chaired by an Independent Non-Executive Director with all three (3) members of the Committee being Independent Non-Executive Directors. The members have the necessary experience and expertise to direct the Committee in the execution of its duties. The Committee held two (2) scheduled meetings and special meetings during the year with 100% attendance by members.

GOVERNANCE

The Committee is appointed by the Board. The Committee is governed by a mandate, set out in its terms of reference, that incorporates best practice governance recommendations and serves to assist members of the Committee in the execution of its roles and responsibilities. The mandate is reviewed and approved by the Board annually.

In carrying out its mandate, the Committee has unrestricted access to all the activities, records, property and employees of the Bank. In addition, the Committee may access external legal or other independent professional advice to execute its responsibilities as detailed in its terms of reference.

Members of the Committee are also members of the Capital Adequacy and Risk Committee and Audit Committee to ensure all relevant decisions are consistent with an assessment of the Bank's financial condition and future prospects.

The Chief Executive Officer, Chief Financial Officer and the Human Resources Manager attend the meetings by invitation to advise on remuneration and other related matters.

The Committee's main responsibilities are summarized as follows:

In respect of remuneration function:

- Oversee the setting and administering of remuneration at all levels in the Bank
- Oversee the establishment of a compensation policy that will promote the achievement of strategic objectives and encourage individual performance
- Ensure that the remuneration of employees in the risk control and compliance functions is determined independently of all relevant business areas, and is adequate to attract qualified and experienced staff
- Determining the remuneration of the CEO and other executive staff after considering the results of their performance evaluations as Directors and executives
- Ensuring that the Bank's compensation policy, processes and procedures are in compliance with the relevant requirements specified in the Banks Act Regulations and such further requirements as may be specified in writing by the Prudential Authority
- Reviewing disclosure of remuneration in the annual report to ensure it will promote acceptance of the necessity for and benefits of realistic Directors' remuneration
- To make recommendation to the Board on the remuneration to be paid to Non-Executive Directors

KEY MATTERS DURING 2023

The Committee successfully achieved its objectives for 2023 which were geared towards monitoring the achievement of the Bank's overall strategic objectives, in addition to the Committee's normal duties.

- Monitoring the handing over and transition processes for the new Chief Executive Officer
- Reviewing the executive management succession plan to ensure the Bank's succession plan is a living document that is active, current, includes a deliberate development and cross-training focus, and ideally has multiple potential candidates and developmental programs
- Approval of the Short-Term Incentive Scheme
- Approval of the overall remuneration budget for all employees
- Review and confirmation of the CEO and CFO key performance indicators
- Review and recommendation to the Board for its approval of the Compensation Policy

The Compensation Policy was reviewed and amended to support delivery of the strategy and creation of Shareholder value. Fair and responsible remuneration was a key focus area for the Committee for the 2023 financial year. The Committee approved a project for management to conduct a salary job grading exercise, and thereafter a benchmark exercise to ensure that all employees are paid market related salaries. This exercise will be completed by 30 June 2024.

The Committee approved the introduction of a Short-Term Incentive Scheme with the purpose of enhancing a performance-based culture and reinforcing the required behaviour and culture of the Bank. All permanent staff who are employed for at least 6 months during the year of assessment and having met the qualifying criteria are eligible to participate in the Scheme. The incentive pool will be created from the profits that exceed the budgeted profit target.

The incentive payable in terms of the scheme is approved by the Committee before the end of March each year and paid in a single amount before the end of April of each year,

Remuneration Report

subject to completion of auditing of the financial results. The scheme rules and targets are reviewed on an annual basis and amended at the end of the year, and form part of the Bank's remuneration policy.

The Committee believes that all employees have an impact on profitability and in their own way contribute to the overall performance of the Bank through their hard work and dedication to their respective roles.

2024 FOCUS AREAS

- Receive the salary benchmark exercise report, consider the findings and approve the annual pay scales, principles and mandates for annual increases across the Bank
- Consider changes to the Companies Act in relation to remuneration

NON-EXECUTIVE DIRECTORS

Terms of service

Non-Executive Directors are appointed by the Shareholders at the Annual General Meeting (AGM). Between AGMs, interim appointments may be made by the Board upon recommendation by the Directors' Affairs Committee. These interim appointees are required to retire at the following AGM where they may make themselves available for re-election by Shareholder. In addition, Non-Executive Directors comprising one third of the number of Non-Executive Directors on the Board, are required to retire at each AGM and may stand for re-election.

All Independent Non-Executive Directors are provided with a letter of appointment setting out the terms of their engagement. Non-Executive Directors retire at the age of 75 or if they have served on the Board for a period of 9 years.

Fees

Independent Non-Executive Directors receive fixed fees for service on the Board. Non-Executive Directors do not receive any form of incentive. The Committee reviews the fees paid to Independent Non-Executive Directors every two (2) years and makes recommendations to the Board for consideration and recommendation to the Shareholder for approval.

Fees are based on a carefully considered assessment of the responsibility placed on Independent Non-Executive Directors due to:

- the requirements for regulatory and legislative oversight
- the time required
- the risk assumed

The Committee is satisfied that, for the year under review, it has complied with its statutory and regulatory responsibilities and the responsibilities assigned to it by the Board.

For and on behalf of Remuneration Committee

O Grobler
Chairman of Remuneration Committee
Umhlanga
28 March 2024

Nairobi
Kenya

Report of the Audit Committee

This report is provided by the Audit Committee, in respect of the 2023 financial year of HBZ Bank Limited, in compliance with section 94(7)(f) of the Companies Act 71 of 2008, section 64 of the Banks Act 94 of 1990 and the King IV Report on Corporate Governance.

The Audit Committee is an independent statutory Committee recommended by the Board and appointed by the Shareholder in terms of section 64 of the Banks Act and section 94 (7) of the Companies Act, to the extent applicable. The Board formally delegates such additional duties and responsibilities to the Audit Committee beyond the statutory and regulatory duties as it deems necessary and appropriate. These duties are summarised in the Audit Committee's Terms of Reference reviewed annually by the Audit Committee and then formally approved by the Board.

COMPOSITION AND ATTENDANCE OF THE MEETING

The Committee comprises three Independent Non-Executive Directors. The members have the necessary experience and expertise to direct the Committee in the execution of its duties. The Committee met four times during the year with 100% attendance by members at the meetings. The Chair of the Board of Directors attended all meetings. The Chief Executive Officer, Chief Financial Officer, Head of Compliance, Internal Auditors and External Auditors attended the meetings by invitation.

EXECUTION OF FUNCTIONS

The Committee maintained its focus on overseeing the financial management and reporting processes of the Bank, ensuring robust financial governance and monitoring key financial risks. In its execution of its mandate, the Audit Committee has performed the following statutory duties:

1. In respect of Combined Assurance:

The Audit Committee considered the co-operation between the assurance providers and confirmed that nothing had been identified through the combined assurance process that indicated any unmitigated reporting risks.

2. In respect of the external auditors and the external audit:

    - recommended the reappointment of KPMG as independent external auditors for the year ended 31 December 2023
    - recommended the appointment of lead audit engagement partner
    - in consultation with executive management approved the external auditor's terms of engagement and fees
    - reviewed and evaluated KPMG's audit plan
    - considered the significant audit risks identified
    - evaluated the effectiveness of the audit
    - considered KPMG's view in other qualitative aspects of the Bank's accounting practices
    - considered statutory matters reported to the Audit Committee
    - considered the summary of corrected and uncorrected misstatements
    - considered significant matters raised by KPMG and the adequacy of management's corrective action in response to such findings
    - obtained assurance from the auditors that their quality standards and independence were not impaired as set out by Independent Regulatory Board for Auditors (IRBA) as well as other regulatory authorities, including their internal processes
    - evaluated a statement by the KPMG confirming that their independence was not impaired
    - confirmed the nature and extent of non-audit services that the external auditors provided during the year under review and endorsed that the non-audit services provided by KPMG did not compromise the external auditors' independence
    - considered the external audit report section on the Bank's systems of internal control
    - held quarterly meetings with external auditors, without management being present, to facilitate an exchange of views and concerns
    - confirmed that no reportable irregularities were identified and reported by the external auditors in terms of the Auditing Professions Act 26 of 2005
    - recommends to the Shareholder for consideration at the next Annual General Meeting, the confirmation of the appointment of KPMG as external auditors for the year ending 31 December 2024

3. In respect of internal controls and internal audit:

    - the Audit Committee satisfied itself that the internal audit function is independent and had the necessary resources and authority to enable it to discharge its duties
    - reviewed and approved the internal audit charter, annual internal audit plan, and considered the effectiveness of the internal audit function
    - held quarterly meetings with the internal auditor including Group internal audit without management being present
    - considered reports of the internal auditors, including written assurance on the Bank's systems of internal control and concluded that the Bank has adequate procedures and controls to ensure timely and accurate preparation of annual financial statements and the safeguarding of assets
    - reviewed matters raised by internal audit and the adequacy of management's corrective action in response to such findings
    - noted that there were no significant differences of opinion between the internal audit function and management

Report of the Audit Committee

4. In respect of the financial statements and going concern:
    - confirmed the going concern principle as the basis of preparation of the annual financial statements
    - received assurance from the finance function that the internal financial controls are effective
    - considered the accounting treatment for significant or unusual transactions and all material accounting judgements and estimates applied by management
    - considered the appropriateness of the Bank's accounting policies
    - met separately with management, KPMG and internal audit to assess reporting controls and matters pertaining to the annual financial statements
    - reviewed the solvency and liquidity tests undertaken prior to the dividend declaration
    - reviewed the annual financial statements for recommendation to the Board and satisfied itself that these fairly present the results of operations, cash flows and the financial position of the Bank
    - considered and made recommendations to the Board on the proposed dividend payment to the shareholder
    - noted that there were no material adverse reports or complaints received concerning accounting practices, internal audit, internal financial controls, content of annual financial statements, internal controls and related matters

5. In respect of risk management:
    - considered risk matters reported by the Capital Adequacy & Risk Committee
    - reviewed reports from management on risk management, including IT risks as they pertain to financial reporting
    - the Chairman of the Audit Committee is a member of and attended the Risk and Capital Adequacy Committee and attended all meetings held during the year under review

The Audit Committee was thus satisfied with the risk management in place at the Bank.

6. In respect of the finance function:
    - considered the expertise, resources, experience and succession plan of the members of the finance function and concluded that these were appropriate
    - considered the appropriateness of the experience and expertise of the Chief Financial Officer and concluded that these were appropriate
    - the Bank continues to benefit from a strengthened and more rigorous finance function, which contributes to effective strategy execution and operational efficiency

7. In respect of the compliance function:
    - considered the independence and effectiveness of the compliance function
    - received and approved the Compliance Charter and annual Compliance Activity Plan
    - considered the findings by the Regulators and ensured management actions in respect thereof, were appropriate
    - increased its focus on Anti-money laundering (AML) and financial crime compliance activities as well as compliance management in general:
        - recommended the revised Risk Management and Compliance Programme (RCMP) to the Board for approval
        - recommended the revised AML & Combating the Financing of Terrorism Risk Based Approach to the Board for approval
        - In respect of legal and regulatory requirements to the extent that they may have an impact on the financial statements:
            - reviewed with management legal matters that could have a material impact on the annual financial statement of the Bank
            - considered reports provided by management, external audit and internal audit regarding compliance with the legal and regulatory requirements

The Audit Committee was thus satisfied with the risk management in place at the Bank.

CONCLUSION

The Audit Committee is satisfied that it has complied with all statutory and other responsibilities and having taken cognisance of all material risks and factors that may impact the integrity of the annual financial statements.

RECOMMENDATION TO THE BOARD

Following its review and having concluded on its findings, the Audit Committee recommended the annual financial statements of the Bank for the year ended 31 December 2023 for approval by the Board. The Board approved the annual financial statements.

On behalf of Audit Committee

LP Fourie
Chairman of the Audit Committee
Umhlanga
28 March 2024

Directors' Approval of the Annual Financial Statements

RESPONSIBILITY FOR THE ANNUAL FINANCIAL STATEMENTS

The Directors are responsible for the preparation and fair presentation of the annual financial statements of HBZ Bank Limited, comprising the statement of financial position for the year ended 31 December 2023, the statement of profit or loss and other comprehensive income, changes in equity and cash flows for the 2023 year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, and the Directors' report, in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

The Directors are also responsible for such internal control as they deem necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management included in these financial statements.

The Directors are of the opinion that:

- Appropriate accounting policies have been consistently applied
- Adequate accounting records have been maintained
- Internal control systems are adequate to the extent that no material breakdown in the operation of these systems occurred during the year under review
- The financial statements fairly present the financial position of HBZ Bank Limited at 31 December 2023 and its financial performance and cash flows for the year then ended

The auditor is responsible for reporting on whether the annual financial statements are fairly presented in accordance with the applicable financial reporting framework.

GOING CONCERN

The Directors have assessed the Bank's ability to continue as a going concern and have no reason to believe the business will not be a going concern in the year ahead.

FINANCIAL STATEMENTS

The annual financial statements of HBZ Bank Limited and the Directors' report appearing on pages 42 to 92 were approved by the Board of Directors on 28 March 2024 and are signed on its behalf by:

Y Singh
Chairman
28 March 2024

A Cameron
Chief Executive Officer
28 March 2024

Company Secretary's Certificate

In terms of Section 88(2)(e) of the Companies Act 71 of 2008 as amended, I hereby certify to the best of my knowledge and belief, that the Bank has lodged with the Registrar of Companies all such returns as are required of the Bank in terms of the Act and that all such returns are true, correct and up to date.

Thabisile Luthuli
Company Secretary
Umhlanga

NOTICE IN TERMS OF SECTION 29 OF THE COMPANIES ACT

These financial statements have been audited in compliance with the requirements of Section 30 of the Companies Act 71 of 2008 and have been prepared under the supervision of the Chief Financial Officer, who is a qualified Chartered Accountant.

General Information

Country of incorporation and domicile	South Africa	
Directors	YD Singh	(Chairman)
	O D Grobler	(Lead Independent Director)
	LP Fourie	
	MH Habib	(Swiss)
	NP Mnxasana	
	A Iqbal	(British)
	DC Moephuli	(Appointed 1 November 2023)
	S Rapeti	(Appointed 1 November 2023)
	AN Cameron	(Appointed 1 April 2023)
Registered office	Umhlanga Arch, Level 4, 1 Ncondo Place, Umhlanga Ridge Durban, KwaZulu-Natal, 4320	
Holding company	Habib Bank AG Zurich incorporated in Switzerland	
Auditors	KPMG Inc. Chartered Accountants (SA) Registered Auditor	
Secretary	T Luthuli	
Company registration number	1995/006163/06	
Level of assurance	These financial statements have been audited in compliance with the applicable requirements of the Companies Act of South Africa.	
Preparer	In terms of Section 29(1)(e)(ii) of the Companies Act No. 71 of 2008 as amended, we confirm that the following financial statements were prepared by Aadil Hassen Dhooma CA(SA), under the supervision of Zaakir Mitha CA(SA) who is the Chief Financial Officer of HBZ Bank Limited.	

Report of the Directors

The Board of Directors takes pleasure in presenting the Annual Financial Statements for the year ended 31 December 2023.

HOLDING COMPANY

HBZ Bank Limited is a wholly owned subsidiary of Habib Bank AG Zurich, which is incorporated in Switzerland.

NATURE OF BUSINESS

HBZ Bank Limited is a registered Bank that specialises in trade finance.

AUTHORISED AND ISSUED SHARE CAPITAL

No additional shares were authorised or issued during the year.

FINANCIAL RESULTS

The results of the Bank are set out in the accompanying financial statements and notes. Profit for the year after tax is R184.8m (2022: R117.7m).

DIVIDENDS AND GENERAL RESERVE

The Board considered Sections 4 and 45 of the Companies Act pertaining to solvency and liquidity and passed a resolution that the Bank's assets, as fairly valued equal or exceed the liabilities, fairly valued, and it appears that the Bank will be able to pay its debts as they become due in the ordinary course of business for a period of 12 months.

The following appropriations were made during the year:

	2023	2022
GENERAL RESERVE	R	R
Transfer made	58 691 000	35 830 000
DIVIDEND		
Dividend distributed	60 000 000	50 000 000

On 28 March 2024 the Board declared a dividend of R135 million, which includes dividend withholding tax of R6.75 million.

EVENTS AFTER THE REPORTING PERIOD

The Directors are not aware of any events after the reporting date of 31 December 2023 and the date of authorisation of these financial statements.

DIRECTORS AND SECRETARY

Details of the directors are reflected on pages 4 to 5 of this report. In accordance with the provisions of the Bank's Memorandum of Incorporation, Ms Y Singh retires by rotation, being eligible, will offer herself for re-election at the next Annual General Meeting. Mr O Grobler will retire at the next Annual General Meeting having reached the 9-year rotation period. Ms D Moephuli and Ms S Rapeti, having been appointed as Independent Non-Executive Directors on 1 November 2023, after the last Annual General Meeting will retire and offer themselves for election by the Shareholder at the Annual General Meeting. The Company Secretary of the Bank is Mrs Thabisile Luthuli whose business and postal address is Umhlanga Arch, Level 4, 1 Ncondo Place, Umhlanga Ridge, Durban, 4320, Kwa-Zulu Natal, South Africa.

DIRECTORS' AND PRESCRIBED OFFICERS REMUNERATION

Remuneration in respect of the Bank's Directors and Prescribed Officers are disclosed in note 23 to the annual financial statements.

Y Singh
Chairman

A Cameron
Chief Executive Officer

Independent Auditor's Report

TO THE SHAREHOLDER OF HBZ BANK LIMITED

Report on the audit of the financial statements

OPINION

We have audited the financial statements of HBZ Bank Limited (the Company) set out on pages 42 to 92, which comprise the statement of financial position as at 31 December 2023, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, material accounting policies and notes to the financial statements, including a summary of significant accounting policies, excluding the section marked as "unaudited" in note 32.

In our opinion, the financial statements present fairly, in all material respects, the financial position of HBZ Bank Limited as at 31 December 2023, and its financial performance and cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards) and the requirements of the Companies Act of South Africa.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the document titled "HBZ Bank Limited Annual Report for the year ended 31 December 2023" which includes the Report of the Directors, the Report of the Audit Committee and the Company Secretary's Certificate as required by the Companies Act of South Africa. The other information does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Independent Auditor's Report

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that KPMG Inc. has been the auditor of HBZ Bank Limited for 29 years.

KPMG Inc.
Registered Auditor

Per Shandhir Lachman

Chartered Accountant (SA)
Registered Auditor
Director
28 March 2024

Statement of financial position

As at 31 December 2023

	NOTES	2023 R'000	2022 R'000
ASSETS			
Cash and cash equivalents	1	1 738 708	2 194 982
Investment securities	2	4 699 586	4 010 493
Other assets	3	21 591	19 709
Derivative assets held for risk management	4	5 936	9 123
Loans and advances	5	2 125 469	2 127 368
Property and equipment	7	53 662	61 731
Investment property	8	8 258	8 314
Right-of-use assets	9	16 937	19 468
Deferred tax assets	11	10 976	7 889
Total Assets		8 681 123	8 459 077
EQUITY AND LIABILITIES			
Capital and reserves		777 909	653 087
Ordinary share capital	12	10 000	10 000
Share premium	12	40 000	40 000
General reserve	13	543 138	484 447
Retained earnings		184 771	118 640
LIABILITIES		7 903 214	7 805 990
Deposits and borrowings	14	7 841 627	7 746 543
Provisions	15	15 038	6 828
Other liabilities	16	20 970	21 724
Derivative liabilities held for risk management	17	5 217	8 454
Lease liabilities	10	20 362	22 441
Total Equity and Liabilities		8 681 123	8 459 077

Statement of profit or loss and other comprehensive income

For the year ended 31 December 2023

	NOTES	2023 R'000	2022 R'000
Interest income calculated using the effective interest method	18	694 902	478 747
Interest expense	19	(248 655)	(163 739)
Net interest income		446 247	315 008
Commission and fees	20	37 123	33 188
Other operating income	21.1	22 437	24 593
Other revenue	21.2	4 530	178
Net interest and other operating income		510 337	372 967
Impairment of financial instruments	6	(14 544)	(1 977)
Operating expenses	22	(244 478)	(206 975)
Profit before taxation		251 315	164 015
Taxation	24.1	(66 493)	(46 279)
Profit for the year		184 822	117 736
Other comprehensive income		-	-
Total comprehensive income for the year		184 822	117 736

Statement of changes in equity

For the year ended 31 December 2023

	NOTES	ORDINARY SHARE CAPITAL R'000	SHARE PREMIUM R'000	GENERAL RESERVE R'000	RETAINED EARNINGS R'000	TOTAL R'000
Balance at 31 December 2021		10 000	40 000	448 617	86 734	585 351
Total profit and comprehensive income for the year		-	-	-	117 736	117 736
Ordinary dividends	25	-	-	-	(50 000)	(50 000)
Increase in general reserve		-	-	35 830	(35 830)	-
Balance at 31 December 2022		10 000	40 000	484 447	118 640	653 087
Total profit and comprehensive income for the year		-	-	-	184 822	184 822
Ordinary dividends		-	-	-	(60 000)	(60 000)
Increase in general reserve		-	-	58 691	(58 691)	-
Balance at 31 December 2023		10 000	40 000	543 138	184 771	777 909

Toronto
Canada

Statement of cash flows

For the year ended 31 December 2023

	NOTES	2023 R'000	2022 R'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers	26.1	710 879	533 333
Cash paid to customers, employees and suppliers	26.2	(472 815)	(338 945)
Cash available from operations	26.3	238 064	194 388
Increase in advances		(5 055)	(4 029)
Increase in deposits and borrowings		95 084	455 514
Taxation paid	26.4	(72 341)	(42 863)
Increase/(decrease) in sundry debtors	3	531	(3 842)
Decrease in derivatives held for risk management	26.5	(50)	(397)
Dividends paid	25	(60 000)	(50 000)
Net cash inflow from operating activities		196 233	548 771
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition in investment securities		(655 715)	(166 387)
Capital expenditure on property and equipment		(3 428)	(1 867)
Proceeds on disposal of property and equipment		10 978	276
Cash utilised in investing activities		(648 165)	(167 978)
CASH FLOWS FROM FINANCING ACTIVITIES			
Lease repayment		(6 639)	(6 385)
Net decrease in financing activities		(6 639)	(6 385)
(Decrease)/increase in cash and cash equivalents		(458 571)	374 408
Cash and cash equivalents at the beginning of the year		2 194 982	1 817 201
Effect of exchange rate fluctuations on cash and cash equivalents held		2 297	3 373
Cash and cash equivalents at end of the year		1 738 708	2 194 982

Accounting policies

For the year ended 31 December 2023

1. REPORTING ENTITY

HBZ Bank Limited (the Bank) is a company domiciled in the Republic of South Africa; the registered office address is Umhlanga Arch, Level 4, 1 Ncondo Place, Umhlanga Ridge, Durban, 4320, Kwa-Zulu Natal, South Africa. The Bank is wholly owned by Habib Bank AG Zurich. The Bank is primarily involved in corporate and retail banking.

2. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements have been prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards) and the requirements of the Companies Act of South Africa of 2008 as amended. They were authorised for issue by the Board of Directors on 28 March 2024.

(b) Functional and presentation currency

These financial statements are presented in South African Rand, which is the Bank's functional currency. All amounts have been rounded to the nearest thousand, except when otherwise indicated.

(c) Judgements and estimates

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amount of assets and liabilities, income and expenses.

Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the Bank's financial statements is included in the following note:

Note 29: establishing the criteria for determining whether credit risk on a financial asset has increased significantly since initial recognition, determining the methodology for incorporating forward-looking information into the measurement of expected credit losses (ECL) and selection and approval of models used to measure ECL.

Note 29: classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principle and interest (SPPI) on the principal amount outstanding.

Assumptions and estimation uncertainties

Information about assumptions and estimation significant uncertainties at the reporting date that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year is included in the following notes:

Note 29: impairment of financial instruments: determination of inputs into the ECL measurement model, including key assumptions used in estimating recoverable cash flows and incorporation of forward-looking information.

(d) Basis of measurement

The financial statements have been prepared on the going concern principle under the historical cost basis except for the following material items, which are measured on the following alternative basis on each reporting date.

Items	Measurement basis
Derivative assets and liabilities held for risk management	Fair Value

(e) New and revised IFRS standards in issue but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2023 and earlier application is permitted; however, the Bank has not early adopted the new and amended standards in preparing these financial statements.

These will be adopted in the period that they become mandatory unless otherwise indicated. These include the following standards and interpretations that have been issued, with an indication of the estimated impact on the future financial statements of the Bank:

Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)
Annual periods beginning on or after 1 January 2024

The amendment clarifies how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale.

It is not expected to have a material impact on the Bank's financial statements.

Amendments to IAS 1, Presentation of financial statements on classification of liabilities
Annual periods beginning on or after 1 January 2024

These narrow-scope amendments to IAS 1, 'Presentation of financial statements', clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the `settlement' of a liability.

The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.

It is not expected to have a material impact on the Bank's financial statements.

Non-current Liabilities with Covenants (Amendments to IAS 1)
Annual periods beginning on or after 1 January 2024

The proposed amendment is that if a right to defer settlement for at least twelve months is subject to an entity complying with conditions after the reporting date, those conditions do not affect whether the right to defer settlement exist at the reporting date for the purposes of classifying a liability as current or non-current. Additional presentation and disclosure requirements would be applicable in such circumstances, including presenting non-current liabilities that are subject to covenants to be compiled with within twelve months after the reporting period, separately in the statement of financial position.

It is not expected to have a material impact on the Bank's financial statements.

Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)
Annual periods beginning on or after 1 January 2024

The IASB's amendments apply to supplier finance arrangements that have all of the following characteristics.

- A finance provider who pays amounts a company (the buyer) owes its suppliers
- A company agrees to pay under the terms and conditions of the arrangements on the same date or at a later date than its suppliers are paid
- The company is provided with extended payment terms or suppliers benefit from early payment terms, compared with the related invoice payment due date

The amendments do not apply to arrangements for financing receivables or inventory.

The amendments introduce two new disclosure objectives that require a company to provide information about its supplier finance arrangements that would enable users to assess the effects of these arrangements on the company's liabilities and cash flows, and the company's exposure to liquidity risk.

Under the amendments, companies also need to disclose the type and effect of non-cash changes in the carrying amounts of the financial liabilities that are part of a supplier finance arrangement. The impact of this amendment is not expected to have a material impact on the Bank's financial statements.

Lack of Exchangeability (Amendments to IAS 21)
Annual periods beginning on or after 1 January 2025

Under IAS 21 the Effects of Changes in Foreign Exchange Rates, a company uses a spot exchange rate when translating a foreign currency transaction.

However, in rare cases, it is possible that one currency cannot be exchanged into another. This lack of exchangeability might arise when a government imposes controls on capital imports and exports, or when it provides an official exchange rate but limits the volume of foreign currency transactions that can be undertaken at that rate.

A currency is exchangeable into another currency when a company is able to exchange that currency for the other currency at the measurement date and for a specified purpose. When a currency is not exchangeable, a company needs to estimate a spot rate. The amendments contain no specific requirements for estimating a spot rate.

It is not expected to have a material impact on the Bank's financial statements.

3. ADOPTION OF NEW AND REVISED STANDARDS

The Bank adopted Disclosure of Accounting Policies (Amendments to IAS1 and IFRS Practice Statement 2) from 1 January 2023. The amendments require the disclosure of `material, rather than `significant', accounting policies. The amendments did not result in any changes to the accounting policies themselves.

4. MATERIAL ACCOUNTING POLICIES

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

The Bank has consistently applied the following accounting policies to all periods presented in these financial statements, except if mentioned otherwise.

(a) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Bank (South African Rands) at exchange rates on the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate on that date. Foreign currency differences arising on translation are recognised in profit or loss.

For the year ended 31 December 2023

(b) 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 to:

- the gross carrying amount of the financial asset
- the amortised cost of the financial liability

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not the expected credit loss (ECL). For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

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.

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

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. 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.

It is not expected to have a material impact on the Bank's financial statements.

For information on when financial assets ae credit-impaired, see Note 29.

Impact of IFRS 9 ECL on Interest recognition

IFRS 9 requires interest income to be calculated on Stage 1 or Stage 2 financial assets by multiplying the effective interest rate by the gross carrying amount of such assets. Dissimilar to Stage 1 and Stage 2 assets, IFRS 9 requires interest income on Stage 3 financial assets to be calculated based on the net carrying value of the exposure, that is, the gross carrying value less the ECL allowance. In order to do so, the Bank first suspends the recognition of contractual interest and thereafter multiplies the net carrying value by the effective interest rate.

Unrecognised interest (Interest in Suspense) is the difference between the interest calculated on the gross carrying amount of the financial asset and the net interest amount calculated based on the net carrying value of the financial asset.

In an instance where the Bank recovers cash flows in excess of the cumulative interest previously recognised over the life of the instrument, the Interest in Suspense recovered is recognised as a gain with the ECL.

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI includes:

- interest on financial assets and financial liabilities measured at amortised cost
- profit received on Islamic Banking advances

Interest expense presented in the statement of profit or loss and OCI includes:

- financial liabilities measured at amortised cost
- profit payable on Islamic Banking deposits

Cash flows related to capitalised interest are presented in the statement of cash flows consistently with interest cash flows that are not capitalised.

Included in interest received is the profit received on Islamic Banking advances. Interest paid includes profit payable on Islamic Banking deposits.

For the year ended 31 December 2023

(c) Commission and fees income and expenditure

Commission and fees and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate.

If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

Other fee and commission income – including account servicing fees, fees from telegraphic transfers, foreign exchange fees, facility processing fees, fees from bank charges – is recognised as the related services are performed.

A contract with a customer that results in a recognised financial instrument in the Bank's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Bank first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

(d) Financial assets and liabilities

i. Initial recognition and measurement

The Bank initially recognises loans and advances and deposits, on the date at which they originated. All other financial assets and liabilities are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus transaction costs (for items not at (FVTPL)).

Subsequent to initial recognition, financial liabilities (deposits and borrowings) are measured at their amortised cost using the effective interest method except where the Bank designates liabilities at FVTPL.

The effective interest of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest 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.

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.

For information on when financial assets are credit-impaired, see Note 29.

ii. Classification

Financial assets

The Bank classifies its financial assets in the following categories: amortised cost and financial assets at FVTPL. Management determines the classification of its investments at initial recognition.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI

Cash and cash equivalents, loans and advances and investment securities are classified as held at amortised cost

Foreign exchange forward and spot contracts are marked to market and classified as FVTPL. Fair values are obtained from discounted cash flow models, which are used in the determination of the foreign exchange forward and spot contract rates. Gains and losses on foreign exchange forward and spot contracts are included in foreign exchange income as they arise.

Business model assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed, and information is provided to management.

The information considered includes the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue or realising cash flows through the sale of the assets.

Financial assets that are held for trading and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Loans and advances comprise of overdrafts, commercial loans, staff loans, trust receipts and bills receivable to customers that are held for collecting contractual cash flows.

Investment securities comprise treasury bills with the objective of holding these assets to collect contractual cash flows.

Assessment of whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

Financial liabilities

Deposits and borrowings are the Bank's sources of debt funding. Deposits and borrowings are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest rate method. Included in deposits are Islamic deposits in terms of Mudaraba. The Bank measures derivative liabilities and other liabilities that are financial instruments at amortised FVTPL.

iii. Derecognition

A financial asset is derecognised when:

- The contractual rights to the receipt of cash flows arising from the financial assets have expired or
- It has transferred its rights to receive the contractual cash flows from the financial asset and has substantially transferred all the risks and rewards of ownership of the financial asset. Any interest retained in the financial assets is recognised separately
- It neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset

A financial liability is derecognised when its contractual obligations are discharged, cancelled or expired.

iv. Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, then the Bank evaluates whether the cash flows of the modified asset are substantially different. The Bank also considers qualitative factors in assessing modifications of financial assets.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised, and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- Fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset
- Other fees are included in profit or loss as part of the gain or loss on derecognition

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If such a modification is carried out, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest method.

Financial liabilities

A financial liability is recognised when its terms are modified, and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For variable rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss.

For variable rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

v. Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, the Bank has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

vi. Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access to at that date. The fair value of a liability reflects its non-performance risk.

When available, the fair value of an instrument is measured using quoted prices in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, valuation techniques are used that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates many of the factors that market participants would take into account in pricing a transaction.

vii. Impairment

The Bank recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- Cash and cash equivalents
- Investment securities
- Loans and advances
- Financial guarantee contracts issued
- Loan commitments issued

Loss allowances are measured at an amount equal to lifetime ECL, except for financial instruments on which credit risk has not increased significantly since their initial recognition for which they are measured as 12-month ECL.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL are recognised are referred to as 'Stage 1 financial instruments'. Stage 1 financial instruments has not undergone a significant increase in their credit reliance recognition.

Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'. Stage 2 financial instruments are those instruments that have undergone a significant increase in their credit reliance recognition.

Financial instruments for which lifetime ECL are recognised and that are credit impaired are referred to as Stage 3 financial instruments.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive)
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows
- Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover
- Undrawn loan commitments: as the present value of the difference between the contractual cash flows

that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows:

- Any credit exposure that is tagged as restructured in line with the Bank's policy as at the reporting date, will be classified as Stage 2 for the purpose of computation of expected credit losses. This excludes rescheduled exposures based on non-credit risk related reasons
- A restructuring flag is set in the system showing the inability of the borrower to continue servicing the debt without any relief in the terms and conditions. Restructured cases need to continue being flagged from the start until they have resumed their initial terms and conditions again and can be moved to Stage 1 again
- Regardless of the interest and amortization payments, it is only possible in exceptional cases to be duly approved by the local Central Credit Committee (The CCC) and Group Credit Management Committee (GCMC) - to keep restructured advances in Stage 1 status
- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant financial difficulty of the borrower or issuer
- A breach of contract such as a default or past due event
- The restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation
- The disappearance of an active market for a financial asset because of financial difficulties

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a loan that is overdue for 90 days or more is considered credit impaired.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors:

- The market's assessment of creditworthiness as reflected in the bond yields
- The rating agencies' assessments of creditworthiness

Presentation of allowance for ECL in the statement of financial position

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

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets
- Loan commitments and financial guarantee contracts: generally, as a provision

Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and OCI.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

viii. Non-financial assets

For the year ended 31 December 2023

Non- financial assets are measured at their cost less impairment losses.

ix. Other payables

Other payables are measured at cost.

x. Derivative financial instruments

The Bank uses derivative financial instruments to manage its exposure to foreign currency risk arising from operational activities.

Derivative financial instruments are recognised initially at the transaction price that approximates the fair value. Subsequent to initial recognition, derivative financial instruments are measured at fair value. The gain or loss on re-measurement to fair value is recognised immediately in the statement of profit or loss and other comprehensive income through profit or loss.

(e) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and and highly liquid financial assets that are subject to an insignificant risk of changes in their fair value and are used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are measured at amortised cost in the statement of financial position.

(f) Loans and advances

The loans and advances caption in the statement of financial position includes loans and advances measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

The loans and advances caption in the statement of financial position includes:

- Islamic Advances in terms of Murabaha and Musharakah arrangements
- Loans and advances

The above are measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method.

Advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term.

Advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

(g) Investment securities

Investment securities primarily consist of treasury bills and are initially measured at fair value plus incremental direct transaction costs and subsequently at their amortised cost using the effective interest method.

(h) Share capital

Ordinary shares

Costs directly attributable to issue of ordinary shares are recognised as a deduction from equity.

(i) Property and equipment

i. Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Where parts of an item of property and equipment have different useful lives, they are accounted for as separate items of property and equipment.

ii. Subsequent costs

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Bank. Ongoing repairs and maintenance are expensed as incurred.

iii. Depreciation

Depreciation is charged to the statement of profit or loss and other comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Land is not depreciated although it is subject to impairment testing. The depreciation rates are as follows:

Land and Buildings	5% per annum
Leasehold improvements	20% per annum
Capital improvements	20% per annum
Furniture and Fittings	15% per annum
Office Equipment	25% per annum
Computers	25% per annum
Motor vehicles	20% per annum

Depreciation methods, useful lives and residual values are reassessed annually at the reporting date.

Gains and losses on disposal of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment and are recognised in profit or loss in the year in which they arise. Property Plant and Equipment's fair values were obtained from independent, external valuators who have recent experience and recognized and relevant professional qualifications. The valuators considered the current economic environment and the estimated impact on all the valuation inputs.

The fair value hierarchy and valuation inputs were determined at a Level 3.

(j) Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation, is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at cost less accumulated depreciation and accumulated impairment. The estimated useful life of investment property is 20 years.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Investment properties' fair values were obtained from independent, external valuators who have recent experience and recognized and relevant professional qualifications. The valuators considered the current economic environment and the estimated impact on all the valuation inputs.

The fair value hierarchy and valuation inputs were determined at a Level 3.

(k) Impairment of property and equipment and investment property

At each reporting date, the Bank reviews the carrying amounts of its property, equipment and investment property to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any).

Recoverable amount is the higher of fair value less costs of disposal and value in use.

An impairment loss is recognised immediately in profit or loss.

Reversals of impairment

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss to the extent that it eliminates the impairment loss that has been recognised for the asset in prior years.

(l) Leases

The Bank as a lessee

The Bank assesses whether a contract is or contains a lease, at inception of the contract.

The Bank recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets, printers and personal computers, small items of office furniture and telephones). For these leases, the Bank recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the bank uses its incremental borrowing rate. The Bank determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date
- The amount expected to be payable by the bank under residual value guarantees
- The exercise price of purchase options, if the bank is reasonably certain to exercise the options
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease

The lease liability is presented as a separate line in the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Bank remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option; extension or termination option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used)
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification

The Bank did make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs.

They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Bank expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the statement of financial position.

The Bank applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property and Equipment' policy.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in 'Operating expenses' in profit or loss (see Note 22).

The Bank as lessor

The Bank enters into rental agreements as a lessor with respect to its investment property. Leases for which the Bank is a lessor are classified as operating leases. The terms of the lease do not transfer substantially all the risks and rewards of ownership to the lessee, and the leases are classified as operating leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are recognised on a straight-line basis over the lease term.

When a contract includes lease and non-lease components, the Bank applies IFRS 15 to allocate the consideration under the contract to each component.

(m) Provisions

A provision is recognised if, as a result of a past event the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Included in provisions are loss allowances for off-balance sheet ECLs, leave pay provisions and bonus provisions. The bonus provision is based on the results of the Bank and the related performance evaluation of the employees.

(n) Loan commitments and financial guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the debt instrument.

Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantee liabilities are initially recognised off-balance sheet at their fair value. If the guarantee is issued to an unrelated party on a commercial basis, the initial fair value is likely to exceed the premium received.

Subsequent measurement is at the higher of:

- IFRS 9 loss allowance
- The amount initially recognised less cumulative income recognised in accordance with IFRS 15

Other loan commitments issued are measured at the higher of (i) the loss allowance determined in accordance with IFRS 9 and (ii) the amount of any fees received, less, if the commitment is unlikely to result in a specific lending arrangement, the cumulative amount of income recognised in accordance with IFRS. Derecognition policies are applied to loan commitments issued and held.

Liabilities arising from financial guarantees and loan commitments are included within provisions.

(o) Employee benefits

i. Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the statement of profit or loss and other comprehensive income as incurred.

ii. Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision for leave pay is raised for leave which has accrued to staff, and for which the Bank is liable.

(p) Income tax

Income tax expense comprises current and deferred tax. Income tax is recognised in the statement of profit or loss and other comprehensive income except to the extent that it relates to items recognised directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the statement of financial position method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

In determining the amount of current and deferred tax, the Bank takes into account the impact of uncertain tax positions regarding the Income Tax Profit/(Loss) and whether additional tax and interest may be due. This assessment relies on estimates and assumptions and may involve series of judgements about future events. New information may become available that causes the bank to change its judgement regarding the adequacy of existing liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made. In the 2023 financial period, there have been no information which resulted in the bank changing its judgement which could impact the tax expense for the period.

Deferred tax assets and liabilities are required to be offset only in certain restricted scenarios. Deferred tax assets and liabilities must be recognised gross in the statement of financial position unless:

- the entity has a legally enforceable right to set off current tax assets against current tax liabilities
- the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority

(q) Contingencies and commitments

Transactions are classified as contingencies where the Bank's obligations depend on uncertain future events and principally consist of third-party obligations underwritten by banking operations.

Items are classified as commitments where the Bank commits itself to future transactions or if the items will result in the acquisition of assets.

(r) Related party transactions

Related parties include the holding company of HBZ Bank Limited, Habib Bank AG Zurich, its fellow subsidiaries and associate companies, prescribed officers and Directors of HBZ Bank Ltd, as well as their close family members. All related party transactions have taken place in the ordinary course of business. Balances with related parties are included under note 31.

Notes to the financial statements

For the year ended 31 December 2023

		2023 R'000	2022 R'000
1.	CASH AND CASH EQUIVALENTS		
	Balances with central bank other than the mandatory reserve balance	486 629	350 667
	Mandatory reserves with central bank	173 529	144 758
	Balances with other banks	1 077 285	1 696 324
	Cash on hand	2 991	4 234
	Less: ECL on performing cash and cash equivalents (stage 1)	(1 726)	(1 001)
	Cash and cash equivalents after ECL	1 738 708	2 194 982
	Maturity analysis		
	On demand to one month	1 538 007	1 294 892
	One month to six months	180 721	386 824
	Six months to one year	19 980	513 266
		1 738 708	2 194 982
2.	INVESTMENT SECURITIES		
	Treasury bills	4 709 397	4 012 399
	Less: ECL on performing investment securities (stage 1)	(9 811)	(1 906)
		4 699 586	4 010 493
	Maturity analysis		
	On demand to one month	-	-
	One month to six months	1 003 088	720 793
	Six months to one year	3 696 498	3 289 700
		4 699 586	4 010 493
3.	OTHER ASSETS		
	Prepayments	12 188	9 775
	Sundry debtors	9 403	9 934
		21 591	19 709
	There is insignificant credit risk on the above.		
4.	DERIVATIVE ASSETS HELD FOR RISK MANAGEMENT		
	Forward foreign exchange contracts	5 936	9 123
		5 936	9 123

Notes to the financial statements

For the year ended 31 December 2023

		2023 R'000	2022 R'000
5.	**LOANS AND ADVANCES**		
	Overdrafts	270 289	347 959
	Loans	1 906 078	1 800 720
	Staff loans	1 944	2 485
	Commercial loans	1 769 077	1 711 649
	Trust receipts	135 057	86 586
	Bills receivable	-	22 633
		2 176 367	2 171 312
	Stage 3 Expected Credit Losses	(45 733)	(38 600)
	Stage 2 Expected Credit Losses	(1 009)	(251)
	Stage 1 Expected Credit Losses	(4 156)	(5 093)
		(50 898)	(43 944)
		2 125 469	2 127 368
	Maturity analysis		
	On demand to one month	573 585	671 754
	One month to six months	418 632	326 984
	Six months to one year	178 876	169 433
	Greater than one year	954 376	959 197
		2 125 469	2 127 368

Interest rates charged on clients advances range between 6.5% and 16.75% during 2023 (2022: between 4.5% and 15.5%)

Islamic Banking advances are included in commercial loans.

		2023 R'000	2022 R'000
6.	**IMPAIRMENT OF FINANCIAL INSTRUMENTS**		
	Net impairment (losses)/reversals		
	Stage 3 Expected Credit Losses	(7 253)	(11 202)
	Stage 2 Expected Credit Losses	(756)	1 802
	Stage 1 Expected Credit Losses	(7 513)	6 759
		(15 522)	(2 641)
	Recoveries	978	106
	Write-offs	-	558
		(14 544)	(1 977)

Notes to the financial statements

For the year ended 31 December 2023

7. PROPERTY AND EQUIPMENT

2023	COST R'000	ACCUMULATED DEPRECIATION R'000	CLOSING CARRYING AMOUNT R'000
Land and buildings	41 380	-	41 380
Furniture & fittings	5 560	(3 794)	1 766
Leasehold improvements	8 799	(8 559)	240
Capital improvements	9 863	(4 847)	5 016
Office equipment	6 629	(5 639)	990
Motor vehicles	1 812	(980)	832
Computers	14 286	(10 848)	3 438
	88 329	(34 667)	53 662

2022	R'000	R'000	R'000
Land and buildings	47 804	-	47 804
Furniture & fittings	5 317	(3 342)	1 975
Leasehold improvements	8 772	(8 228)	544
Capital improvements	9 337	(2 986)	6 351
Office equipment	6 096	(5 357)	739
Motor vehicles	2 418	(1 218)	1 200
Computers	12 389	(9 271)	3 118
	92 133	(30 402)	61 731

2023 MOVEMENTS	OPENING CARRYING AMOUNT R'000	ADDITIONS R'000	DISPOSALS R'000	DEPRECIATION R'000	CLOSING CARRYING AMOUNT R'000
Land and buildings	47 804	-	(6 424)	-	41 380
Furniture & fittings	1 975	311	(16)	(504)	1 766
Leasehold improvements	544	59	-	(363)	240
Capital improvements	6 351	526	-	(1 861)	5 016
Office equipment	739	577	-	(326)	990
Motor vehicles	1 200	-	-	(368)	832
Computers	3 118	1 955	(8)	(1 627)	3 438
	61 731	3 428	(6 448)	(5 049)	53 662

2022 MOVEMENTS	R'000	R'000	R'000	R'000	R'000
Land and buildings	47 804	-	-	-	47 804
Furniture & fittings	2 359	147	-	(531)	1 975
Leasehold improvements	792	137	-	(385)	544
Capital improvements	7 824	303	-	(1 776)	6 351
Office equipment	366	641	-	(268)	739
Motor vehicles	1 615	-	(32)	(383)	1 200
Computers	4 180	639	(4)	(1 697)	3 118
Work-in-progress	62	-	(62)	-	-
	65 002	1 867	(98)	(5 040)	61 731

As at 31 December 2023 the fair value of Land and Buildings equated to R 43 750 000 (2022: R 49 750 000).
The fair value of Land and Buildings in the 2022 financial year includes the value of the three properties that were sold in the 2023 financial year.

Notes to the financial statements

For the year ended 31 December 2023

8. INVESTMENT PROPERTY

Rental income for this property is not fixed and received on an ad-hoc basis.

2023	COST R'000	ACCUMULATED DEPRECIATION R'000	CLOSING CARRYING AMOUNT R'000
Investment property	8 486	(228)	8 258
2022	**R'000**	**R'000**	**R'000**
Investment property	8 486	(172)	8 314

	2023 R'000	2022 R'000
CARRYING AMOUNT AS AT 1 JANUARY	8 314	8 371
Additions	-	-
Disposals	-	-
Depreciation	(56)	(57)
Carrying amount as at 31 December	8 258	8 314
Amount recognised in profit and loss		
- Rental income	462	331
- Direct operating expenses that generated rental income	(107)	(56)
- Depreciation	(56)	(57)

The fair value of the property was determined to be R 9.2 million (2022: R 9.0 million).
Investment property is recognised under the depreciated initial cost model.
Refer to the investment property accounting policy for further details.

Notes to the financial statements

For the year ended 31 December 2023

		2023 R'000	2022 R'000
9.	**RIGHT-OF-USE ASSETS**		
	The Bank leases several buildings. The average lease term is 5 years.		
	Opening balance as at 1 January	19 468	19 492
	Additions	-	3 038
	Modifications	3 266	2 374
	Depreciation	(5 797)	(5 436)
	Balance as at 31 December	16 937	19 468
	Amounts recognized in profit or loss		
	Depreciation expense on right-of-use asset	5 797	5 436
	Interest expense on lease liability	1 294	1 119
	Expense relating to leases of low value assets	818	1 078
	Lease cancellation and restoration costs	-	-
	Amounts recognized in statement of cash flows		
	Total cash outflow	6 639	6 400

At 31 December 2023 the Bank is not committed to any short-term leases.

None of the property leases in which the Bank is the lessee contain variable lease payment terms that are linked to revenue generated from leased properties. Expenses relating to variable lease payments not included in the measurement of the lease liability relate to rates, water and electricity of the premises.

For the year ended 31 December 2023

		2023 R'000	2022 R'000
10.	**LEASE LIABILITIES**		
	Opening balance as at 1 January	22 441	22 175
	Additions	-	3 038
	Interest incurred on lease liability	1 294	1 119
	Modifications	3 266	2 494
	Lease repayments	(6 639)	(6 385)
	Balance as at 31 December	20 362	22 441
	Amounts due for settlement within 1 year	6 108	4 116
	Amounts due for settlement after 1 year	14 254	18 325
		20 362	22 441
	Maturity analysis		
	Not later than 1 year	7 113	5 204
	Later than 1 year and not later than 5 years	13 105	16 720
	Later than 5 years	3 134	4 476
	Less future finance charges	(2 990)	(3 959)
	Present value of lease obligations	20 362	22 441

For the year ended 31 December 2023, the average effective borrowing rate was an interpolated rate of 7.74% (2022: 6.96%)

Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. All lease obligations are denominated in local currency. The fair value of the Bank's lease obligations as at 31 December 2023 is estimated to approximate the carrying value of the lease. The Bank's obligations under finance leases are secured by the lessors' rights over the leased assets disclosed in note 9.

The Bank does not face a significant liquidity risk due to lease liabilities. Lease liabilities are monitored by the Bank's financial control function.

Notes to the financial statements

For the year ended 31 December 2023

	2023 R'000	2022 R'000
11. DEFERRED TAX ASSETS		
Deferred tax analysis		
- Impairment of doubtful debt	5 220	2 445
- Other accruals and provisions	1 779	1 727
- Wear and tear allowances	(8)	57
- Right-of-use asset	(4 573)	(5 451)
- Lease liabilities per note 10	5 498	6 283
- Deferred loan origination fees	3 060	2 828
Deferred taxation asset	10 976	7 889
Deferred tax movement		
Opening balance as at 1 January	7 889	8 393
Current year temporary differences	3 087	(504)
- Impairment of doubtful debt	2 775	(2 190)
- Other accruals and provisions	52	1 340
- Wear and tear allowances	(66)	(50)
- Right of use asset	878	7
- Lease liability	(784)	75
- Deferred loan origination fees	232	314
Balance as at 31 December	10 976	7 889

The income tax rate decreased by 1% on 1 April 2023 impacting the 2023 financial year. The impact of this change on the deferred tax assets is R0.4m.

	2023	2022
12. ORDINARY SHARE CAPITAL AND SHARE PREMIUM		
Authorised		
10 000 000 Ordinary shares of R1 each	10 000	10 000
10 000 000 Ordinary shares at no par value	-	-
Issued		
10 000 000 ordinary shares of R1 each issued at R5 each		
Ordinary share capital	10 000	10 000
Share premium	40 000	40 000

Notes to the financial statements

For the year ended 31 December 2023

		2023 R'000	2022 R'000
13.	**GENERAL RESERVE**		
	General reserve	543 138	484 447

The reserve has been created specifically for the retention of capital to ensure the Bank complies with the required capital adequacy ratio as stipulated by the Banks Act 94 of 1990. The bank appropriates all profits that were not issued as a dividend into the general reserve in the following financial period. Refer to note 32 for further details on capital risk.

		2023 R'000	2022 R'000
14.	**DEPOSITS AND BORROWINGS**		
	Deposits and loans from banks	53 817	111 430
	Demand deposits	3 670 447	3 386 025
	Savings deposits	703 426	587 198
	Fixed deposits	2 343 263	2 039 409
	Notice deposits	1 070 674	1 622 481
		7 841 627	7 746 543
	Maturity analysis		
	On demand to one month	6 358 008	6 252 147
	One month to six months	761 885	766 653
	Six months to one year	721 734	727 743
	Greater than one year	-	-
		7 841 627	7 746 543

Islamic Banking deposits are included in demand, savings, fixed and notice deposits.

		2023 R'000	2022 R'000
15.	**PROVISIONS**		
	Provision for leave pay		
	Opening balance as at 1 January	6 636	5 965
	Provisions made/(released) during the year	1 054	671
	Balance as at 31 December	7 690	6 636
	Provision for short-term incentives		
	Opening balance as at 1 January	-	-
	Provisions made during the year	7 218	-
	Balance as at 31 December	7 218	-
	ECL on off balance sheet items		
	Opening balance as at 1 January	192	1 104
	Stage 1 net movement	(180)	(912)
	Stage 2 net movement	(2)	-
	Stage 3 net movement	120	-
	Balance as at 31 December	130	192
	Total provisions	15 038	6 828

Notes to the financial statements

For the year ended 31 December 2023

		2023 R'000	2022 R'000
16.	OTHER LIABILITIES		
	Creditors	4 288	4 642
	Other payables	15 604	13 243
	Income tax payable	1 078	3 839
		20 970	21 724
17.	DERIVATIVE LIABILITIES HELD FOR RISK MANAGEMENT		
	Forward foreign exchange contracts	5 217	8 454
18.	INTEREST INCOME CALCULATED USING THE EFFECTIVE INTEREST METHOD		
	Cash and cash equivalents	118 574	93 865
	Investment securities	340 518	207 286
	Loans and advances	235 810	177 596
		694 902	478 747
19.	INTEREST EXPENSE		
	Deposits from banks	6 135	2 483
	Deposits from customers	242 520	161 256
		248 655	163 739
20.	COMMISSION AND FEES		
	Account servicing fees	22 194	18 558
	Fees from telegraphic transfers	2 695	2 447
	Foreign exchange fees	171	160
	Facility processing fees	11 118	10 354
	Fees from bank charges	945	1 669
		37 123	33 188
21.1	OTHER OPERATING INCOME		
	Foreign exchange income	22 437	24 593
		22 437	24 593

For the year ended 31 December 2023

		2023 R'000	2022 R'000
21.2	**OTHER REVENUE**		
	Net profit on disposal of property and equipment	4 530	178
		4 530	178

		2023 R'000	2022 R'000
22.	**OPERATING EXPENSES**		
	Operating expenses include:		
	Directors' remuneration (see note 23)	10 416	6 426
	Auditor's remuneration	2 878	2 705
	Depreciation expense for Investment property and Property and Equipment	5 104	5 097
	Services rendered by group companies	60 879	50 125
	Retirement benefit costs	5 602	4 379
	- Key management personnel	767	373
	- Other personnel	4 835	4 006
	Equipment leases	818	1 078
	Staff costs	80 819	64 589

Services rendered by group companies is paid to HBZ Services AG Zurich and Habib Bank AG Zurich (the Bank's holding company - see note 31).

		2023 R'000	2022 R'000
23.	**DIRECTORS' AND PRESCRIBED OFFICERS REMUNERATION**		
	For services as a director and other services		
	Non-executive directors	2 709	1 934
	- OD Grobler	625	594
	- D Dharmalingham (retired 31 March 2022)	-	100
	- YD Singh	1 000	475
	- NP Mnxasana	450	390
	- LP Fourie	500	375
	- DC Moephuli (appointed 1 November 2023)	67	-
	- S Rapeti (appointed 1 November 2023)	67	-
	- MH Habib*	-	-

Notes to the financial statements

For the year ended 31 December 2023

	REMUNERATION	RETIREMENT BENEFITS	TOTAL REMUNERATION
2023 DIRECTORS EMOLUMENTS			
Executive directors	7 387	320	7 707
- ZA Khan - Chief Executive Officer (retired 31 March 2023)**	3 371	-	3 371
- AN Cameron - Chief Executive Officer (appointed 1 April 2023)	4 016	320	4 336
- A Iqbal*	-	-	-
Total directors' remuneration			10 416
Prescribed Officers	5 932	447	6 379
- Z Mitha - Chief Financial Officer	1 851	169	2 020
- F Anwar - Chief Operating Officer	2 403	135	2 538
- K Maharaj - Chief Risk Officer	1 678	143	1 821
2022 DIRECTORS EMOLUMENTS			
Executive directors	4 492	-	4 492
- ZA Khan - Chief Executive Officer	4 492	-	4 492
- A Iqbal*	-	-	-
Total directors' remuneration			6 426
Prescribed Officers	5 583	373	5 956
- Y Dockrat - Chief Financial Officer (resigned 30 June 2022)	1 460	98	1 558
- Z Mitha - Chief Financial Officer (appointed 1 October 2022)	419	36	455
- F Anwar - Chief Operating Officer	2 191	114	2 305
- K Maharaj - Chief Risk Officer	1 513	125	1 638

* These directors are not remunerated for the services rendered to HBZ Bank Limited.

** ZA Khan retired as the Chief Executive Officer on 31 March 2023 but remained in the employment of HBZ Bank Limited for a further 3 months to complete a handover process and effectively left the employment of the Bank on 30 June 2023.

- The Prescribed Officers of the Bank are assessed and approved by the Board on an annual basis. The Prescribed Officers are the Chief Financial Officer, Chief Operating Officer and Chief Risk Officer.
- Non-Executive Directors are only compensated for their services in the form of directors fees. No other form of remuneration was paid to these directors.
- Remuneration for Executive Directors and Prescribed Officers include all compensation received for services rendered to the Bank except for employment benefits which is disclosed separately above.
- In terms of the Articles of Association the appointment of a Director is for a period of three years where-after each director is expected to retire on rotation. Directors are however eligible to offer themselves for reappointment and the Board will consider reappointing them depending on current circumstances.
- If there are circumstances necessitating the termination of the contract before the three year period has expired then each party will have the right to terminate the contract by giving the other party three months written notice of termination.
- The remuneration committee approved a short-term incentive scheme for the employees of the Bank. The incentive is based on the Bank's financial performance for the 2023 financial year but payable in the 2024 financial year.

Notes to the financial statements

For the year ended 31 December 2023

		2023 R'000	2022 R'000
24.	**TAXATION**		
24.1	**SOUTH AFRICAN NORMAL TAXATION**		
	- Current	70 486	45 775
	- Deferred	(3 087)	504
	- Prior year overprovision	(906)	-
	Total taxation	66 493	46 279

		2023	2022
24.2	**RECONCILIATION OF EFFECTIVE TAX RATE**		
	SA Normal taxation	28,00%	28,00%
	- Rate change	-1,00%	0,00%
	- Permanent difference: donations	-0,54%	0,22%
	Effective tax rate	26,46%	28,22%

The income tax rate decreased by 1% from 28% to 27% on 1 April 2023 impacting the 2023 financial year.

		2023 R'000	2022 R'000
25.	**DIVIDENDS PER SHARE**		
	Final dividend of 600 cents per share (2022: 500 cents per share)	60 000	50 000

		2023 R'000	2022 R'000
26.	**CASH FLOW INFORMATION**		
26.1	**CASH RECEIPTS FROM CUSTOMERS**		
	Interest income	653 619	478 747
	Other income	57 260	54 586
		710 879	533 333

Notes to the financial statements

For the year ended 31 December 2023

		2023 R'000	2022 R'000
26.2	**CASH PAID TO CUSTOMERS, EMPLOYEES AND SUPPLIERS**		
	Interest expense	(248 655)	(163 739)
	Other payments	(224 160)	(175 206)
		(472 815)	(338 945)

		2023 R'000	2022 R'000
26.3	**CASH AVAILABLE FROM OPERATIONS**		
	Profit before tax	251 315	164 015
	Adjusted for:		
	- Depreciation	5 105	5 097
	- Depreciation on right-of-use asset	5 797	5 436
	- Decrease and modification of right-of-use asset and lease liability	-	120
	- Effect of exchange rate fluctuations on cash and cash equivalents held	(2 297)	(3 373)
	- Impairment losses	14 797	9 239
	- Interest incurred on lease liabilities	1 294	1 119
	- Profit on disposal of property and equipment	(4 530)	(178)
	- Increase in prepayments	(2 413)	(304)
	- Increase in creditors and other payables	2 007	12 546
	- Increase in provisions	8 272	671
	- Adjustment for non-cash interest income	(41 283)	-
		238 064	194 388

		2023 R'000	2022 R'000
26.4	**TAXATION PAID**		
	Amount payable as at 1 January	(3 839)	(927)
	Tax expense	(69 580)	(45 775)
	Amount payable as at 31 December	1 078	3 839
		(72 341)	(42 863)

		2023 R'000	2022 R'000
26.5	**DERIVATIVES HELD FOR RISK MANAGEMENT**		
	Decrease in derivative assets	3 187	1 726
	Increase in derivative liabilities	(3 237)	(2 123)
		(50)	(397)

Notes to the financial statements

For the year ended 31 December 2023

		2023 R'000	2022 R'000
27.	**LOAN COMMITMENTS AND FINANCIAL GUARANTEES**		
	Loan commitments	56 366	73 168
	Guarantees issued on behalf of customers	140 737	126 889
		197 103	200 057

Loan commitments and guarantees have fixed expiry dates. As commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

For details on the other off-balance sheet items, refer to note 29.1

		2023	2022
28.	**PRINCIPAL FOREIGN CURRENCY CONVERSION RATES**		
	One unit of foreign currency below translates into the South African Rand equivalent of:		
	- Swiss Franc	21.98	18.38
	- United States Dollar	18.54	17.00
	- Pound Sterling	23.56	20.45
	- Emirati Dirham	5.03	4.62

29. RISK MANAGEMENT

29.1 CREDIT RISK MANAGEMENT

Credit risk arises from lending and other financing activities that constitute the Bank's core business and is managed across the Bank in terms of its Board-approved Credit Risk Management Framework (CRMF). This framework covers the macrostructures for credit risk management and incorporates key excerpts from the Group credit policy, credit approval mandates, credit risk monitoring and governance structures. It is a key component of the Group's Enterprise-wide Risk Management Framework (ERMF), Capital Management and Risk Appetite Framework (RAF).

The CCC monitors the Bank's credit portfolios, risk procedures, policies and credit standards.

The CCC under the guidance of the Group Credit Management Committee (GCMC) is the Bank's independent risk control unit that validates the Bank's regulatory credit capital models and IFRS 9 impairment models as well as champions the Basel III and IFRS 9 methodologies across the Bank to ensure consistency in the credit rating process.

The CCC calculates and consolidates credit regulatory and economic capital. The CCC maintains and enhances the Credit Portfolio Management (CPM) system and credit risk calculation system, developed in-house, as well as test and implement all credit regulatory model updates. The CCC calculates and consolidates the IFRS 9 impairment calculations across the Bank.

For the year ended 31 December 2023

i. Credit quality analysis

The following table sets out information about the credit quality of financial assets measured at amortised cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively. The notional amount does not represent the maximum exposure and is the sum of the absolute value of all contracts for both derivative assets and liabilities. The amount cannot be used to assess the market risk associated with the positions held and should be used only as a means of assessing the Bank's participation in derivative contracts.

	2023			
	STAGE 1	STAGE 2	STAGE 3	TOTAL
CASH AND CASH EQUIVALENTS	R'000	R'000	R'000	R'000
Grade 0: low to fair risk	1 737 443	-	-	1 737 443
Loss allowance	(1 726)	-	-	(1 726)
Carrying amount	1 735 717	-	-	1 735 717
ADVANCES AT AMORTISED COST				
Grade 0: Low to fair risk	2 007 489	-	-	2 007 489
Grade 1: Monitoring	-	82 702	-	82 702
Grade 2: Substandard	-	-	13 587	13 587
Grade 3: Doubtful	-	-	290	290
Grade 4 - 10: Loss	-	-	72 299	72 299
	2 007 489	82 702	86 176	2 176 367
Loss allowance	(4 156)	(1 009)	(45 733)	(50 898)
Carrying amount	2 003 333	81 693	40 433	2 125 469
INVESTMENT SECURITIES AT AMORTISED COST				
Grade 0: Low to fair risk	4 709 397	-	-	4 709 397
Loss allowance	(9 811)	-	-	(9 811)
Carrying amount	4 699 586	-	-	4 699 586
FINANCIAL GUARANTEE CONTRACTS				
Grade 0: Low to fair risk	196 353	-	-	196 353
Grade 1: Monitoring	-	-	-	-
Grade 2: Substandard	-	-	750	750
Loss allowance	(10)	-	(120)	(130)
Carrying amount	196 343	-	630	196 973

Loan commitments and guarantees are on demand.

For the year ended 31 December 2023

	2022			
	STAGE 1	STAGE 2	STAGE 3	TOTAL
CASH AND CASH EQUIVALENTS	R'000	R'000	R'000	R'000
Grade 0: low to fair risk	2 191 749	-	-	2 191 749
Loss allowance	(1 001)	-	-	(1 001)
Carrying amount	2 190 748	-	-	194 748
ADVANCES AT AMORTISED COST				
Grade 0: Low to fair risk	2 032 077	-	-	2 032 077
Grade 1: Monitoring	-	29 143	-	29 143
Grade 2: Substandard	-	-	7 273	7 273
Grade 3: Doubtful	-	-	24 321	24 321
Grade 4 - 10: Loss	-	-	78 498	78 498
	2 032 077	29 143	110 092	2 171 312
Loss allowance	(5 093)	(251)	(38 600)	(43 944)
Carrying amount	2 026 984	28 892	71 492	2 127 368
INVESTMENT SECURITIES AT AMORTISED COST				
Grade 0: Low to fair risk	4 012 399	-	-	4 012 399
Loss allowance	(1 906)	-	-	(1 906)
Carrying amount	4 010 493	-	-	4 010 493
FINANCIAL GUARANTEE CONTRACTS				
Grade 0: Low to fair risk	200 057	-	-	200 057
Grade 1: Monitoring	-	-	-	-
Grade 2: Substandard	-	-	-	-
Loss allowance	(190)	(2)	-	(192)
Carrying amount	199 867	(2)	-	199 865

Refer to note 27 for gross loan commitments and contingent liabilities for which the above ECL relate to.

The following table shows an analysis of counterparty credit exposures arising from derivative transactions.The notional amount is the sum of the absolute value of all contracts for both derivative assets and liabilities. The amount cannot be used to assess the market risk associated with the positions held and should be used only as a means of assessing the group's participation in derivative contracts. For further discussion of collateral and other credit enhancements, see notes below.

	OVER-THE-COUNTER OTHER BILATERAL COLLATERALISED	
	NOTIONAL AMOUNT	NOTIONAL AMOUNT
	2023	2022
Derivative assets	420 876	389 056
Derivative liabilities	420 157	388 387

For the year ended 31 December 2023

ii. Collateral held and other credit enhancements

The Bank holds collateral and other credit enhancements against certain of its credit exposures.

The general creditworthiness of a customer tends to be the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security and the Bank generally requests that borrowers provide it. The Bank may take collateral in the form of a first charge over real estate, charges over all corporate assets and other liens and guarantees.

At 31 December 2023, the gross amount of advances to customers in default amounted to R86.9 million (2022: R100 million) and the market value of identifiable collateral (mainly fixed properties) held against those loans and advances amounted to R197 million (2022: R454 million).

The following table sets out the principal types of collateral held against different types of financial assets.

TYPE OF CREDIT EXPOSURE

	PERCENTAGE OF EXPOSURE THAT IS SUBJECT TO COLLATERAL REQUIREMENTS		
ADVANCES	31 DEC 2023	31 DEC 2022	PRINCIPAL TYPE OF COLLATERAL HELD
Overdrafts	100	100	Commercial Property / Residential Property / Cash / Investments / Guarantees
Staff loans	-	-	None
Commerial loans	100	100	Commercial Property / Residential Property / Cash / Investments / Guarantees
Trust receipts	100	100	Commercial Property / Residential Property / Cash / Guarantees
Bills receivable	-	100	Commercial Property / Residential Property / Cash / Guarantees

CREDIT RISK MITIGATION

Credit risk mitigation refers to the actions that can be taken by the Bank to manage its exposure with credit risk so as to align such exposure to its risk appetite. This action can be proactive or reactive and the level of mitigation that a bank desires may be influenced by external factors such as the economic cycle or internal factors such as a change in risk appetite. References to credit risk mitigation normally focus on the taking of collateral as well as the management of such collateral. While collateral is an essential component of credit risk mitigation, there are a number of other methods used for mitigating credit risk. The Bank's credit risk policy acknowledges the role to be played by credit risk mitigation in the management of credit risk, but emphasises that collateral on its own is not necessarily a justification for lending. The primary consideration for any lending opportunity should rather be the borrower's financial position and ability to repay the facility from its own resources and cashflow.

The Bank takes financial collateral to support credit exposures in the trading book. This includes cash and debt securities in respect of derivative transactions. These transactions are entered into under terms and conditions that are standard industry practice in securities borrowing and lending activities.

The Bank monitors the concentration levels of collateral to ensure that it is adequately diversified. In particular, the following collateral types are common in the marketplace:

- Retail portfolio
  - Mortgage lending that are secured by mortgage bonds over residential property
  - Instalment credit transactions that are secured by the assets financed
  - Overdrafts that are either unsecured or secured by guarantees, suretyships or pledged securities
- Wholesale portfolio
  - Commercial properties that are supported by the property financed and a cession of the leases
  - Instalment credit type of transactions that are secured by the assets financed
  - Working capital facilities when secured, usually by either a claim on specific assets (fixed assets, inventories or trade debtors) or other collateral, such as guarantees

The valuation and management of collateral across the Bank is governed by the Bank's Credit Policy.

For the year ended 31 December 2023

MORTGAGE LENDING

The following tables stratify credit exposures from mortgage loans and advances to customers by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan or the amount committed for loan commitments to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for mortgage loans is based on the most recent appraisal.

MORTGAGE LENDING	31 DEC 2023	31 DEC 2022
LTV ratio		
Less than 50%	207 829	47 184
51 - 70%	102 618	2 730
71 - 90%	9 916	15 860
91 - 100%	-	-
More than 100%	-	-
Total	320 363	65 774

iii. Amounts arising from ECL

INPUTS, ASSUMPTIONS AND TECHNIQUES USED FOR ESTIMATING IMPAIRMENT

Refer to the Accounting Policies for disclosure regarding the Bank's use of inputs, assumptions and techniques used for estimating impairment.

SIGNIFICANT INCREASE IN CREDIT RISK

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes quantitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure through the use of internal ratings.

The Bank uses two criteria for determining whether there has been a significant increase in credit risk:

- quantitative test indicators
- qualitative indicators

CREDIT RISK GRADES APPLICABLE TO CORPORATE EXPOSURE

The Bank allocates each corporate exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 0 and 1 is smaller than the difference between credit risk grades 1 and 2.

For the year ended 31 December 2023

Each exposure is allocated to a credit risk grade on initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data:

- Information obtained during periodic review of customer files e.g. financial statements, management accounts and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage
- Data from press articles and regulatory communication
- Payment record - this includes reporting exposures on days past due

The table below provides an indicative mapping of how the Bank's intuitive grades relate to PD.

INPUTS, ASSUMPTIONS AND TECHNIQUES USED FOR ESTIMATING IMPAIRMENT	
STAGE	WEIGHTED AVERAGE PD
Stage 1	3,0%
Stage 2	23,6%
Stage 3	100%

GENERATING THE TERM STRUCTURE OF PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures by type of product and borrower as well as by credit risk grading. Furthermore, using the default rate data from the Commercial Loans portfolio, a single macroeconomic impact was determined for all the portfolios of the Bank because macroeconomic conditions in the country are expected to influence all portfolios to the same extent considering the Bank's customer base.

The Bank employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time. Development of the macroeconomic overlay to PD and associated scenarios for IFRS 9 was split into three major steps being data preparation, variable selections and Macroeconomic Impact.

DETERMINING WHETHER CREDIT RISK HAS INCREASED SIGNIFICANTLY

The Bank assesses whether credit risk has increased significantly since the previous recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower.

The assessment of Significant Increase in Credit Risk (SICR) and subsequent classification of the exposure / asset into stage 2 and stage 3 takes into account qualitative criteria and quantitative criteria which could include (but are not limited to) the following:

- Days Past Due (DPD)
- Inability of the customer to service the contractual agreement may result in covenant waivers / amendments (Restructuring)
- Significant increase in the credit risk of other financial instruments of the same customer (cross-product / facility)
- Tagging of exposures as 'Watch' – Internal

The following early warning signals can trigger any of the above mentioned criteria and subsequently trigger classification of exposure into stage 2 or stage 3 based on the degree of severity of the signal and the judgement of the credit officer:

- Significant changes in the terms of an existing financial instrument as on the reporting date compared to its terms at origination
- A borrower's bank guarantee called upon by the counterparty
- The movement of an off balance sheet exposure to an on balance sheet exposure

A change in the financial position / operational efficiency of the borrower, examples of which could include (but are not limited to) the following:

- Declining profitability
- Tightening liquidity or cash flow
- Increasing leverage and / or weakening net worth
- Changes in Key Management Positions
- Weakened marketability and / or value of collateral
- A change in the industry in which the borrower operates
- Stressed macro-economic conditions may impact the performance of the borrower and impact its ability to service the debt commitments in full

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- Credit exposures on which the contractual payments are more than or equal to 30 days past due will be regarded as having significantly increased in credit risk
- Whereas for investments and placement with Banks on which the contractual payments are more than or equal to 15 days past due will be regarded as having significantly increased in credit risk
- Additionally, for overdraft exposures, any excess over limit is treated similar to days past due i.e., an overdraft account showing excess over limit for 30 days becomes a stage 2 exposure
- Credit exposures, which are marked as watch (internal or external) by the Bank will warrant a movement to stage 2

DEFINITION OF DEFAULT

A default is considered to have occurred with regard to a particular borrower when either or both of the two following events has taken place:

- The Bank considers that the borrower is unlikely to pay its credit obligations in full, without recourse by the Bank to actions such as realizing collateral (if held)
- The borrower is past due more than 90 days on any material credit obligation to the Bank. Overdrafts will be considered as being past due once the client has breached an advised limit or been advised of a limit smaller than current outstandings

In assessing whether a borrower is in default, the Bank considers indicators that are both qualitative and quantitative in nature.

INCORPORATION OF FORWARD-LOOKING INFORMATION

The Bank incorporates forward-looking information into the measurement of ECL.

The Bank has identified and documented key drivers of credit risk for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk. Development of the macroeconomic overlay to PD and associated scenarios for IFRS 9 was split into three major steps being data preparation, variable selection and macroeconomic impact.

The key drivers for credit risk for all portfolios are: National Accounts: Nominal Gross Capital Formation & Balance of Payments: Current Account Balance.

The macroeconomic variables identified above were sourced keeping in mind IFRS 9 requirements around obtaining reliable and supportable information, without incurring undue cost or effort. As a result, macroeconomic information was aggregated from the following reputable external sources:

- Moody's Analytics

For the year ended 31 December 2023

The economic scenarios used as at 31 December 2023 included the following key indicators for the years ending 31 December 2023 to 2027.

SCENARIO PROBABILITY	
Baseline	20,00%
Upturn	5,00%
Downturn	75,00%

PROBABILITY WEIGHTED MACROECONOMIC VARIABLE FORECASTS		
YEAR	NATIONAL ACCOUNTS: NOMINAL GROSS CAPITAL FORMATION USD BILLIONS	BALANCE OF PAYMENTS: CURRENT ACCOUNT BALANCE ZAR BILLIONS
2023	59,60%	(13,20%)
2024	64,80%	(25,20%)
2025	76,00%	(33,90%)
2026	85,30%	(50,70%)
2027	90,20%	(67,00%)

The economic scenarios used as at 31 December 2022 included the following key indicators for the years ending 31 December 2022 to 2026.

SCENARIO PROBABILITY	
Baseline	25,00%
Upturn	0,00%
Downturn	75,00%

PROBABILITY WEIGHTED MACROECONOMIC VARIABLE FORECASTS		
YEAR	NATIONAL ACCOUNTS: NOMINAL GROSS CAPITAL FORMATION USD BILLIONS	BALANCE OF PAYMENTS: CURRENT ACCOUNT BALANCE ZAR BILLIONS
2022	3,30%	69,50%
2023	2,20%	72,70%
2024	2,10%	75,80%
2025	2,00%	78,40%
2026	1,90%	81,20%

For the year ended 31 December 2022

The above tables reflect the economic forecast for each year, anticipating the foreign investment (USD) into the SA Economy and the funding (ZAR) put back into the economy (e.g. infrastructure, job creation, etc) which creates a wider Current Account deficit. Predicted relationships between the key indicators and default rates on various portfolios of financial assets have been developed based on analysing historical data.

The forecasts were weighted by the probability associated with each scenario.

SENSITIVITY OF ECL TO FUTURE ECONOMIC CONDITIONS

The table below shows the loss allowance on the Bank's advances, placements and investment portfolios assuming each forward-looking scenario (e.g. baseline, upturn and downturn) were weighted 100% instead of applying scenario probability weights across the three scenarios. For ease of comparison, the table also includes the probability weighted amounts that are reflected in the financial statements 2023.

2023

ECL (R)	UPTURN	BASELINE	DOWNTURN	PROBABILITY WEIGHTED ECL*
STAGE 1	10 323 521	11 451 380	17 355 752	15 823 266
STAGE 2	179 520	521 691	1 194 454	1 009 155
STAGE 3	5 879 922	5 879 922	5 879 922	5 879 922
TOTAL	**16 382 963**	**17 852 993**	**24 430 128**	**22 712 343**

*PROBABILITY WEIGHTED ECL IS CALCULATED WITH WEIGHT AS	
Upturn	5%
Baseline	20%
Downturn	75%

2022

ECL (R)	UPTURN	BASELINE	DOWNTURN	PROBABILITY WEIGHTED ECL*
STAGE 1	2 196 762	2 760 965	10 002 060	8 191 786
STAGE 2	27 878	83 566	307 351	251 405
STAGE 3	16 251 094	16 251 094	16 251 094	16 251 094
TOTAL	**18 475 734**	**19 095 625**	**26 560 505**	**24 694 285**

*PROBABILITY WEIGHTED ECL IS CALCULATED WITH WEIGHT AS	
Upturn	0%
Baseline	25%
Downturn	75%

MODIFIED FINANCIAL ASSETS

A restructuring of a credit agreement generally is defined to be a breach of contract under the initially agreed terms and conditions. Regardless of the interest and amortisation payments it is only possible in exceptional cases to keep restructured advances in stage 1 status. A change in the form of the credit facility - for example conversion from an overdraft facility to a trade-related facility - does not constitute a restructuring.

Restructuring a credit facility, based on an urgent request from the client, enables the client to continue servicing interest and amortisation payments. Without restructuring, the client would be unable to meet the conditions of the contract. A restructuring therefore can be defined as the in-ability of the borrower to continue servicing the debt without any relief in the terms and conditions.

Restructuring is not referring to a normal - business as usual – rescheduling request by the client to amend credit facilities according to the changing economic environment. This could be due to expansion of the business or reallocation of resources and therefore changing financing needs in view of a different expectation of the future economic environment.

Restructured cases are flagged as restructured from the start until they have resumed their initial terms and conditions as well as complied with the conditions backward transitioning and can be moved to stage 1 again. This flagging is an additional earmark besides the classification.

Any credit exposure that is tagged as restructured in line with the Bank's policy as of the reporting date, will be classified as stage 2 for the purpose of computation of expected credit losses. This excludes rescheduled exposures based on non-credit risk related reasons.

IMPROVEMENT IN CREDIT RISK PROFILE:

Following a significant increase in credit risk on a credit exposure, the Bank monitors whether the exposure subsequently exhibits improvement in credit risk. The Bank assesses whether there is sufficient evidence that credit risk has improved sufficiently such that the transfer criterion which resulted in the exposure being transferred to stage 2 or stage 3 is no longer present at the reporting date. However, the borrower must service the debt obligations for a minimum period before it can be transferred to stage 2 and / or subsequently service its obligations for a minimum period in stage 2 before being transferred to stage 1.

The Bank has defined the below criteria to assess any improvement in the credit risk profile which will result in upgrading of customers moving from stage 3 to stage 2 and from stage 2 to stage 1.

Stage 2 to 1: An exposure in stage 2 is subject to a monitoring period of 6 months / 6 instalments (whichever is longer) given that credit risk has improved sufficiently such that the transfer criterion which resulted in the exposure being transferred to stage 2 is no longer present at the reporting date.

Stage 3 to 2: An exposure in stage 3 is subject to a monitoring period of 6 months / 6 instalments (whichever is longer) given that credit risk has improved sufficiently, such that the transfer criterion which resulted in the exposure being transferred to stage 3 is no longer present at the reporting date.

MEASUREMENT OF ECL

ECL is measured as a probability-weighted estimate of the present value of cash shortfalls (i.e. the weighted average of credit losses, with the respective risks of a default occurring in a given time period used as the weights). When measuring ECL, the following would be taken into account:

- The probability-weighted outcome
- The time value of money so that ECLs are discounted to the reporting date
- Reasonable and supportable information (especially forward looking information) that is available without undue cost or effort at reporting date

ECL measurement will be undertaken by considering a range of macroeconomic scenarios (at least more than 2) for computation of unbiased ECL estimates.

The general model for computation of ECL is based on the four components as follows:

- Probability of Default (PD) – This is an estimate of the likelihood of default over a given time horizon
- Exposure at Default (EAD) – This is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities
- Loss Given Default (LGD) – This is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral. It is usually expressed as a percentage of the EAD.This is done on a portfolio level that was calibrated during 2018 which is seen a benchmark estimate point. Furthermore, there is no application on a facility level assessing cash flows for the current book. Other portfolios utilise external benchmarks such as Sovereign and Financial Institutions
- Discount Rate – This is used to discount an expected loss to a present value at the reporting date using the effective interest rate (EIR) at initial recognition

For off balance sheet non-funded exposures / non-term products, since, the expected cash flows do not exist, the swap rate of the currency of the contractual exposure plus the credit risk premium of the contractual exposure may be used as a substitute for EIR. Alternatively, the Bank also uses the portfolio level yield as the discounting factor for ECL. If the counterparty has a term product with the Bank, then the contractual interest rate of that exposure may be used as a proxy for EIR for non-funded exposures. The discount rate for financial guarantees is 5% and loan commitments range from 6.25%-9.75%. The discount rate for undrawn Loan Committments is the Effective Interest Rate that will be applied to the Financial Asset resulting from the loan commitment or an approximation thereof.

The Bank computes impairment of financial assets based on 12-month and Lifetime ECL. The measurement of ECL is based on the risk of default over one of two different time horizons, depending on whether the credit risk of the borrower has increased significantly since the exposure was first recognised. The loss allowance for those exposures that have not increased significantly in credit risk (`stage 1' exposures) is based on 12-month ECL. The allowance for those exposures that have suffered a significant increase in credit risk (`stage 2' and `stage 3' exposures) is based on lifetime ECL.

LOSS ALLOWANCE

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument.

Notes to the financial statements

For the year ended 31 December 2023

ECL ON ADVANCES	2023 STAGE 1	STAGE 2	STAGE 3	TOTAL
Balance as at 1 January	5 093	251	38 600	43 944
Transfer to stage 1	947	-	(947)	-
Transfer to stage 2	(781)	781	-	-
Transfer to stage 3	-	(1 172)	1 172	-
Movements for the year*	(1 103)	1 149	(1 011)	(965)
New financial assets originated or purchased	-	-	-	-
Financial assets that have derecognised	-	-	-	-
Interest in suspense movement	-	-	7 919	7 919
Balance as at 31 December	4 156	1 009	45 733	50 898

ECL ON ADVANCES	2022 STAGE 1	STAGE 2	STAGE 3	TOTAL
Balance as at 1 January	3 714	2 053	27 398	33 165
Transfer to stage 1	136	(136)	-	-
Transfer to stage 2	(541)	545	(4)	-
Transfer to stage 3	-	(5 071)	5 071	-
Movements for the year*	1 784	2 860	(640)	4 004
New financial assets originated or purchased	-	-	-	-
Financial assets that have derecognised	-	-	-	-
Interest in suspense movement	-	-	6 775	6 775
Balance as at 31 December	5 093	251	38 600	43 944

The ECL on advances is shown by sub-class below:

ECL ON OVERDRAFTS	2023 STAGE 1	STAGE 2	STAGE 3	TOTAL
Balance as at 1 January	211	9	18 237	18 457
Transfer to stage 1	102	(102)	-	-
Transfer to stage 2	-	125	(125)	-
Transfer to stage 3	-	-	-	-
Movements for the year*	-	-	(11 626)	(11 626)
New financial assets originated or purchased	-	-	-	-
Financial assets that have derecognised	-	-	-	-
Interest in suspense movement	-	-	16 790	16 790
Balance as at 31 December	313	32	23 276	23 621

ECL ON OVERDRAFTS	2022 STAGE 1	STAGE 2	STAGE 3	TOTAL
Balance as at 1 January	488	64	2 233	2 785
Transfer to stage 1	(277)	-	-	(277)
Transfer to stage 2	-	277	-	277
Transfer to stage 3	-	(332)	332	-
Movements for the year*	-	-	2 033	2 033
New financial assets originated or purchased	-	-	-	-
Financial assets that have derecognised	-	-	-	-
Interest in suspense movement	-	-	13 639	13 639
Balance as at 31 December	211	9	18 237	18 457

Notes to the financial statements

For the year ended 31 December 2023

	2023			
ECL ON STAFF LOANS	**STAGE 1**	**STAGE 2**	**STAGE 3**	**TOTAL**
Balance as at 1 January	50	-	-	50
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Movements for the year*	(11)	-	-	(11)
New financial assets originated or purchased	-	-	-	-
Financial assets that have derecognised	-	-	-	-
Interest in suspense movement	-	-	-	-
Balance as at 31 December	39	-	-	39

	2022			
ECL ON STAFF LOANS	**STAGE 1**	**STAGE 2**	**STAGE 3**	**TOTAL**
Balance as at 1 January	79	-	-	79
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Movements for the year*	(29)	-	-	(29)
New financial assets originated or purchased	-	-	-	-
Financial assets that have derecognised	-	-	-	-
Interest in suspense movement	-	-	-	-
Balance as at 31 December	50	-	-	50

	2023			
ECL ON COMMERCIAL LOANS	**STAGE 1**	**STAGE 2**	**STAGE 3**	**TOTAL**
Balance as at 1 January	4 739	199	19 924	24 862
Transfer to stage 1	(1 206)	-	-	(1 206)
Transfer to stage 2	-	2 752	-	2 752
Transfer to stage 3	2 356	(2 000)	(2 356)	(2 000)
Movements for the year*	(2 356)	-	(16 753)	(19 109)
New financial assets originated or purchased	-	-	-	-
Financial assets that have derecognised	-	-	-	-
Interest in suspense movement	-	-	21 642	21 642
Balance as at 31 December	3 533	951	22 457	26 941

	2022			
ECL ON COMMERCIAL LOANS	**STAGE 1**	**STAGE 2**	**STAGE 3**	**TOTAL**
Balance as at 1 January	2 955	99	7 503	10 577
Transfer to stage 1	1 784	-	(1 884)	(100)
Transfer to stage 2	-	100	-	100
Transfer to stage 3	-	-	-	-
Movements for the year*	-	-	(3 849)	(3 849)
New financial assets originated or purchased	-	-	-	-
Financial assets that have derecognised	-	-	-	-
Interest in suspense movement	-	-	18 154	18 154
Balance as at 31 December	4 739	199	19 924	24 862

	2023			
ECL ON TRADE RECEIPTS	**STAGE 1**	**STAGE 2**	**STAGE 3**	**TOTAL**
Balance as at 1 January	93	43	439	575
Transfer to stage 1	406	-	-	406
Transfer to stage 2	-	(17)	-	(17)
Transfer to stage 3	-	-	(389)	(389)
Movements for the year*	(228)	-	-	(228)
New financial assets originated or purchased	-	-	-	-
Financial assets that have derecognised	-	-	-	-
Interest in suspense movement	-	-	(50)	(50)
Balance as at 31 December	271	26	-	297

For the year ended 31 December 2023

ECL ON TRADE RECEIPTS	2022 STAGE 1	STAGE 2	STAGE 3	TOTAL
Balance as at 1 January	159	13	109	281
Transfer to stage 1	-	-	-	-
Transfer to stage 2	(66)	96	-	30
Transfer to stage 3	-	(66)	298	232
Movements for the year*	-	-	-	-
New financial assets originated or purchased	-	-	-	-
Financial assets that have derecognised	-	-	-	-
Interest in suspense movement	-	-	32	32
Balance as at 31 December	93	43	439	575

ECL ON BALANCES WITH OTHER BANKS	2023 STAGE 1	STAGE 2	STAGE 3	TOTAL
Balance as at 1 January	1 001	-	-	1 001
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Movements for the year*	725	-	-	725
New financial assets originated or purchased	-	-	-	-
Financial assets that have derecognised	-	-	-	-
Balance as at 31 December	1 726	-	-	1 726

ECL ON BALANCES WITH OTHER BANKS	2022 STAGE 1	STAGE 2	STAGE 3	TOTAL
Balance as at 1 January	7 599	-	-	7 599
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Movements for the year*	(6 598)	-	-	(6 598)
New financial assets originated or purchased	-	-	-	-
Financial assets that have derecognised	-	-	-	-
Balance as at 31 December	1 001	-	-	1 001

ECL ON INVESTMENT SECURITIES	2023 STAGE 1	STAGE 2	STAGE 3	TOTAL
Balance as at 1 January	1 906	-	-	1 906
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Impairment raised	7 905	-	-	7 905
Balance as at 31 December	9 811	-	-	9 811

ECL ON INVESTMENT SECURITIES	2022 STAGE 1	STAGE 2	STAGE 3	TOTAL
Balance as at 1 January	2 534	-	-	2 534
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Impairment raised	(628)	-	-	(628)
Balance as at 31 December	1 906	-	-	1 906

Notes to the financial statements

For the year ended 31 December 2023

ECL ON FINANCIAL GUARANTEE CONTRACTS	2023 STAGE 1	STAGE 2	STAGE 3	TOTAL
Balance as at 1 January	190	2	-	192
Transfer to stage 1	2	(2)	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	(120)	-	120	-
Movements for the year*	(62)	-	-	(62)
New financial assets originated or purchased	-	-	-	-
Financial assets that have derecognised	-	-	-	-
Balance as at 31 December	10	-	120	130

ECL ON FINANCIAL GUARANTEE CONTRACTS	2022 STAGE 1	STAGE 2	STAGE 3	TOTAL
Balance as at 1 January	1 102	2	-	1 104
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Movements for the year*	(912)	-	-	(912)
New financial assets originated or purchased	-	-	-	-
Financial assets that have derecognised	-	-	-	-
Balance as at 31 December	190	2	-	192

The total loss allowances recognised in the 2023 financial year amounted to R62.6 million (2022: R47 million).

* Transfers of ECL occur when the credit stage of an account at the end of the financial year differs from that at the beginning of the year. In this case, the opening balance of that account's ECL is disclosed as a reduction of ECL in its original credit stage and a corresponding increase (of the same magnitude) of ECL in its new credit stage. Any movements in the amount of ECL which arise as a direct result of the change in credit stage fall within the "movements for the year" line.

iv. Concentration of credit risk

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

	ADVANCES TO CUSTOMERS		CASH & CASH EQUIVALENTS		INVESTMENT SECURITIES	
	2023	2022	2023	2022	2023	2022
CONCENTRATION BY LOCATION	R	R	R	R	R	R
America	-	-	169 973	139 268	-	-
Europe	-	-	100 914	60 576	-	-
Asia	-	-	2 893	8 104	-	-
South Africa	2 125 469	2 127 368	1 464 928	1 987 034	4 699 586	4 010 493
Other African countries	-	-	-	-	-	-
	2 125 469	2 127 368	1 738 708	2 194 982	4 699 586	4 010 493

	ADVANCES - GROSS	
	2023	2022
CONCENTRATION BY INDUSTRY	R	R
Finance & insurance	2 552	3 274
Manufacturing	403 230	391 067
Transportation	98 800	118 821
Commercial real estate	799 889	728 745
Retailers & wholesalers	708 162	747 741
Other	163 734	181 664
	2 176 367	2 171 312

For the year ended 31 December 2023

29.2 DERIVATIVE INSTRUMENTS	2023 R'000	2022 R'000
Nominal value of forward exchange contracts sold to customers	402 942	363 871
Nominal value of forward exchange contracts sold to banks	17 934	25 185
	420 876	389 056
Nominal value of forward exchange contracts purchased from customers	17 930	25 160
Nominal value of forward exchange contracts purchased from banks	402 227	363 227
	420 157	388 387

29.3 LIQUIDITY RISK

Liquidity risk is the risk that the Bank does not have sufficient financial resources to meet its obligations as they fall due. This risk arises from mismatches in the timing of cash flows which is inherent in all banking operations and can be affected by a range of Bank-specific and market-wide events.

LIQUIDITY RISK MANAGEMENT

The Bank established a comprehensive policy and control framework for managing liquidity risk. The Bank's Asset and Liability Management Committee (ALCO) is responsible for managing the Bank's liquidity risk via a combination of policy formation, review and governance, analysis, stress testing, limit setting and monitoring. In order to effectively manage liquidity risk the Bank:

- maintains a portfolio of highly liquid assets, in a variety of currencies and tenors
- ensures that there is diversity in its funding base
- monitors the behavioural characteristics of financial assets and liabilities
- monitors liquidity reports analysing the expected maturity profile of assets and liabilities
- establishes early warning indicators of potential liquidity stress events and ensures that there are assets available to be used as collateral if needed
- performs regular stress tests
- maintains a contingency funding plan designed to provide a framework where liquidity stress could be effectively managed

The Bank Treasury function executes the Bank's liquidity and funding strategy in co-operation with other business units. The Bank's liquidity and funding strategy is determined in accordance with relevant local regulatory requirements.

There are daily controls in place to define and monitor compliance with the Bank's liquidity risk appetite. The principal metric used is the result of the Bank's liquidity stress testing, supplemented by the results of key regulatory ratios including the Liquidity Coverage Ratio (which measures the ratio of high quality liquid assets to outflows in an extreme 30 days stress scenario) and the Net Stable Funding Ratio (which seeks to promote a sustainable maturity structure of funding balances).

Notes to the financial statements

For the year ended 31 December 2023

CONTRACTUAL NET LIQUIDITY GAP	ON DEMAND	1-6 MONTHS	6-12 MONTHS	> 12 MONTHS	TOTAL
2023	R	R	R	R	R
ASSETS					
Investment securities	-	921 160	4 078 840	-	5 000 000
Advances	587 320	428 657	183 159	977 232	2 176 368
Other assets	21 591	-	-	-	21 591
Derivatives held for risk management	2 603	3 333	-	-	5 936
Cash and short term funds	1 539 534	180 900	20 000	-	1 740 434
	2 151 048	1 534 050	4 281 999	977 232	8 944 329
LIABILITIES					
Deposits and borrowings	(6 358 008)	(761 885)	(721 734)	-	(7 841 627)
Other liabilities	(19 892)	-	-	-	(19 892)
Derivative Liabilities held for risk management	(2 287)	(2 930)	-	-	(5 217)
Lease liabilities	(562)	(2 949)	(3 602)	(16 240)	(23 353)
Loan commitments and letters of guarantee	(197 103)	-	-	-	(197 103)
	(6 577 852)	(767 764)	(725 336)	(16 240)	(8 087 192)
Net liquidity gap	(4 426 804)	766 286	3 556 663	960 992	857 137
2022	R	R	R	R	R
ASSETS					
Investment securities	-	729 110	3 507 000	-	4 236 110
Advances	685 630	333 738	172 933	979 011	2 171 312
Other assets	19 709	-	-	-	19 709
Derivatives held for risk management	-	3 316	5 807	-	9 123
Cash and short term funds	1 295 483	387 000	513 500	-	2 195 983
	2 000 822	1 453 164	4 199 240	979 011	8 632 237
LIABILITIES					
Deposits and borrowings	(6 252 147)	(766 653)	(727 743)	-	(7 746 543)
Other liabilities	(21 724)	-	-	-	(21 724)
Derivative Liabilities held for risk management	-	(3 037)	(5 381)	-	(8 454)
Lease liabilities	(534)	(2 180)	(2 490)	(21 196)	(26 400)
Loan commitments and letters of guarantee	(200 057)	-	-	-	(200 057)
	(6 474 462)	(771 906)	(735 614)	(21 169)	(8 003 178)
Net liquidity gap	(4 473 640)	681 258	3 463 626	957 815	629 059

For the year ended 31 December 2023

29.4 MARKET RISK

Interest rate risk management

The principal risk to which the Bank is exposed is the risk of loss from fluctuations in the future cash flows because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. ALCO in combination with the Credit Committee is the monitoring body for compliance with these limits and is assisted by Central Treasury in its day-to-day monitoring activities. These day-to-day activities include monitoring changes in the Bank's interest rate exposures, which include the impact of the Bank's outstanding or forecast debt obligations. ALCO is responsible for setting the overall investment strategy of the Bank.

The Bank is exposed to interest rate cash flow risk on its cash and cash equivalents, investment securities, advances and deposits and borrowings.

The Bank is exposed to floating and fixed rates as follows:

	REPRICING GAP					
	SHORT-TERM	MEDIUM-TERM		LONG-TERM		
	0 - 31 DAYS	32 - 91 DAYS	92 - 181 DAYS	182 - 365 DAYS	OTHER	TOTAL
2023	R'000	R'000	R'000	R'000	R'000	R'000
FIXED RATE ITEMS						
Assets	37 560	1 292 194	575 267	4 556 163	876 393	7 337 577
Liabilities	(1 357 004)	(413 222)	(215 016)	(400 336)	(1 295 436)	(3 681 014)
	(1 319 444)	878 972	360 251	4 155 827	(419 043)	3 656 563
VARIABLE ITEMS						
Assets	1 343 542	-	-	-	-	1 343 542
Liabilities	(5 000 105)	-	-	-	-	(5 000 105)
	(3 656 563)	-	-	-	-	(3 656 563)
Net repricing gap	(4 976 007)	878 972	360 251	4 155 827	(419 043)	-
2022						
FIXED RATE ITEMS						
Assets	137 986	861 253	339 912	4 204 173	585 522	6 128 846
Liabilities	(1 334 339)	(255 512)	(203 996)	(367 961)	(712 625)	(2 874 433)
	(1 196 353)	605 741	135 916	3 836 212	(127 103)	3 254 413
VARIABLE ITEMS						
Assets	2 330 231	-	-	-	-	2 330 231
Liabilities	(5 584 644)	-	-	-	-	(5 584 644)
	(3 254 413)	-	-	-	-	(3 254 413)
Net repricing gap	(4 450 766)	605 741	135 916	3 836 212	(127 103)	-

Notes to the financial statements

For the year ended 31 December 2023

29.5 SENSITIVITY ANALYSIS

In managing interest rate risk, the Bank aims to reduce the impact of short-term fluctuations on it's earnings. Over the longer term however, permanent changes in interest rates would have an impact on earnings. It is estimated that as at 31 December 2023, a general increase of 1% in the interest rate would increase the Bank's monthly profit by R3 653 000 (2022: R3 417 000) and a general decrease of 1% in the interest rate would decrease the Bank's monthly profit by R3 653 000 (2022: R3 417 000). A general increase or decrease of 1% in the interest rate would increase or decrease the Bank's equity in line with that of the Banks' monthly profit sensitivity analysis.

The sensitivity analysis assumes that all variables including capital amounts remain constant.

29.6 FOREIGN EXCHANGE RISK MANAGEMENT

The Bank's risk management policies do not allow holding of significant foreign currency open positions. ALCO is the monitoring body for compliance with this policy and is assisted by Central Treasury in its day-to-day monitoring activities.

It is estimated that as at 31 December 2023, a general increase of 10% in the foreign exchange rate would increase the US Dollar exposure by R20 595 021 (2022: R13 927 000) and the Euro exposure by R2 309 419 (2022: R6 058 000). A general decrease of 10% in the foreign exchange rate would decrease the US Dollar exposure by R20 595 021 (2022: R13 927 000) and the Euro exposure by R2 309 419 (2022: R6 058 000).

29.7 FINANCIAL ASSETS AND LIABILITIES

	FAIR VALUE THROUGH PROFIT AND LOSS	AMORTISED COST	TOTAL CARRYING AMOUNT
31 DECEMBER 2023	**R'000**	**R'000**	**R'000**
FINANCIAL ASSETS			
Cash and short-term funds	-	1 738 708	1 738 708
Investment securities	-	4 699 586	4 699 586
Derivative assets held for risk management	5 936	-	5 936
Advances	-	2 125 469	2 125 469
	5 936	8 563 763	8 569 699
FINANCIAL LIABILITIES			
Deposits and loans from banks	-	(53 817)	(53 817)
Deposits from customers	-	(7 787 810)	(7 787 810)
Derivative liabilities held for risk management	(5 217)	-	(5 217)
	(5 217)	(7 841 627)	(7 846 844)
31 DECEMBER 2022	**R'000**	**R'000**	**R'000**
FINANCIAL ASSETS			
Cash and short-term funds	-	2 194 982	2 194 982
Investment securities	-	4 010 493	4 010 493
Derivative assets held for risk management	9 123	-	9 123
Advances	-	2 127 368	2 127 368
	9 123	8 332 843	8 341 966
FINANCIAL LIABILITIES			
Deposits and loans from banks	-	(111 430)	(111 430)
Deposits from customers	-	(7 635 113)	(7 635 113)
Derivative liabilities held for risk management	(8 454)	-	(8 454)
	(8 454)	(7 746 543)	(7 754 997)

- The fair value of derivatives is classed as a level 2 financial instrument in terms of the hierarchy requirements per IFRS 13
- The fair value of advances and deposits approximates their carrying amounts
- The fair value of investment securities was calculated to be R 4,71 bn (2022: R 4,02 bn)
- Effective interest rates on investment securities vary between 7.42% and 8.86%

For the year ended 31 December 2023

30. RETIREMENT BENEFIT COSTS

All full-time permanent employees are members of the Old Mutual Retirement Fund, which is a defined contribution fund, and is governed by the Pension Funds Act of 1956. Membership to a defined contribution fund has been compulsory since the incorporation of the Bank in November 1995.

31. RELATED PARTIES

31.1 IDENTITY OF RELATED PARTIES

- The holding company of HBZ Bank Limited - Habib Bank AG Zurich
- Fellow subsidiaries - Habib Bank Zurich Plc, Habib Metropolitan Bank Ltd, Habib Canadian Bank, HBZ Services FZ LLC and Habib Bank Zurich (Hong Kong) Ltd
- The directors are listed in note 23
- Key Management Personnel include every person that exercises general executive control over and management of the whole, or a significant portion, of the business and activities of the Bank; or regularly participates to a material degree in the exercise of general executive control over and management of the whole, or a significant portion, of the business and activities of the Bank
- The Bank has not identified any Key Management Personnel who are not Prescribed Officers or Directors

31.2 MATERIAL RELATED PARTY TRANSACTIONS

	2023	2022
MATERIAL TRANSACTIONS WITH THE HOLDING COMPANY AND DIRECTORS	**R'000**	**R'000**
Dividends paid to the holding company - see note 25	60 000	50 000
Fees for services rendered	60 877	50 125
- HBZ Services FZ LLC	52 407	39 890
- Habib Bank AG Zurich	8 470	10 235
Directors' remuneration - see note 23	10 416	6 426
Loans to directors and prescribed officers (balance outstanding)	41	152
- F Anwar	41	152
Interest earned on directors and prescribed officers loans	9	2
- F Anwar	9	2

The loans to directors/prescribed officers are fully secured, with fixed terms of repayment and are included as part of total advances in note 5.
Disclosure on key management personel compensation is included in note 23.

Notes to the financial statements

For the year ended 31 December 2023

MATERIAL BALANCES WITH THE HABIB GROUP	2023 R'000	2022 R'000
RECEIVABLES DUE FROM GROUP COMPANIES:		
- Habib Bank AG Zurich	43 119	25 153
- Habib Bank Zurich Plc	57 795	35 422
- Habib Bank Zurich (Hong Kong) Ltd.	9	6
- Habib Canadian Bank	1 099	1 666
- Habib Bank AG Zurich, United Arab Emirates	2 633	7 748
- Habib Metropolitan Bank Ltd.	184	290
	104 839	70 285

These receivables all relate to time and demand bank placements, and are included as part of cash and cash equivalents per note 1.

PAYABLES DUE TO GROUP COMPANIES:		
- Habib Bank AG Zurich	592	956
- Habib Bank Zurich Plc	29 043	65 493
- Habib Bank AG Zurich, Kenya	45	46
- Habib Bank AG Zurich, United Arab Emirates	23 166	41 499
- Habib Bank Zurich (Hong Kong) Ltd.	718	-
	53 564	107 994

These balances relate to short-term payables and are included as part of total deposits and borrowings in note 14.

The fixed deposits attract an interest charge based on the preferential rate obtained and the nostro accounts attract an interest charge based on the daily call rate.

THE HIGHEST OUTSTANDING BALANCE FOR THESE PAYABLES DURING THE FINANCIAL YEAR WERE:		
- Habib Bank AG Zurich	49 707	73 974
- Habib Bank Zurich Plc	101 326	42 000
- Habib Bank AG Zurich, Kenya	808	1 094
- Habib Bank AG Zurich, United Arab Emirates	140 269	27 276
- Habib Bank Zurich (Hong Kong) Ltd.	1 569	-
INTEREST AND RELATED TRANSACTION CHARGES PAID TO GROUP COMPANIES:		
- Habib Bank Zurich Plc	3 356	726
- Habib Bank AG Zurich Zurich, United Arab Emirates	898	478
	4 254	1 204

Notes to the financial statements

For the year ended 31 December 2023

32. CAPITAL RISK

Capital risk is the risk that the Bank has insufficient capital resources to meet the minimum regulatory requirements and to support its growth and strategic objectives. The Bank's statutory regulator is the Prudential Authority of the South African Reserve Bank and sets the capital requirements for the Bank.

CAPITAL RISK MANAGEMENT

As with liquidity and market risk, the ALCO is responsible for ensuring the effective management of capital risk throughout the Bank. Specific levels of authority and responsibility in relation to capital risk management has been assigned to the appropriate committees. Capital risk is measured and monitored using limits set in relation to capital (Common Equity Tier 1 (CET1); Tier 1; and Total Capital) and leverage, all of which are calculated in accordance with relevant regulatory requirements. The Bank's regulatory capital consists of the sum of the following elements:

- Common Equity Tier 1 (CET1) capital which includes ordinary share capital, related share premium, retained earnings, reserves, intangible assets and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes
- Tier 2 capital, which includes stage i and stage ii ECLs

	2023	2022
	R'000	R'000
Credit risk exposure	2 374 673	2 795 681
Counterparty credit risk exposure	11 937	16 673
Operational risk exposure	684 821	544 054
Market risk exposure	8 454	2 261
Other risk exposure	100 334	108 964
Risk weighted exposure in relation to deferred tax assets	27 440	19 723
Aggregate risk weighted exposure	3 207 659	3 487 356
Regulatory capital requirement - 11.750% (2022: 11.750%)	376 900	409 764
QUALIFYING CAPITAL AND RESERVE FUNDS		
Tier I		
Ordinary share capital#	10 000	10 000
Share premium#	40 000	40 000
General reserve#	543 138	484 447
Less: Prescribed deductions against capital and reserve funds	(107)	(257)
Total Tier 1 Capital	593 031	534 190
Tier II		
General allowance for ECL	16 701	8 252
Total qualifying capital and reserve funds	609 732	542 442

The table above is unaudited, except where it is denoted with #.

For the year ended 31 December 2023

CAPITAL ADEQUACY RATIO	2023	2022
Qualifying capital and reserve funds as a percentage of aggregate risk weighted exposure	19,0%	15,6%

The Bank's capital plans are developed with the objective of maintaining capital that is adequate in quantity and quality to support the Bank's risk profile, regulatory and business needs. As a result, the Bank holds a diversified capital base that provides strong loss absorbing capacity and optimised returns. Capital forecasts are continually monitored against relevant internal target capital ratios to ensure they remain appropriate. Furthermore the bank appropriates all profits that were not issued as a dividend into the general reserve in the following financial period.

33. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The Bank measures fair values in accordance with IFRS 13, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Bank also uses a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value, which gives highest priority to quoted prices.

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. Assets and liabilities are classified as Level 1 if their value is observable in an active market
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. A Level 2 input must be observable for substantially the full term of the instrument. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves observable at commonly quoted intervals, implied volatilities; and credit spreads. Assets and liabilities classified as Level 2 have been valued using models whose inputs are observable in an active market
- Level 3 inputs are unobservable inputs. Assets and liabilities are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data

Where possible, fair value is determined by reference to a quoted market price for the instrument valued. The Bank holds financial assets and liabilities for which quoted prices are not available, such as over the counter (OTC) derivatives. For these financial instruments the Bank uses valuation techniques to estimate fair value. The valuation techniques used include comparison with similar instruments for which observable market prices exist and other valuation models. These valuation techniques use as their basis independently sourced market parameters, such as currency rates.

The Bank uses generally accepted valuation models to determine the fair value of simple and liquid financial instruments, that use only observable market data and involve minimum judgement. The use of observable market prices and model inputs, when available, reduces the need for management judgement and estimation, as well as the uncertainty related with the estimated fair value. The availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on general conditions and specific events in the financial markets.

Some of the Bank's financial assets and financial liabilities are measured at fair value at the end of each reporting period- refer to Note 29.7.

34. GOING CONCERN

The Bank assessed the appropriateness of the going concern assumption in the preparation of these financial statements. Based on the above assessment, the Directors have no reason to believe that the Bank will not be a going concern in the reporting period ahead. Therefore, these financial statements are prepared on a going concern basis.

Notes to the financial statements

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35. EVENTS AFTER THE REPORTING PERIOD

DIVIDEND

On 28 March 2024 the Board declared a dividend of R135 million (2023: R60 million), which includes dividends witholding tax of R6.75 million (2023: R3 million).

The Directors are not aware of any events after the reporting date of 31 December 2023 and the date of approval of these financial statements.

List of services

With the benefit of decades of experience in understanding and satisfying the varied financial needs of customers spread across the globe, the Group has developed a wide spectrum of quality products and services throughout its global network of branches, subsidiaries and affiliates.

THE RANGE OF SERVICES PRESENTLY AVAILABLE IN SOUTH AFRICA INCLUDE:

- Savings Accounts
- Current Accounts
- Debit Cards
- Term Deposit Accounts
- Overdrafts
- Commercial Loans
- Bill Discounting
- Letters of Guarantee
- Foreign Exchange
- Foreign Drafts
- Import and Export Letter of Credit
- Documentary Collections
- Trade Finance
- Travellers Cheques
- Internet Banking
- Islamic Financing
  - Murabaha
  - Diminishing Musharakah
  - Letters of Guarantee
- Islamic Deposits
  - Current accounts with Chequing Facilities
  - Profit and Loss Sharing Accounts
  - Islamic Certificates of Deposit
- Islamic Forward Exchange Contracts

OTHER SERVICES AVAILABLE THROUGH THE GLOBAL NETWORK INCLUDE:

Personal and Private Banking Services:

- International Portfolio Management
- Financial Advisory Management
- Trustee Services
- Credit Cards
- Travellers Cheques
- Safe Deposit Lockers and Custodial Services

Corporate Banking Services:

- Overdrafts
- Commercial Loans
- Trade Finance
- Import and Export Letter of Credit
- Bills Discounting
- Global Remittances
- Bullion and Silver Dealing
- Dealings in Securities, Bonds and Stocks
- Treasury Services