HBZ Bank Limited

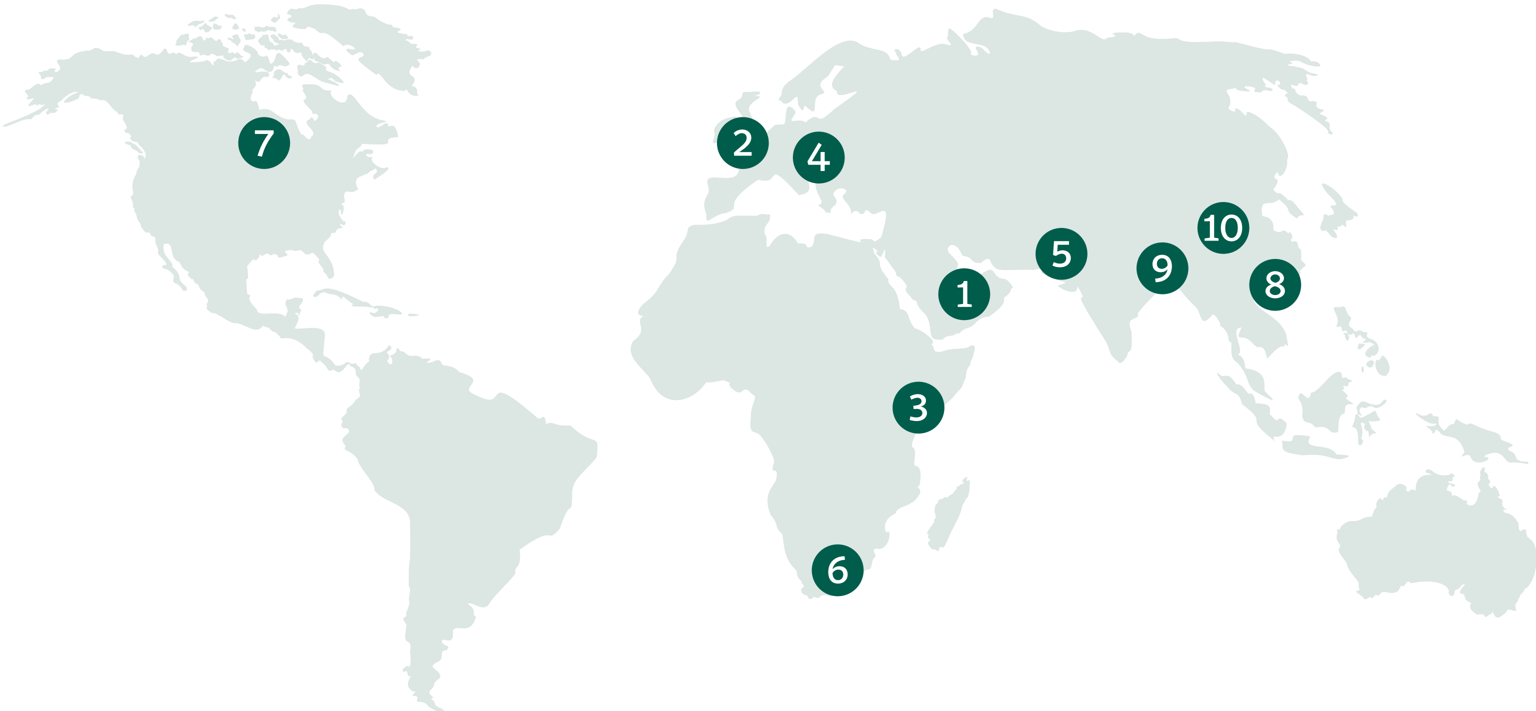
(A subsidiary of Habib Bank AG Zurich)

South Africa

Annual Report

for the year ended 31 December 2021

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	1 Branch
5	PAKISTAN	Habib Metropolitan Bank Limited	459 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

Contents

Ten year review

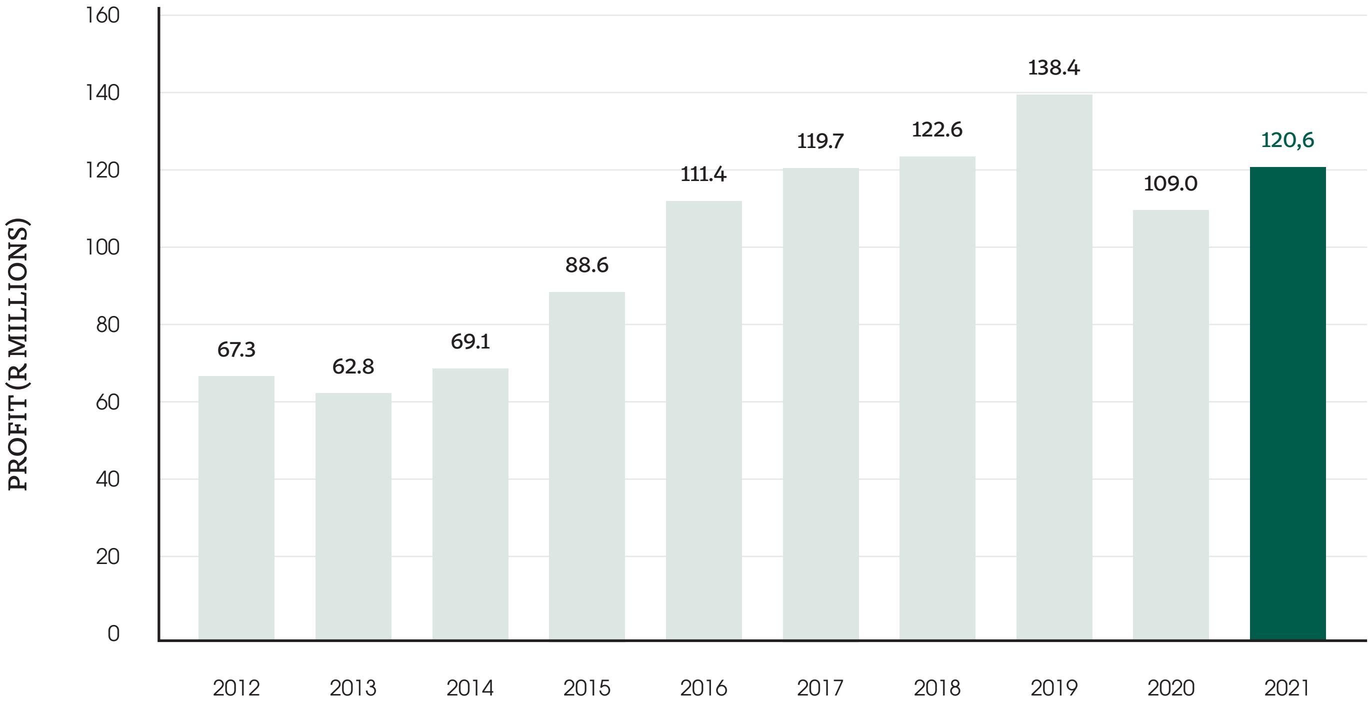
For the year ended 31 December 2021

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
PROFITS (R MILLION)										
Profit before taxation	67,3	62,8	69,1	88,6	111,4	119,7	122,6	138,4	109,0	120,6
BALANCE SHEET (R MILLION)										
Advances	992,4	1 170,0	1 347,8	1 619,0	1 537,9	1 468,1	1 714,3	1 908,9	2 036,8	2 134,1
Advances growth %	(16,3%)	17,9%	15,2%	20,1%	(5,0%)	(4,5%)	16,8%	11,4%	6,7%	4,8%
Deposits	2 739,8	3 255,2	3 514,2	4 049,4	3 820,5	4 369,7	4 856,2	5 330,2	6 183,3	7 291,0
Deposits growth %	(17,1%)	18,8%	8,0%	15,2%	(5,7%)	14,4%	11,1%	9,8%	16,0%	17,9%
Total assets	3 005,2	3 573,4	3 853,6	4 419,6	4 232,8	4 861,4	5 344,2	5 916,4	6 825,7	7 922,5
Total assets growth %	(15,0%)	18,9%	7,8%	14,7%	(4,2%)	14,9%	9,9%	10,7%	15,4%	16,1%
PERSONNEL										
Number of employees	125	128	141	136	141	133	146	141	137	136

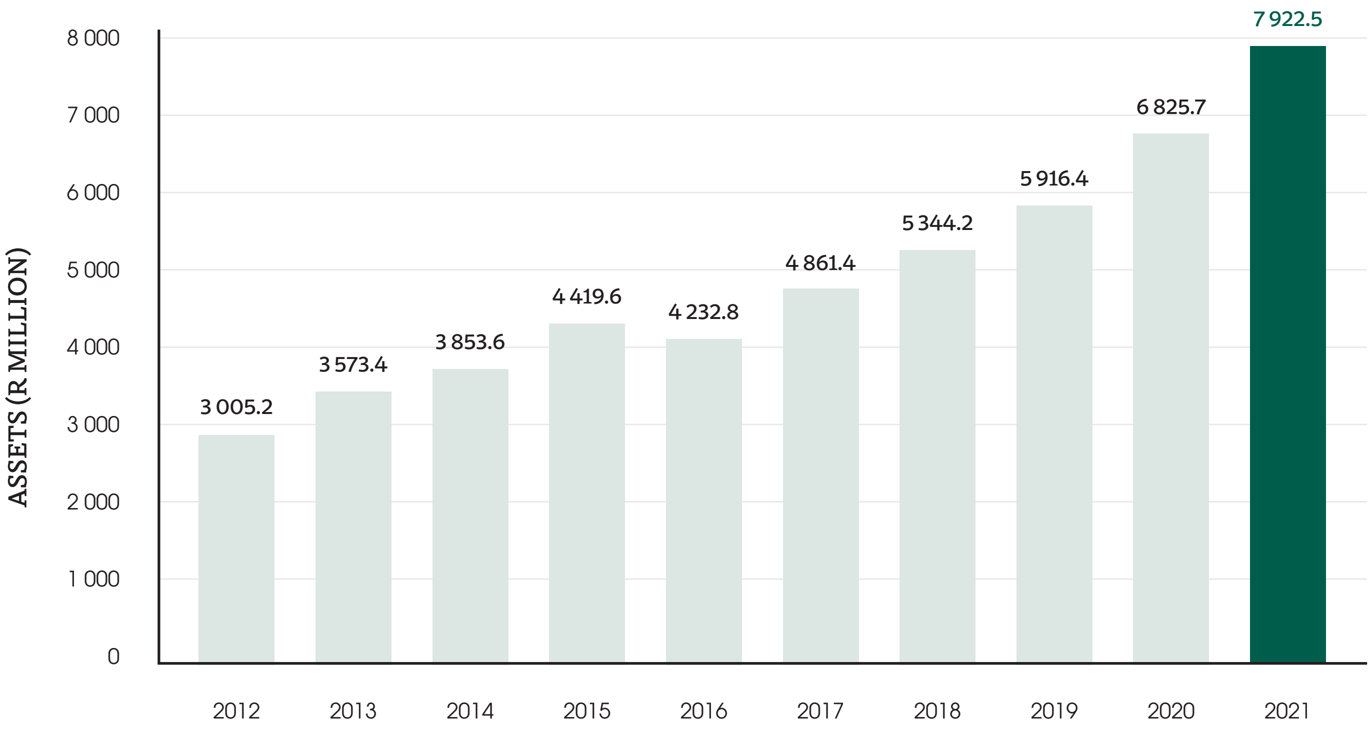
Ten year review

For the year ended 31 December 2021

PROFIT BEFORE TAX



TOTAL ASSETS



Board of Directors and Board Committees

NON-EXECUTIVE DIRECTORS

Muhammad H Habib (62)# - Chairman

Bus. Admin (USA)

President, Habib Bank AG Zurich

Appointed to the Board in 1995

Oscar D Grobler (68) – Lead Independent Director & Vice Chairman

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

Ex- Lead Executive –ABSA Group

Appointed to the Board in 2015

Dheven Dharmalingam (56) - Independent

B. Acc, Dip Acc, CA(SA)

Ex-CFO of Mutual & Federal Limited

Appointed to the Board in 2011

(Retired 31 March 2022)

Yvette D Singh (68) - Independent

B.Com (Honours), MBL

Ex- Senior Deputy Registrar of Bank and Non-Executive director of FirstRand Insurance Holdings (Pty) Ltd

Appointed to the Board in 2019

Nomavuso Mnxasana (65) - Independent

CA(SA), BCompt Hons

Ex-Non Executive Director of Nedbank Ltd

Appointed to the board in 2020

EXECUTIVE DIRECTORS

Zafar A Khan (69) – CEO and Chief Executive Vice President

B.A.

Appointed to the Board in 2005

Anjum Iqbal (69) ^

B.Com, MBA

General Management, Habib Bank AG Zurich

Appointed to the Board in 2016

AUDIT COMMITTEE

Dheven Dharmalingam – Chairman

Oscar D Grobler

Yvette D Singh

Nomavuso Mnxasana

DIRECTORS AFFAIRS COMMITTEE

Muhammad H Habib – Chairman

Dheven Dharmalingam

Oscar D Grobler

Yvette D Singh

RISK COMMITTEE

Yvette D Singh- Chairman

Dheven Dharmalingam

Oscar D Grobler

Nomavuso Mnxasana

Anjum Iqbal

Zafar A Khan

REMUNERATIONS COMMITTEE

Oscar D Grobler – Chairman

Dheven Dharmalingam

Nomavuso Mnxasana

SOCIAL, ETHICS & CONDUCT COMMITTEE

Oscar D Grobler – Chairman

Yvette D Singh

Zafar A Khan

Swiss

^ British

Board of Directors and Board Committees

EXECUTIVE MANAGEMENT

Zafar A Khan (69)

Chief Executive Officer

Yusuf Dockrat (42)

Chief Financial Officer

Farooq Anwar (51)

Chief Operations Officer

Kosheek Maharaj (52)

Head of Credit and Risk

Michelle Sewchuran (44)

Head of Compliance

CORPORATE

Thabisile Luthuli (43)

Head of Corporate Governance & Company Secretary

Shehnaaz Kajee (39)

Human Resources Manager

REGISTERED OFFICE

1 Ncondo Place

Umhlanga Arch Umhlanga

Durban

KwaZulu-Natal

4320

REGISTRATION NUMBER

1995/006163/06

BRANCH NETWORK

KwaZulu-Natal:

Rohinton L Meherjina (58)

Senior Vice President, Manager - Durban
& Area Manager: KwaZulu-Natal

Gauteng:

M Ali Chaudhry (53)

Senior Vice President, Manager- Rosebank
& Area Manager: Gauteng

Aasif Abba (40)

Senior Manager - Fordsburg

Farhaan Ballim (40)

Senior Manager - Lenasia

M Raashid Faiyaz (46)

Assistant Vice President- Boksburg

Laudium:

S Babur H Zaidi (61)

Senior Vice President, Area Manager- Laudium

Chairman's review

I am pleased to present the 2021 Annual Report. By the Grace of God, the Bank maintained strong financial performance despite the challenges presented by the pandemic and the civil unrest.

ECONOMIC FACTORS

The economy remains under pressure, adding barriers for businesses that are trying to expand. The civil unrest, during July 2021, in parts of Kwa-Zulu Natal and Gauteng resulted in a myriad of challenges including the loss of property, employment, and essential services. Additionally, the environmental hazard caused by the destruction of a chemical factory in Cornubia, Durban, resulted in the spilling of toxic chemicals into the surrounding waters of the Umhlanga Lagoon and Ohlanga River.

The year ended with inflation at a five-year high of 5.9%. However, this has eased in January 2022 to 5.7% and is expected to move within the South African Reserve Bank's target range of 3-6%. Furthermore, the South African economy recorded its fourth consecutive quarter of growth, expanding by 1.2% in the second quarter of 2021. However, towards the end of 2021 the real gross domestic product decreased by 1.5% reflecting the material impact of the social unrest and the third wave of the COVID-19 pandemic.

A major positive factor observed in the beginning of 2022 was the relaxation of lockdown restrictions, which will enable the rebuilding of the economy. Consequently, it appears unlikely that the economy will again see significant lockdown restrictions outside of broader social distancing and other medical steps to combat virus transmission. The ongoing vaccination programme has been a positive milestone for South Africa and will assist in managing Covid 19 in a way that balances livelihoods and a healthy society. As an institution we continue to do our part in uplifting the society through our Corporate Social Investment programs with the hope of reaching impoverished communities.

OPERATING PERFORMANCE

Despite the continued challenging trading environment, by the Grace of God, the Bank achieved commendable results. Profit before tax increased by 10.5% to R 120.64 million (2020: R109.1 million). Total assets increased by 16.2% to R 7.9 billion (2020: R6.8 billion), Advances increased to R 2.1 billion (2020: R2.0 billion) whilst deposits increased by 17.7% to R7.3 billion (2020: R 6.2 billion).

During 2021, the Bank merged its Polokwane branch with the Laudium branch and commissioned the new Head Office in Umhlanga Arch, Durban. The relocation of the Head Office was an important strategic initiative, including the commissioning of the Umhlanga Arch branch enabling us to better serve our customer base in the North of Durban. I would like to thank our staff for their patience and support during the transition period.

BOARD OF DIRECTORS

The Board is in the process of restructuring its composition. Mr Dheven Dharmalingam, the Chairman of the Audit Committee, will be stepping down on 31 March 2022 after serving eleven years. He has been an exceptional Board member and on behalf of the Board, I would like to thank Mr Dharmalingam and wish him all the success in his future endeavors.

LOOKING FORWARD

South Africa is expected to see economic growth of 1.8% year on year in 2022, with growth likely to lift toward 3.0% year on year by 2026. The annual inflation rate eased to 5.7% in January 2022 and on 27 January 2022 and 24 March 2022, the South African Reserve Bank (SARB) increased the repo rate by 25 basis points each. Further rate increases are anticipated during 2022.

The war in Ukraine has sent global markets into turmoil as solid growth and an uptick in financial and commodity confidence has been completely eroded. South Africa and our domestic market are not immune to these shockwaves and its influence is being felt in the following areas:

- The increasing price of crude oil which has peaked over the psychological $100.00/barrel leading to domestic fuel price increases to record levels.
- The cost of imports will increase due to delays in world logistics via new flight paths and sea routes due to severe sanctions imposed by NATO and its allies led by the United States and the United Kingdom.
- South Africa is an active member, investor and beneficiary of BRICS. Significant investment by Russia in South Africa is under severe threat and may mean immediate outflow of foreign exchange. The Russian Ruble has lost more than 64% year to date against the US Dollar, a record low largely due to the severity of western sanctions imposed on Russia.

APPRECIATION

I am thankful to all our customers and well-wishers, without whom we would be unable to achieve these good results and continuous growth. Thank you for choosing to do business with us, we appreciate the opportunity to serve you.

At the same time, a special note of thanks to the SARB; Financial Sector Conduct Authority; Financial Intelligence Centre and other Regulatory authorities for their guidance and continued support.

I would like to thank my fellow Board members for their dedication, commitment, and guidance in fulfilling their roles and responsibilities with the governance of the Bank. I also extend my appreciation to our CEO Mr Khan, the management team and all our employees for their tireless efforts, loyalty, resilience during these difficult and uncertain times.

Muhammad Habib
Chairman

Risk management review

RISK MANAGEMENT PHILOSOPHY

HBZ Bank Limited (hereinafter referred to as "the Bank") views an effective and robust Risk Management Framework as a prerequisite to the success and stability of the Bank. The Bank recognises that effective risk management is fundamental to its ability to generate sustainable profits, safeguard its reputation, create a competitive edge and achieve an optimal risk-reward profile.

The Bank has a sound risk culture coupled with an appropriate and enabling risk appetite complemented by an established Enterprise-wide Risk Management Framework that is sponsored by senior management (i.e. the tone is set from the top).

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 with the objective of creating attractive returns and thus the Bank does not seek to avoid risk, but to manage it in a controlled manner and in the context of the commensurate reward.

The Bank's risk management process is to ensure that all risks are identified and understood, evaluated and quantified, and then managed to achieve the desired returns by reducing and controlling the impact of adverse occurrences on performance to within acceptable parameters. Risk mitigation is an integral part of this process.

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

- Protection of the Bank's financial strength by controlling risk exposures and avoiding potential risk concentrations;
- Protection of the Bank's reputation through a sound risk culture, and through full compliance with regulatory requirements, acceptable ethical standards and principles;
- Continuous and active management of all risk exposures to ensure that risk and reward is balanced;
- A strongly defined risk management structure;
- Independent review and oversight of the risk process;
- Continuous evaluation of the risk appetite of the Bank through clearly defined limits; and
- Communication and coordination between the Committees, executive management and other role-players in the risk management framework, without compromising segregation of duties, controls or review.

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

COMBINED ASSURANCE

The Bank has adopted the "three lines of defence" model as the basis of its combined assurance approach which aims to provide a coordinated approach to all assurance activities including the integration and alignment of assurance processes to optimise governance oversight, risk management and control.

The 3 main elements of the Bank's Combined Assurance Model are:

1. **Management assurance** - including strategy implementation, performance measurements, control self-assessments and continual monitoring mechanisms and systems.
2. **Internal assurance** - risk management, regulatory compliance, internal audit, and health and safety departments.
3. **Independent external assurance** - external audit and other assurance providers.

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 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. The Risk Management Committee, the Assets and Liabilities Committee (ALCO), Compliance Committee (CC) and various Credit Committees have been appointed by Management to enhance the Bank's risk framework.

The Bank's risk 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 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 (CARC)

This Board Committee comprises at least five members with a minimum of three 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 Chairmen of the other Board Committees, any of the executive directors, officers or Bank secretary to provide it with information necessary to carry out its mandate subject to following a Board approved process.

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

The main responsibilities of the 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 the Bank.

Four meetings were held during 2021 with attendance in accordance with requirements. Minutes were kept and filed as per the charter. The charter is reviewed on an annual basis.

Risk Management Committee

The 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. A typical meeting of the RMC will:

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

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

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 Heads of Corporate Governance, Internal Audit and the Operational Risk manager attend as observers. A Branch or Area Manager is invited to attend as and when decided by the Committee. During 2021 the RMC met as per its charter.

Credit Management Committee (CMC)

This management committee is chaired by the CEO and comprises the CRO, an Area Manager and a senior Branch Manager. The Committee may request any other Senior Manager of the Bank to attend the meeting. The CMC is the credit decision making body within the Bank and approves all credit proposals 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 Board approved charter.

Assets and Liabilities Committee (ALCO)

An integral element in managing risk is the overall management of the assets and liabilities of the Bank. The ALCO was set up by Management with a written charter to oversee the arrangement of 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.

The Committee is chaired by the CFO and is made up of the CEO, COO, Head of Compliance, CRO, Financial Manager and Treasury Manager. During 2021 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 comprises the CEO, Senior Branch or Area Manager, CFO, CRO and the COO. 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)
- Review the account opening procedures to ensure they meet local regulatory requirements
- Review a list of new Acts or Regulations promulgated since the last meeting, assess their impact on the Bank and ensure the Bank is in compliance with them if they do impact the Bank

The Committee met as required in 2021 and minutes were kept and filed as per the charter.

RISKS DIRECTLY IMPACTING THE BANK AND THE MANAGEMENT THEREOF

The Board has appointed the CARC to oversee the Risk Framework of the Bank. Management has in turn determined that the following risks materially impact the Bank and allocated various bodies to manage them:

RISK CLASS	RISK TYPE
Strategic & Business risk	Strategic risk Business risk Concentration risk Capital adequacy risk
Liquidity risk	Liquidity funding risk
Market risk	Interest rate risk
Credit risk	Credit risk - general Client Credit risk 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) Conduct risk Tax risk
Reputation risk	Reputation (including Shariah risk)
Systemic risk	Systemic risk

Risk management review

STRATEGIC AND BUSINESS RISK

1. Strategic risk

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

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

- Strategic risks are determined by Board decisions about the objectives and direction of the organisation
- 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
- Change risk assessments are performed for new products, business processes and the set up of new branches.

2. Business Risk

Business risk is the possibility that a business will have lower than anticipated profits, or that it will experience a loss rather than a profit.

The Bank mitigates this risk as follows:

- Acknowledging that business risk is influenced by numerous factors including sales volume, pricing, overhead costs, competition, overall economic climate, and government regulations
- 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 speedily respond to internal and external changes

3. Concentration Risk

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

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

- Clearly defined rules for the grouping together of exposures to the same client
- Monitoring of exposures to counter-party, 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
- Retain capital where the cumulative of per party exposures is above 25% of the capital of the bank not secured by cash deposited at the bank or guarantees from the group banks
- 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. Capital Adequacy 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 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 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 2021 the Board reviewed the capital management and capital adequacy processes and confirmed that it achieved the objectives specified.

LIQUIDITY RISK

1. Liquidity risk

Liquidity risk results from being unable to meet commitments, repayments and withdrawals timeously and cost effectively.

The Bank controls liquidity at source by having strong internal controls, ensuring a wide deposit base, simplifying the product range and centralising the 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 and
- 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. As with interest rate risk the focused range of products offered by the Bank facilitates the management of liquidity risk

MARKET RISK

1. Interest Rate Risk

Interest rate risk arises when losses occur due to adverse variations in interest rates.

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

- Ensuring that all assets and liabilities must match over time
- Ensuring that the majority of the Bank's borrowings and lending activities are at variable rates allowing for relatively stable interest rate margins
- The ALCO reviewing and monitoring the interest rate matching at every meeting
- 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 counter-parties are not honoured either in part or totally.

The Board acknowledges that credit risk management is critical to the Bank and has appointed a Head of Credit Risk to manage the Bank's credit risk process.

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 our niche client base
- A centralised credit department to manage proposals and 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 updated AFS received
- Detailed credit inspection, quality review and prompt follow-up by high level management, the independent external and internal auditors
- Executive & non-executive directors involvement in decision making and review
- Emphasis on security based lending at conservative security values
- 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
- A clear policy on the appropriate provisioning in respect of the estimated loss inherent in the advances book
- Monitoring of KRI's by the Operational Risk Department.

The Board approves and monitors all large exposures that are in excess of 10% of the Bank's capital. To augment the prudent assessment of advances and determination of appropriate provisioning, the Bank has a credit risk classification system.

2. Counterparty risk

Counterparty risk is the risk that a counterparty 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 Contracts (FECs) are only purchased from banks approved by the board
- Spreading the FEC deals amongst the approved banks to avoid concentration
- Only dealing with banks and sovereigns situated in countries that have a well-regulated banking industry

3. Foreign Exchange 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 counter-party 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
- Monitoring on a daily basis the open position to ensure it is within the limit stipulated by the Board.
- Monitoring on a monthly basis the open position 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. This selection includes evaluating the risks and benefits of using one or more correspondent banks to settle its FX transactions in each currency
- 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 reputational 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 as stipulated in the Basel II Accord.

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
- Appropriately investing 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, comprising 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 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 Group possesses an established formal governance framework which outlines the risk-based approach pursued, and sets out how the Group responds to cyber risk threats. HBZ Bank has adopted the cyber security plan in line with the Group's risk approach.

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 manuals 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 values driven ethos
- Correct and meaningful staff training on internal and external fraud, including sharing best practices
- The preparation and continual upgrading of the Code of Conduct and Ethics manual

- Ensure there is an effective Complaints and Whistle Blower process installed, supported by well documented manuals
- Regularly rotating and motivating staff
- Ensuring immediate and effective action is taken against any persons implicated in fraudulent activities
- Maintaining adequate and effective internal controls
- Ensuring timeous and accurate processing of transactions
- Reviewing of suspicious transactions including eliminating transactions with blacklisted companies and individuals
- Ensuring appropriate investment in computer technology to support operations
- Independent internal and external audit to check and review controls
- Ensuring an independent Risk Management Committee, comprising senior management, that meets quarterly with a detailed agenda including fraud risk issues
- Ensuring that the Bank has extensive insurance cover for any material losses

4. Physical Security Risk

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

To manage this risk, the Bank has ensured that:

- Branches have adequate fire and smoke alarms and access alarms linked directly to a response company
- Each branch has an effective CCTV monitoring system with functioning back up and these systems are tested regularly
- Each department or branch has a Health and Safety Officer appointed who performs monthly inspections and produces reports to branch management and head office
- There is 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.

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 the commission 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 an 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. To make certain this department is effective in managing this risk the Bank has ensured that:

- The Head of Compliance has 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 computer system is in place to monitor high risk transactions and reports are escalated to the relevant compliance officials
- The compliance function confirms that the bank complies with all relevant statutory, regulatory and supervisory requirements
- The compliance department is adequately staffed and is represented in each branch by Branch Compliance Officers
- The 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 holding company and is a member of the Compliance Institute of South Africa.

3. Conduct risk

Conduct Risk is the risk of poor outcomes for our 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 the 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
- 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

4. 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.

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 of managing systemic risk are:

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

Social investment responsibility

INTERNAL SOCIAL INVESTMENT

We have implemented several empowerment initiatives to support and build our staff. Our staff members are fundamental to the Bank's growth and we are proud to provide a workplace where our staff are able to develop and give back their best to the growth of the Bank. The Bank has implemented internal employment equity, training and skills development initiatives. These initiatives focus on providing all employees with an environment that is free from any form of discrimination while ensuring opportunities exist to obtain the necessary skills for career growth.

SKILLS DEVELOPMENT

The Bank has a Skills Development Facilitator who is registered with BANKSETA, the Banking Industries Training Authority. A Workplace Forum comprising of equal numbers of staff and management meets to monitor and enhance the Bank's Workplace Skills Plan.

The Plan, monitored by the Forum commits the Bank and employees to various training projects that include:

- focused on-the-job training;
- external training; and
- access to tertiary, college and university education.

All staff have access to this plan and are entitled to benefit from it.

EMPLOYMENT EQUITY

The Bank's Employment Equity Plan as submitted to the Department of Labour is continually monitored and updated to ensure it meets the changing needs of the Bank and its employees. As a member of an international banking group, the Bank is proactive and has, for a number of years had a sound employment equity process. The Bank is currently training and recruiting staff from previously disadvantaged groups to ensure employment equity at the Bank remains ahead of the plan.

EXTERNAL CORPORATE SOCIAL INVESTMENT

We believe that through caring for our neighbours, we develop a better appreciation for people and, in so doing we are better able to understand and serve our clients. The Bank recognises that social giving is not enough in its own right. For Corporate Social Investment (CSI) to be truly effective and to make an on-going and meaningful difference in the lives of underprivileged people and to the overall economic wellbeing of the country, it needs to be well-managed and underpinned by the driving principle of sustainability that encompasses all the Bank's stakeholders. This approach ensures the effective and balanced management of the Bank's economic, social and environmental relationships.

The Bank's CSI funding is managed by the Corporate Social Investment Committee who is chaired by an independent non-executive director. The CSI committee's primary focus is in the following areas:

a) Education, with an emphasis on female education;
b) Health;
c) Relief in case of natural disasters;
d) Local community causes or projects within our niche market;
e) Environmental causes and projects.

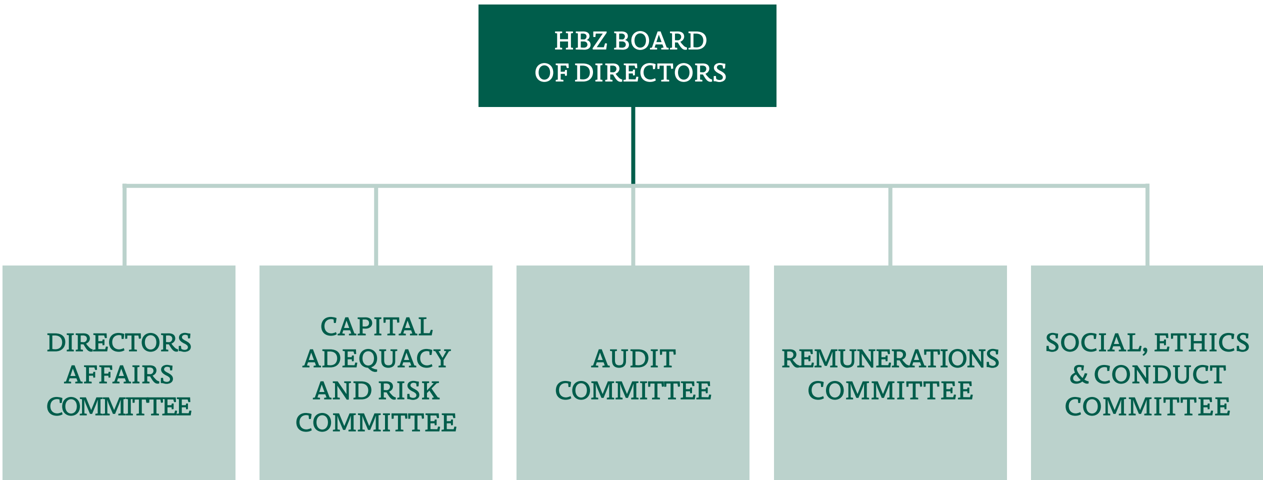
Corporate governance

The application of sound corporate governance practices remains a fundamental aspect of the Banks operational business. The Corporate Governance framework and Corporate Governance plan are reviewed on an annual basis to ensure that the Bank is compliance with all governing laws. The Board is ultimately responsible for the strategic guidance of the Bank, the effective monitoring of management by the Board, and accountable to the shareholder.

The Bank is fully committed to 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 Basel Committee. Accordingly, the Board endorsed and has applied this code in recognition of the need to conduct the affairs of the Bank with integrity, care and good faith in accordance with generally accepted corporate practice.

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

BOARD OF DIRECTORS GOVERNANCE FRAMEWORK



BOARD OF DIRECTORS

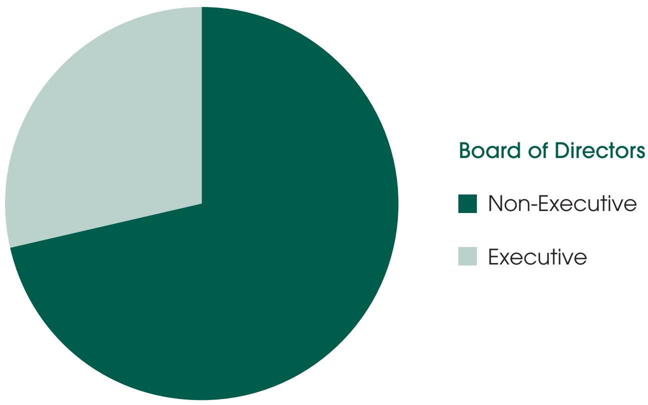
Charter

The Board has a written charter that is reviewed annually. The Board is fully committed to infusing the standards of integrity, accountability and transparency required to achieve effective corporate governance. The Charter confirms the Board's accountability, fiduciary duties, conflict of interest process, appointments and tenure.

Structure and composition

The composition of a Board reflects a diversity of thought, backgrounds, skills, experiences and expertise and a range of tenures that are appropriate for the Bank's current and anticipated events and that collectively, enables the Board to perform its oversight function effectively.

During 2021, the Board comprised of seven (7) directors, five (5) non-executive directors and two (2) executive directors. The non-executive members include two qualified Chartered Accountants, one senior Banker of an international Bank, a former senior Banker of large South African Bank and a former Deputy Registrar of the South African Reserve Bank. Three of the non-executive directors are classified as independent. Both the Chairman and Vice Chairman are non-executive directors. The roles of the Chairman and the Chief Executive Officer (CEO) are separate with responsibilities clearly defined. Details of the Directorate are listed on page 4 of this annual report.



The Chairman of the Board is an employee of the Bank's holding company, Habib Bank AG Zurich. As a result, he is not classified independent in terms of King IV, and the Vice Chairman was appointed as the Lead Independent Non-Executive Director.

The independent non-executive directors of the Bank:

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

Meetings and attendance

The Board met four times during 2021 apart from the regular informal interaction between management and Directors. Where Directors are unable to attend a meeting personally, teleconferencing is made available to include them in the proceedings and allow them to participate in the decisions and conclusions reached. The Board is provided with comprehensive management reports for each meeting and relevant reports on performance and developments of the Bank. The Chairs of each Board Committee tables a report on a quarterly basis on the Committees activities and recommendations to the Board to facilitate in-depth perspectives.

Minutes are maintained of each meeting, signed by the Chairman of the meeting and kept in a minute book by the Board Secretary. On a monthly basis all Directors receive financial information that include a statement of comprehensive income and a statement of financial position. The Board meets annually with management to agree on the proposed strategy and to consider long-term issues facing the Bank, prior to formulation of the annual financial budgets. All Directors are regularly kept abreast of statutory, regulatory, accounting, non-financial and industry developments that may affect the Bank. Furthermore, all Directors have full access to management, the Bank secretary and independent professionals as well as unrestricted access to all relevant documentation required to discharge their duties.

During 2021, the Board focused on:

- Monitoring the implementation of safety measures to prevent the spread of COVID-19.
- Monitoring compliance with all statutory requirements in terms of the Banks Act and its Regulations; the Companies Act, 71 of 2008, King IV and other applicable regulatory requirements;
- Monitoring the exposures to related parties.
- The assessment of the capital management strategy of the Bank.
- Approval of the Bank's strategy and the Budget for the ensuing year.
- Approval of the audited 2020 Annual Financial Statements and related disclosures as recommended by the Audit Committee.

Appointments and Retirements

There were no changes to the Board of Directors in the 2021 financial year however the Bank will restructure its Board of Directors by 30 June 2022. Mr Dheven Dharmalingam, the Chairman of the Audit Committee retired on 31 March 2022 having reached the 9 years rotation period after serving on the Board for 11 years.

Mr Chris Harvey, Board Secretary for 25 years retired on 31 March 2022 and Ms Thabisile Luthuli has been appointed as the Board Secretary effective 3 January 2022. Ms Thabisile Luthuli comes with a wealth of experience in both the financial services sector and public sector governance.

Board evaluations

During the year the Board performed an annual self-assessment evaluation. The self-assessments were collated by the Chairman and the results tabled at a meeting. The self-assessments displayed no weakness in the Board structure, member's attendance at meetings or the expertise, knowledge and valued input of individual directors.

Committees

The Board is supported by Board Committees and the responsibilities of each committee and the qualifications required for committee membership are clearly defined in a written charter approved by the Board. The details of the committee members are listed on page 4 of this annual report.

AUDIT COMMITTEE

The Bank's Audit Committee is well-established, with a written charter and chaired by a non-executive director. The charter was reviewed and approved during 2021. All members of the committee are non-executive directors with the majority independent. The Chairman is elected by the Board and appointments confirmed by the Shareholder at the Annual General Meeting.

The Committee met four times during the year with the Chief Executive Officer, Chief Financial Officer, Head of Compliance, Internal and External Auditors in attendance when necessary.

The Compliance Officer, internal and external Auditors and the Prudential Authority of the South African Reserve Bank have full access to this Committee. In addition, the Chairman may call in any other employee who is able to assist the Committee on an ad hoc basis.

The Committee's primary responsibilities and activities for 2021 are detailed in the Audit Committee report.

CAPITAL ADEQUACY AND RISK COMMITTEE

The Capital Adequacy and Risk Committee is well established with a written charter that clearly sets out its responsibility, authority and functions. The charter is reviewed annually by the Committee. The Board appointed the Chairman of the Committee. The Committee is made up of both Non-Executive and Executive Directors with an Independent Non-Executive Director being the Chairman. Four meetings were held during 2021 with attendance in accordance with requirements.

During the 2021 financial year, the Committee assisted the Board with the:

- Ongoing management of the capital requirements of the Bank to ensure that capital is maintained to meet future growth after taking into account stress-testing scenarios. Despite the economic challenges, the capital adequacy ratio maintained by the Bank was above the prudential 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.
- Identification of the buildup and concentration of various risks to which the Bank is exposed.
- Monitoring the risk mitigation strategy to ensure that the Bank manages risk in an optimal manner. A comprehensive risk management framework is in place that formalizes the management of risk. The framework, including the role of the Asset and Liabilities Committee and Risk Management Committee; the application and reporting on risks are detailed in the risk management section.

DIRECTORS' AFFAIRS COMMITTEE

The Directors' Affairs Committee has a written charter that clearly sets out its responsibility, authority and functions. The charter is reviewed annually. The Board appointed the Chairman of the Committee. The Committee consists of Non-Executive Directors. In terms of the charter two meetings were held during 2021, with the CEO and CFO invited to attend. Attendance at these meetings was in accordance with requirements.

During the 2021 financial year, the Committee assisted the Board:

- Monitoring of director's declaration with regards 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.
- Reviewed the annual self-assessment of the Board of Directors as a whole and of the contribution of each individual Director.
- Confirmed the classification of the Bank's prescribed officers, as envisaged in the Companies Act, 2008.
- Evaluate the adequacy, efficient and appropriateness of the corporate governance structures and practices of the Bank.

SOCIAL, ETHICS AND CONDUCT COMMITTEE

Social, Ethics and Conduct Committee is well established with a written charter that clearly sets out its responsibility, authority and functions. The charter is reviewed annually. The Board appointed the Chairman of the Committee who is an Independent Non-Executive Director. The Committee comprising Directors and management. In terms of the charter two meetings were held during 2021 with attendance in accordance with requirements.

During the 2021 financial year, the Committee assisted the Board with the:

- Monitoring of the Banks activities with regards to social and economic development, business conduct, transformation, market conduct including the customer complaints process, ethics, corporate social investments.
- Ensured management has implemented effective staff training on the above topics plus Fraud Prevention, Data protection, Treat Customers Fairly (TCF), and Information Security.
- Report to the shareholders at the Bank's AGM on the matters within its mandate.

The Bank's strong culture of entrenched values remains to commend the high standards of integrity, behavior and ethics in dealing with all its internal and external stakeholders both in and outside the Bank. These values apply to all personnel at the Bank, with personnel expected at all times to observe their ethical obligation in such a way as to carry on business through fair commercial competitive practices.

The Committee is satisfied that it has fulfilled its duties and responsibilities in accordance with the terms of reference for the 2021 financial year; there were no instances of material non-compliance to disclose and appropriate systems and internal controls are in place to facilitate compliance with relevant legislation and prevailing codes of best practice.

REMUNERATION COMMITTEE

The Committee has a written Charter that sets out its responsibility, authority and functions. The Charter is reviewed annually. The Board appointed the Chairman of the Committee who is an Independent Non-Executive Director. The Bank's Remuneration Committee comprises of independent non-executive Directors. The Committee met once during 2021 to determine salary structures and staff policies that ensure the Directors, executive management and staff are rewarded fairly for their individual contributions to the Bank's overall performance.

During the 2021 financial year, the Committee assisted the Board with the:

- Preparation of the remuneration report, to ensure that it is accurate, complete and transparent; provides a clear explanation of how the remuneration policy has been implemented; and provides sufficient information for the shareholders to pass a special resolution approving the directors' remuneration S66(9) of the Companies Act, 2008).
- Advising on the remuneration of non-executive directors.
- Monitoring of the completion of performance reviews and approval of salary increments for the ensuing year.
- Representing nomination committee of the Board for the appointment of key positions of the Bank.

COMPANY SECRETARY

The Board appointed Ms Thabisile Luthuli as the Company Secretary effective 3 January 2022. Ms Thabisile Luthuli is suitably qualified with years of experience as a Board Secretary. The Company Secretary is responsible for the duties as stipulated in Section 88(2)(e) of the Companies Act 71 of 2008 as amended. The Board recognises the pivotal role the Secretary plays in the Corporate Governance process and is thus empowered by them to ensure these duties are properly fulfilled.

In addition to 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 and Vice Chairman in determining the annual Board plan.
- Ensure that the Directors are aware of legislation relevant to the Bank.

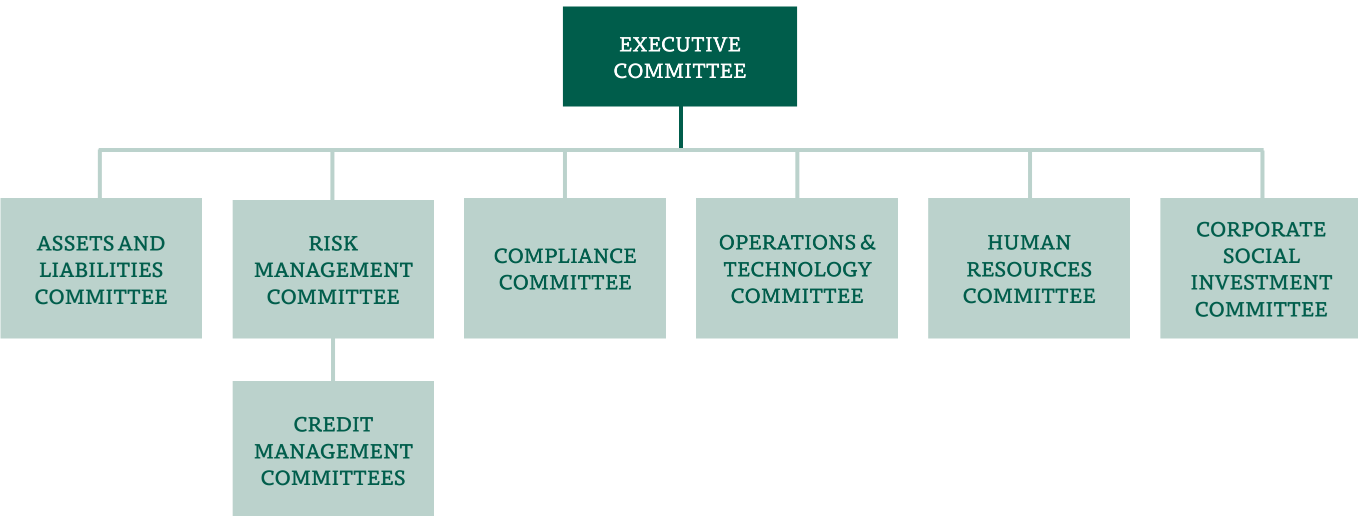
All Directors have access to the advice and services of the Company Secretary whose appointment is a matter for the Board as a whole. The contact details of the Company Secretary are provided in the Directors' report.

CREDIT MANAGEMENT COMMITTEES

Credit Committees comprising senior management as well as Executive Directors operate at various levels within the Bank. These Committees, operating within clearly defined exposure limits and rules stipulated by the Board, review and approve all exposures to clients and potential clients.

EXECUTIVE COMMITTEES

Other executive committees vital to the application of sound governance principles within the Bank are:



- The Executive Committee (EXCO) is chaired by the CEO and made up of the CFO, COO, Head of Risk, Head of Compliance with the Head of Corporate Governance as an attendee.
- The Assets and Liabilities Committee (ALCO) is chaired by the CFO.
- The Risk Management Committee (RMC) is chaired by the Head of Credit and Chief Risk Officer.
- Credit Committees: these committees are chaired by various directors, the CEO and senior Group personnel.
- The Compliance Committee is chaired by the Head of Compliance.
- The Operations & Technology Committee (OTCO) is chaired by the COO.
- The Human Resources Committee is chaired by the CEO.
- The Corporate Social Investment (CSI) Committee is chaired by an Independent non-executive Director.

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

COMPLIANCE

The Bank has an independent compliance function responsible for guiding management to ensure that the Bank complies with the letter and spirit of all statutes, regulations, supervisory requirements and industry codes of conduct, which apply to the Bank's businesses. The compliance department has implemented and developed effective processes to address compliance issues within the Bank and has unrestricted access to the Chairman of the Audit Committee and Chairman of the Board. The role of the compliance department is elaborated on in the Risk Management section of this annual report.

INTERNAL CONTROL

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

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

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

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

INTERNAL AUDIT

The Bank's independent internal audit function exists to assist management in discharging their responsibility effectively. This department has senior, suitably qualified and experienced staff whose functions comply with international standards.

Internal audit operates independently from Executive Management and has unrestricted access to the Chairman of the Audit Committee 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 Supervision and Exchange Control Departments of the South African Reserve Bank, the Prudential Authority, 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 knowledge and insight is gained to maintain sound internal controls to operate within the regulatory framework.

PUBLIC DISCLOSURE OBLIGATIONS

The Bank has a disclosure policy in place to ensure that the Bank complies with all relevant public disclosure obligations as required by regulation. Both quarterly and half yearly disclosures are published on the Banks website. In addition, the annual report of the Bank and its holding company, Habib Bank AG Zurich, are published on the website.

EMPLOYEE PARTICIPATION AND SKILLS

The Bank recognises the importance of employee participation in the maintenance of standards and general well-being of the Bank, as ultimately our success depends on our employees working together in the interest of our clients.

Remuneration report

1. REMUNERATION COMMITTEE

The Remuneration Committee (Remcom) is a sub-Committee of the Board and comprises of Non-Executive Directors. The following Directors are currently members of the Committee:

- Mr O Grobler (Chairman)
  Non-Executive Director
- Mr D Dharmaligam
  Non-Executive Director
- Ms N Mnxasana
  Non-Executive Director

The Remcom members are also members of the Capital Adequacy and Risk Committee and Audit Committee to ensure that the Remcom is able to monitor key risk trends at the Bank.

The Chief Executive Officer (CEO), Secretary to the Board and the Human Resources Manager attend the meetings of the Committee by invitation to advise on remuneration and other related matters. The Committee functions in terms of a charter formally approved by the Board and its main responsibilities are summarized as follows:

- Oversee the setting and administering of remuneration at all levels in the bank;
- Oversee the establishment of a remuneration 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 Prudential Authority 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; and
- To make recommendation to the Board on the remuneration to be paid to Non-Executive Directors.

The Committee met once during the year. The Committee is satisfied that it has discharged its responsibilities for the period under the review in compliance with its terms of reference.

2. STRUCTURE OF REMUNERATION

Fixed pay

Fixed pay is intended to attract and retain employees by ensuring competitive positioning in the relevant market place. The fixed pay includes an annual bonus paid each year in December and is calculated at one month's salary. Our philosophy continues to be a "cost to company" fixed pay, where a cash sum is delivered from which both compulsory benefits (typically insurances and provident fund) and optional benefits are deducted. Fixed pay is normally reviewed annually, at year end, and market data is used to benchmark competitive pay levels.

Benefits

Benefit programmes are intended to provide core benefits such as medical and other insurances and retirement benefits. Retirement benefits are provided on a defined contribution basis linked to fixed pay. Benefits are provided in line with local market practice and regulatory requirements.

Variable pay

The Bank does not have an incentive scheme based on performance, nor does it offer share options or deferred bonus schemes.

3. NON-EXECUTIVE DIRECTORS

Terms of service

All Non-Executive Directors are provided with a letter of appointment setting out the terms of their engagement.

In terms of the Board Charter, Non-Executive Directors are required to retire at 70 or if they have served on the Board for a period of 9 years. The Board however is able to extend the tenure of Directors where they deem necessary.

Directors are appointed by the shareholder at the 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 then offer themselves for re-election by shareholders. In addition, Directors comprising one third of the number on Non-Executive Directors are required to retire at each AGM and may stand for re-election. If recommended by the Directors' Affairs Committee and supported by the Board, the Board then proposes their re-election to shareholders.

There is no limitation on the number of times a Non-Executive Director may stand for re-election. Proposals for re-election are based on individual performance and contribution, both of which are reviewed by the Directors' Affairs Committee.

Fees

Independent Non-Executive Directors receive fixed fees for service on the Board and Board Committees. Non-Executive Directors do not receive any form of incentive. Remcom reviews the fees paid to Independent Non-Executive Directors annually and makes recommendations to the Board for consideration.

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

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

Fees are paid quarterly in arrears, with any increased fee amount only being paid once approved by shareholders for the period agreed.

Report of the audit committee

This report is provided by the Audit Committee, in respect of the 2021 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 King Report on Corporate Governance.

Details on the composition of the Audit Committee are detailed on page 4 of this annual report, while the Corporate Governance report on pages 18 to 22 provides further information on the workings of the Committee.

EXECUTION OF FUNCTIONS

During the 2021 financial year the Audit Committee has conducted its affairs in compliance with, and discharged its responsibilities in terms of its charter as they relate to the Bank's accounting, internal and external audit, internal control and financial reporting practices. The terms of reference were reviewed and approved during the year.

During the year under review the Committee, amongst other matters, considered the following:

1. In respect of the Integrated Assurance Model:
    - further progress was made in embedding an integrated assurance model to provide a coordinated approach to all assurance activities.
    - the journey of an integrated assurance will continuously evolve as the process matures, with the ultimate objective of ensuring an effective control environment along with supporting the integrity of information for internal decision making.
2. In respect of the external auditors and the external audit:
    - recommended the reappointment of KPMG as external auditors for the year ended 31 December 2021;
    - in consultation with executive management approved the external auditor's terms of engagement, audit plan and fees;
    - held meetings with the external auditors;
    - reviewed the audit plan and evaluated the effectiveness of the audit;
    - reviewed significant issues raised in the external audit report and the adequacy of management's corrective action in response to such findings;
    - obtained assurance from the auditors that their quality standards and independence were not impaired as set out by IRBA as well as other regulatory authorities, including their internal processes;
    - confirmed that no non-audit services had been provided by the external auditors during the year under review;
    - obtained assurances from KPMG that adequate accounting records were maintained;
    - considered the external audit report section on the Bank's systems of internal control;
    - confirmed that no reportable irregularities were identified and reported by the external auditors in terms of the Auditing Professions Act 26 of 2005.
3. In respect of internal controls and internal audit:
    - the 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, local internal audit plan, and evaluated the effectiveness of the audit;
    - held meetings with the Group internal auditors and reviewed the audit plan for the Bank;
    - considered reports of the internal auditors on the Bank's systems of internal control;
    - reviewed significant issues raised by internal audit and the adequacy of management's corrective action in response to such findings;
    - noted that there were no significant differences of opinion between the internal audit function and management;
    - assessed the adequacy of the performance of the internal audit function and adequacy of the available internal audit resources and found them to be satisfactory; and
    - received assurance that proper and adequate accounting records were maintained and that the systems safeguarded the assets against unauthorised use or disposal thereof.

    Based on the above, the Committee is of the opinion that at the date of this report there was no material breakdown in internal control that resulted in a material loss to the Bank.
4. In respect of the financial statements:
    - confirmed the going concern principle as the basis of preparation of the annual financial statements;
    - received assurance from the finance function that the internal financial controls are effective;
    - reviewed and recommended the annual financial statements to the Board for approval;
    - reviewed reports on the adequacy of the portfolio and specific bad debt impairments;
    - ensured that the annual financial statements fairly present the financial position of the Bank as at the end of the financial year;
    - considered the appropriateness of accounting treatments and the accounting policies adopted;

- reviewed and discussed the external auditors' audit report;
- • considered and made recommendations to the Board on the dividend payment to shareholders after ensuring solvency and liquidity requirements were met;
- noted that there were no material adverse reports or complaints received concerning accounting practices, internal audit, internal financial controls, content of annual financial statements, internal controls and related matters.

5. In respect of legal and regulatory requirements to the extent that they may have an impact on the financial statements:

- reviewed with management, matters that could have a material impact on the Bank;
- monitored compliance with the Companies Act, Banks Act, all other applicable legislation and governance codes;

6. In respect of risk management and IT:

- considered and reviewed reports from management on risk management, including IT risks as they pertain to financial reporting and the going-concern assessment;
- the Chairman is a member of and attended the Risk and Capital Adequacy Committee and attended all meetings held during the year under review.

7. In respect of the finance function:

- considered the expertise, resources, experience and succession plan of the members of the finance function and concluded that these were appropriate;
- considered the appropriateness of the experience and expertise of the Chief Financial Officer and concluded that these were appropriate.

8. In respect of the compliance function:

- reviewed and recommended the Compliance Charter and annual Compliance and Monitoring plan;
- reviewed the findings by the Regulators and ensured management action was appropriate;
- evaluated the effectiveness and performance of the compliance function and concluded that these were appropriate.

In conclusion, the Committee is satisfied that it has fulfilled its responsibilities and complied with its legal, regulatory and governance responsibilities as set out in its charter.

On behalf of the Audit Committee

D Dharmalingam
Chairman

Directors' approval of the Annual Financial Statements

RESPONSIBILITY FOR THE ANNUAL FINANCIAL STATEMENTS

The Directors are responsible for the preparation and fair presentation of the annual financial statements of HBZ Bank Limited, comprising the statement of financial position at 31 December 2021, the statement of profit or loss and other comprehensive income, changes in equity and cash flows for the 2021 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; and
- The financial statements fairly present the financial position of HBZ Bank Limited at 31 December 2021 and its financial performance and cash flows for the year then ended.

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

GOING CONCERN

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

FINANCIAL STATEMENTS

The annual financial statements of HBZ Bank Limited and the Directors' report appearing on pages 32 to 80 were approved by the Board of Directors on 31 March 2022 and are signed on its behalf by:

Muhammad H. Habib	**Oscar D. Grobler**
Chairman	Vice-chairman/ Lead Independent Director

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
Durban

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 Yusuf Dockrat, the Chief Financial Officer, who is a qualified Chartered Accountant.

General information

Country of incorporation and domicile	South Africa	
Directors	MH Habib	(Chairman)
	O D Grobler	(Lead Independent Director)
	D Dharmalingham	
	Y D Singh	
	NP Mnxasana	(appointed 1 June 2020)
	A Iqbal	(British)
	ZA Khan	
Registered office	Umhlanga Arch, Level 4, 1 Ncondo Place, Umhlanga Ridge Durban, KwaZulu-Natal, 3630	
Holding company	Habib Bank AG Zurich incorporated in Switzerland	
Auditors	KPMG Inc. Chartered Accountants (SA) Registered Auditor	
Secretary	T Luthuli	(appointed 3 January 2022)
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 Kaamil Motala CA(SA); C.Sb(SA); PB(SA), under the supervision of Yusuf Dockrat CA(SA) who is the Chief Financial Officer of HBZ Bank Limited.	

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 32 to 80, which comprise the statement of financial position as at 31 December 2021, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and the notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of HBZ Bank Limited as at 31 December 2021, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the 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 2021" 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 and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism 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 27 years.

KPMG Inc.
Registered Auditor

Per JN Pierce

Chartered Accountant (SA)
Registered Auditor
Director
25 April 2022

6 Nokwe Avenue
Umhlanga Ridge
Durban
4319

Report of the Directors

The Board of Directors takes pleasure in presenting the Annual Financial Statements for the year ended 31 December 2021.

HOLDING COMPANY

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

NATURE OF BUSINESS

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

AUTHORISED AND ISSUED SHARE CAPITAL

No additional shares were authorised or issued during the year.

FINANCIAL RESULTS

The results of the Bank are set out in the accompanying financial statements and notes. Profit for the year after tax is R86.2m (2020: R79.2m).

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:

	2021	2020
GENERAL RESERVE	R	R
Transfer made	-	82 000 000
DIVIDEND		
Dividend distributed	50 000 000	45 000 000

On 31 March 2022 the Board declared a dividend of R50 million ,which includes dividends withholding tax of R2.5 million.

EVENTS AFTER THE REPORTING PERIOD

The Directors are not aware of any adjusting events after the reporting date of 31 December 2021 and the date of authorisation of these financial statements.

DIRECTORS AND SECRETARY

Details of the directors are reflected on page 4 of this report. In accordance with the Bank's articles of association, Section 85, Mr. D Dharmalingam retires by rotation. The 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.

Muhammad H. Habib

Chairman

Oscar D. Grobler

Vice-chairman/
Lead Independent Director

Statement of financial position

As at 31 December 2021

	NOTES	2021 R'000	2020 R'000
ASSETS			
Cash and cash equivalents	1	1 817 201	2 096 098
Investment securities	2	3 843 478	2 539 801
Other assets	3	15 563	7 119
Derivative assets held for risk management	4	10 849	51 193
Advances	5	2 134 118	2 036 782
Property and equipment	7	65 002	56 037
Investment property	8	8 371	8 426
Right-of-use assets	9	19 492	18 359
Deferred tax assets	11	8 393	11 913
Total Assets		7 922 467	6 825 728
EQUITY AND LIABILITIES			
Capital and reserves		585 351	549 188
Ordinary share capital	12	10 000	10 000
Share premium	12	40 000	40 000
General reserve	13	448 617	448 617
Retained earnings		86 734	50 571
LIABILITIES		7 337 116	6 276 540
Deposits and borrowings	14	7 291 029	6 183 301
Provisions	15	7 069	10 590
Other liabilities	16	6 266	11 457
Derivative liabilities held for risk management	17	10 577	50 338
Lease liabilities	10	22 175	20 854
Total Equity and Liabilities		7 922 467	6 825 728

Statement of profit or loss and other comprehensive income

For the year ended 31 December 2021

	NOTES	2021 R'000	2020 R'000
Interest income calculated using the effective interest method	18	350 671	410 509
Interest expense	19	(111 983)	(144 413)
Net interest income		238 688	266 096
Commissions and fees	20	37 832	40 913
Other operating income	21	17 809	15 668
Net interest and other operating income		294 329	322 677
Impairment reversals/(losses) on financial instruments	6	6 495	(21 122)
		300 824	301 555
Operating expenses	22	(180 180)	(192 550)
Profit before taxation		120 644	109 005
Taxation	24.1	(34 481)	(29 789)
Profit for the year		86 163	79 216
Other comprehensive income		-	-
Total comprehensive income for the year		86 163	79 216

Statement of changes in equity

For the year ended 31 December 2021

	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 2019		10 000	40 000	366 617	98 355	514 972
Total profit and comprehensive income for the year		-	-	-	79 216	79 216
Ordinary dividends	25	-	-	-	(45 000)	(45 000)
Increase in general reserve		-	-	82 000	(82 000)	-
Balance at 31 December 2020		10 000	40 000	448 617	50 571	549 188
Total profit and comprehensive income for the year		-	-	-	86 163	86 163
Ordinary dividends		-	-	-	(50 000)	(50 000)
Increase in general reserve		-	-	-	-	-
Balance at 31 December 2021		10 000	40 000	448 617	86 734	585 351

Statement of cash flows

For the year ended 31 December 2021

	NOTES	2021 R'000	2020 R'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers	27.1	401 930	461 889
Cash paid to customers, employees and suppliers	27.2	(294 435)	(325 941)
Cash available from operations	27.3	107 495	135 948
Increase in advances		(91 186)	(147 992)
Increase in deposits and borrowings		1 107 728	853 064
Taxation paid	27.4	(30 879)	(31 036)
Increase in sundry debtors		(1 449)	(93)
Decrease/(increase) in derivatives held for risk management	27.5	583	(156)
Dividends paid	25	(50 000)	(45 000)
Net cash inflow from operating activities		1 042 292	764 735
CASH FLOWS FROM FINANCING ACTIVITIES			
Lease repayment		(7 735)	(8 241)
Net decrease in financing activities		(7 735)	(8 241)
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in investment securities		(1 304 510)	(594 622)
Capital expenditure on property and equipment		(15 718)	(43 268)
Proceeds on disposal of property and equipment		2 392	867
Cash utilised in investing activities		(1 317 836)	(637 023)
(Decrease)/increase in cash and cash equivalents		(283 279)	119 471
Cash and cash equivalents at the beginning of year		2 096 098	1 971 426
Effect of exchange rate fluctuations on cash and cash equivalents held		4 382	5 201
Cash and cash equivalents at end of year		1 817 201	2 096 098

Accounting policies

For the year ended 31 December 2021

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, KwaZulu-Natal, South Africa, and 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 International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB), and the requirements of the Companies Act of South Africa of 2008. They were authorised for issue by the Bank's Board of Directors on 31 March 2022.

(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) Use of 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 amounts of assets, 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 consolidated financial statements is included in the following notes.

Note 30: 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 ECL and selection and approval of models used to measure ECL.

Notes 30: 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 SPPI on the principal amount outstanding.

Assumptions and estimation uncertainties

Information about assumptions and estimation 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:

Notes 30: 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.

Note 11: recognition of deferred tax assets: availability of future taxable profit against which deductible temporary differences and tax losses carried forward can be utilised.

(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
Investment Securities	Amortised Cost
Derivative assets held for risk management	Fair Value
Advances	Amortised Cost

(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 2021 and earlier application is permitted; however, the Bank has not early adopted the new and amended standards in preparing these consolidated financial statements.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)

The amendments narrow the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences – e.g. leases. The amendments apply for annual reporting periods beginning on or after 1 January 2023. For leases, the associated deferred tax asset and liabilities will need to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. For all other transactions, the amendments apply to transactions that occur after the beginning of the earliest period presented.

The Bank accounts for deferred tax on leases applying the 'integrally linked' approach, resulting in a similar outcome to

For the year ended 31 December 2021

the amendments, except that the deferred tax impacts are presented net in the statement of financial position. Under the amendments, the Bank will recognise a separate deferred tax asset and a deferred tax liability. As at 31 December 2021, the taxable temporary difference in relation to the right-of-use asset is R 5 458 thousand (see Note 11)) and the deductible temporary difference in relation to the lease liability is R 6 209 thousand (see Note 11), resulting in a net deferred tax asset of R52 thousand (see Note 11)). Under the amendments, the Bank will present a separate deferred tax liability of R 318 thousand and a deferred tax asset of R 370 thousand. There will be no impact on retained earnings on adoption of the amendments.

Amendment to IFRS 16, 'Leases' – Covid-19 related rent concessions

Effective date: annual periods beginning on or after 1 June 2020

As a result of the coronavirus (COVID-19) pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. On 28 May 2020, the IASB published an amendment to IFRS 16 that provides an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs.

The Bank has not applied this practical expedient.

IFRS 17, 'Insurance contracts'

Effective date: annual periods beginning on or after 1 January 2023

This standard replaces IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.

The bank does not anticipate a material change in accounting treatment.

Amendments to IFRS 17 and IFRS 4, 'Insurance contracts' deferral of IFRS 9

Effective date: annual periods beginning on or after 1 January 2021

These amendments defer the date of application of IFRS 17 by 2 years to 1 January 2023 and change the fixed date of the temporary exemption in IFRS 4 from applying IFRS 9, Financial instrument until 1 January 2023.

The Bank has not early adopted this standard

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2

Effective date: annual periods beginning on or after 1 January 2021

The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one.

The Bank does not apply hedge accounting therefore not applicable to The Bank.

Amendments to IAS 1, Presentation of financial statements' on classification of liabilities

Annual periods beginning on or after 1 January 2022

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 Bank's current classification of liabilities is in line with the clarified definitions.

3. ADOPTION OF NEW AND REVISED STANDARDS

In the current year, the Bank has not adopted new or revised standards.

4. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Foreign currency transactions

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

(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:

For the year ended 31 December 2021

- the gross carrying amount of the financial asset; or
- 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 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.

For information on when financial assets are credit-impaired, see Note 30.

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 and;
- negative interest on financial liabilities measured at amortised cost.

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 and;
- negative interest on financial assets measured at amortised cost,

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.

(c) Net non-interest revenue

Fee and commission income 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.

Net income from other financial instruments at FVTPL relates to non-trading derivatives held for risk management purposes that do not form part of qualifying hedging relationships, financial assets and financial liabilities designated as at

For the year ended 31 December 2021

FVTPL and also non-trading assets mandatorily measured at FVTPL. This includes fair value changes and foreign exchange differences.

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

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.

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.

For information on when financial assets are credit-impaired, see Note 4(d)(vii).

ii. Classification

Financial assets

The Bank classifies its financial assets in the following categories: amortised cost and financial assets at fair value through profit or loss (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; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

Advances and investment securities are classified as held at amortised costs.

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

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.

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.

For the year ended 31 December 2021

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

The Bank classifies its financial liabilities, namely deposits and borrowings; derivative liabilities and other liabilities that are financial instruments, as measured at amortised cost or FVTPL.

iii. Derecognition

The Bank derecognises a financial asset when:

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

The Bank derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

iv. 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.

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; and
- 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

The Bank derecognises a financial liability 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 floating-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 principle 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 Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if 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, then the Bank uses valuation techniques 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

Financial instruments for which lifetime ECL are recognised and that are credit impaired are referred to as stage 3 financial instruments. The Bank recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- Placements with other banks;
- Investment in sovereign debt;
- Advances;
- financial guarantee contracts issued; and
- loan commitments issued.

The Bank measures loss allowances 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 is recognised are referred to as 'Stage 1 financial instruments'.

Life-time 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'.

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.

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 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.
- 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 (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.

For the year ended 31 December 2021

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; or
- 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;
- Off-balance sheet items: 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

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 hedge its exposure to foreign currency risk arising from operational activities.

Derivative financial instruments are recognised initially at the transaction price which 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) Share capital

Ordinary shares

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

(f) 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.

(g) Advances

The 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 advances caption in the statement of financial position includes:

- Islamic Advances in terms of Murabaha and Musharakah arrangements.

For the year ended 31 December 2021

- Loans and advances 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.

(h) 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.

(i) Property and equipment

i. Recognition and measurement

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

ii. Subsequent costs

The Bank recognises, in the carrying amount of an item of property and equipment, the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied in the item will flow to the Bank and the cost of the item can be measured reliably. All other costs are recognised in the statement of profit or loss and other comprehensive income as an expense as incurred. 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 is subject to impairment testing. The depreciation rates are as follows:

Buildings	5% per annum
Leasehold improvements	20% per annum
Capital improvements	20% per annum
Furniture	15% per annum
Computer and office machines	25% per annum
Motor vehicles	20% per annum

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

The Bank has estimated the residual value on buildings and found that it is greater than cost. Depreciation has therefore not been raised on these assets.

Gains and losses on disposal of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment and are recognised in profit or loss in the year in which they arise.

(j) Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation (including property under construction for such purposes), is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at cost less accumulated depreciation and accumulated impairment. Should an indicator of impairment exists, HBZ Bank will follow the impairment accounting policy as stipulated in the PPE accounting policy. 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.

(k) Impairment of property and equipment

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. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Reversals of impairment

Where 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 which 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; and
- 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.

Whenever the Bank incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of use asset, the costs are included in the related right-of-use asset.

For the year ended 31 December 2021

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).

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Bank has not used this practical expedient. For contracts that contain a lease component and one or more additional lease or non-lease components, the Bank allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Bank as lessor

The Bank enters into lease 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.

Amounts due from lessees under finance leases are recognised as receivables.

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) Deposits and borrowings

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 agreements.

(n) 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 and leave pay provisions.

(o) 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 and
- The amount initially recognised less cumulative income recognised in accordance with IFRS 15

Other loan commitments issued are measured at the sum 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. Derecognition policies in are applied to loan commitments issued and held.

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

(p) 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.

For the year ended 31 December 2021

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.

(q) 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 and whether additional tax and interest may be due. This assessment relies on estimates and assumptions and may involve series of judgements about future events. New information may become available that causes the bank to change its judgement regarding the adequacy of existing liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

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 and
- the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority.

(r) Earnings per share

The Bank presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

(s) 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.

(t) Related party transactions

Related parties include the holding company of HBZ Bank Limited, Habib Bank AG Zurich, its fellow subsidiaries and associate companies and Directors of HBZ Bank Ltd, as well as their close family members. All related party transactions have taken place in the ordinary course of business. Balances with related parties are included under note 32.

For the year ended 31 December 2021

		2021 R'000	2020 R'000
1.	CASH AND CASH EQUIVALENTS		
	Balances with central bank other than the mandatory reserve balance	73 098	65 486
	Cash on hand	3 153	3 301
	Mandatory reserves with central bank	132 707	105 464
	Balances with other banks	1 615 842	1 929 879
	Less: ECL on performing cash and cash equivalents (stage 1)	(7 599)	(8 032)
	Cash and cash equivalents after ECL	1 817 201	2 096 098
	Maturity analysis		
	On demand to one month	1 025 512	1 145 470
	One month to six months	248 959	546 857
	Six months to one year	542 730	403 771
	Greater than one year	-	-
		1 817 201	2 096 098

2.	INVESTMENT SECURITIES		
	Treasury bills	3 846 012	2 541 502
	Less: ECL on performing investment securities (stage 1)	(2 534)	(1 701)
		3 843 478	2 539 801
	Maturity analysis		-
	On demand to one month	172 473	164 060
	One month to six months	1 803 880	888 322
	Six months to one year	1 867 125	1 487 419
	Greater than one year	-	-
		3 843 478	2 539 801

3.	OTHER ASSETS		
	Prepayments	9 471	2 476
	Sundry debtors	6 092	4 643
		15 563	7 119

4.	DERIVATIVE ASSETS HELD FOR RISK MANAGEMENT		
	Forward exchange contracts	10 849	51 193
		10 849	51 193

For the year ended 31 December 2021

		2021 R'000	2020 R'000
5.	ADVANCES		
	Overdrafts	319 496	368 889
	Loans	1 847 787	1 684 385
	Staff loans	3 953	3 935
	Commercial loans	1 737 957	1 554 343
	Trust receipts	105 877	126 107
	Bills receivable	-	22 823
		2 167 283	2 076 097
	Stage 3 Expected Credit Losses	(27 398)	(23 766)
	Stage 2 Expected Credit Losses	(2 053)	(8 390)
	Stage 1 Expected Credit Losses	(3 714)	(7 159)
		2 134 118	2 036 782
	Maturity analysis		
	On demand to one month	713 737	557 139
	One month to six months	316 292	275 515
	Six months to one year	185 922	161 358
	Greater than one year	918 167	1 042 770
		2 134 118	2 036 782

Interest rates charged on clients advances range between 4.5% and 12.5% during 2021.

Islamic Banking advances are included in advances.

		2021 R'000	2020 R'000
6.	IMPAIRMENT REVERSALS/(LOSSES) ON FINANCIAL INSTRUMENTS		
	Net impairments raised during the year		
	- Stage 3	(3 620)	(12 038)
	- Stage 2	6 368	(6 083)
	- Stage 1	3 311	(2 902)
		6 059	(21 023)
	Write-offs during the year	(2)	(99)
	Recoveries	438	-
		6 495	(21 122)

For the year ended 31 December 2021

7. PROPERTY AND EQUIPMENT

2021	COST R'000	ACCUMULATED DEPRECIATION R'000	CLOSING CARRYING VALUE R'000
Land and buildings	47 804	-	47 804
Furniture & fittings	5 170	(2 811)	2 359
Leasehold improvements	11 101	(10 309)	792
Capital improvements	9 034	(1 210)	7 824
Office equipment	5 458	(5 092)	366
Motor vehicles	2 740	(1 125)	1 615
Computers	14 339	(10 159)	4 180
Work-in-progress	62	-	62
	95 708	(30 706)	65 002

2020	R'000	R'000	R'000
Land and buildings	47 789	-	47 789
Furniture & fittings	4 823	(3 644)	1 179
Leasehold improvements	13 071	(10 815)	2 256
Capital improvements	552	(362)	190
Office equipment	6 824	(6 359)	465
Motor vehicles	4 012	(3 536)	476
Computers	15 382	(12 931)	2 451
Work-in-progress	1 231	-	1 231
	93 684	(37 647)	56 037

2021 MOVEMENTS	OPENING CARRYING VALUE R'000	ADDITIONS R'000	DISPOSALS R'000	DEPRECIATION R'000	CLOSING CARRYING VALUE R'000
Land and buildings	47 789	-	15	-	47 804
Furniture & Fittings	1 179	1 742	(121)	(441)	2 359
Leasehold improvements	2 256	78	(362)	(1 180)	792
Capital improvements	190	8 482	-	(848)	7 824
Office equipment	465	234	(27)	(306)	366
Motor vehicles	476	1 812	(292)	(381)	1 615
Computers	2 451	3 306	(42)	(1 535)	4 180
Work-in-progress	1 231	62	(1 231)	-	62
	56 037	15 716	(2 060)	(4 691)	65 002

2020 MOVEMENTS	R'000	R'000	R'000	R'000	R'000
Land and buildings	7 115	40 674	-	-	47 789
Furniture & Fittings	1 500	36	-	(357)	1 179
Leasehold improvements	3 894	21	-	(1 659)	2 256
Capital improvements	258	-	-	(68)	190
Office equipment	709	175	-	(419)	465
Motor vehicles	1 949	-	(830)	(643)	476
Computers	3 065	1 131	-	(1 745)	2 451
Work-in-progress	-	1 231	-	-	1 231
	18 490	43 268	(830)	(4 891)	56 037

Transfers from work-in-progress to other asset categories is reflected within disposals/additions of the respective category. The Bank reclassified improvements to Bank owned properties from Leasehold improvements to Capital improvements.

LAND AND BUILDINGS COMPRISE THE FOLLOWING:	ACQUISITION DATE:
1. Erf no. 1246, Jan Hofmeyr Road, Westville.	13 December 2004
2. Section numbers 15 and 28, Cedar Ridge, Jan Hofmeyr Road, Westville.	16 January 1996
3. Umhlanga Arch- Section 4008	13 March 2020
4. Umhlanga Arch- Section 3402	02 August 2020

For the year ended 31 December 2021

8. INVESTMENT PROPERTY

The Bank holds Unit 8 Zimbali Coastal Estate primarily for the collection of rental income. As such the building has been classified as Income Producing Real Estate (IPRE) and has been recognized under the Cost Model. Rental income for this property is not fixed and received on an ad-hoc basis.

	COST	ACCUMULATED DEPRECIATION	CLOSING CARRYINGVALUE
2021	R'000	R'000	R'000
Investment Property	8 486	(115)	8 371
2020	R'000	R'000	R'000
Investment Property	8 486	(60)	8 426

	2021 R'000	2020 R'000
CARRYING VALUE AS AT 1 JANUARY	8 426	8 483
Additions	7	-
Disposals	(5)	-
Depreciation	(57)	(57)
Carrying value as at 31 December	8 371	8 426
A breakdown of income earned and expenses incurred is provided below:		
- Rental income	764	144
- Direct operating expenses that generated rental income	(128)	(132)

Unit 8 Zimbali Coastal Estate was purchased during the 2019 financial year . The fair value of the property was determined to be R 8.5 million during the 2021 financial year.

For the year ended 31 December 2021

	2021 R'000	2020 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	18 359	27 253
Additions	8 535	-
Lease terminations	-	(1 403)
Modifications	(1 023)	(381)
Depreciation expense for the year ended	(6 379)	(7 110)
Net carrying amount as at 31 December	19 492	18 359

The lease agreement for Savanah Mall, Polokwane was cancelled as at 31 October 2021. The cancellation of the lease incurred restoration costs of R173 000.

Amounts recognized in profit or loss	2021 R'000	2020 R'000
Depreciation expense on right-of-use asset	6 379	7 110
Interest expense on lease liability	1 149	1 702
Expense relating to short-term leases	-	-
Expense relating to leases of low value assets	1 010	802
Net lease cancellation and right-of-use asset write off	-	(43)
Lease cancellation and restoration costs	173	450

At 31 December 2021 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.

The total cash outflow for the property leases amount to R 7.7 million (2020: R 8.2 million).

For the year ended 31 December 2021

	2021 R'000	2020 R'000
10. LEASE LIABILITIES		
Opening balance as at 1 January	20 854	29 220
Additions	8 535	-
Interest incurred on lease liability	1 149	1 702
Modifications	(628)	(381)
Lease terminations	-	(1 446)
Lease repayments	(7 735)	(8 241)
Net carrying amount	22 175	20 854
Amounts due for settlement within 12 months	5 243	5 640
Amounts due for settlement after 12 months	16 932	15 214
	22 175	20 854
Maturity analysis		
Not later than 1 year	6 212	6 892
Later than 1 year and not later than 5 years	17 914	17 138
Later than 5 years	718	390
Less future finance charges	(2 669)	(3 566)
Present value of lease obligations	22 175	20 854

For the year ended 31 December 2021, the average effective borrowing rate was linked to JIBAR at 4.20% (2020: 3.95%). 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 2021 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.

For the year ended 31 December 2021

		2021 R'000	2020 R'000
11.	**DEFERRED TAXATION**		
	Tax effect of timing differences between tax and book values of		
	- Impairment of doubtful advances	4 635	6 252
	- Other accruals and provisions	387	2 230
	- Fixed asset allowances	106	146
	- Right-of-use asset	(5 458)	(5 140)
	- Lease liability	6 209	5 839
	- Deferred loan origination fees	2 514	2 586
	Deferred taxation asset	8 393	11 913
	Deferred taxation reconciliation		
	Balance at beginning of year	11 913	8 273
	Current year temporary differences	(3 520)	3 640
	- Impairment of doubtful advances	(1 617)	2 141
	- Other accruals and provisions	(1 842)	338
	- Fixed asset allowances	(41)	982
	- Right of use asset	(318)	2 490
	- Lease liability	370	(2 342)
	- Deferred loan origination fees	(72)	31
	Balance at the end of the year	8 393	11 913

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 par value ordinary shares of R1 each issued at R5 each		
	10 000 000 Ordinary shares of R1 each	10 000	10 000
	Share premium on 10 000 000 Ordinary shares	40 000	40 000

For the year ended 31 December 2021

		2021 R'000	2020 R'000
13.	**NON-DISTRIBUTABLE RESERVES**		
	General reserve	448 617	448 617

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. Please refer to note 33 for further details on capital risk.

		2021 R'000	2020 R'000
14.	**DEPOSITS AND BORROWINGS**		
	Deposits and loans from banks	104 400	122 020
	Demand deposits	3 315 170	2 653 199
	Savings deposits	541 161	432 383
	Fixed deposits	1 935 864	2 138 470
	Notice deposits	1 394 434	837 229
		7 291 029	6 183 301
	Maturity analysis		
	On demand to one month	5 969 837	4 712 712
	One month to six months	765 049	850 661
	Six months to one year	556 143	619 928
	Greater than one year	-	-
		7 291 029	6 183 301

Islamic Banking deposits are included in deposits and other borrowings.

		2021 R'000	2020 R'000
15.	**PROVISIONS**		
	Provision for leave pay		
	Balance at beginning of year	9 178	7 937
	Provisions (released)/made during the year	(3 213)	1 241
	Balance at end of year	5 965	9 178
	ECL on off balance sheet items		
	Balance at beginning of year	1 412	694
	Stage 1 net movement	(266)	690
	Stage 2 net movement	(30)	16
	Stage 3 net movement	(12)	12
	Recoveries	-	-
	Balance at end of year	1 104	1 412
	Total provisions on statement of financial position	7 069	10 590

For the year ended 31 December 2021

		2021 R'000	2020 R'000
16.	**OTHER LIABILITIES**		
	Creditors	3 741	3 890
	Other payables	1 598	6 722
	Income tax payable	927	845
		6 266	11 457

		2021 R'000	2020 R'000
17.	**DERIVATIVE LIABILITIES HELD FOR RISK MANAGEMENT**		
	Forward exchange contracts	10 577	50 338

		2021 R'000	2020 R'000
18.	**INTEREST INCOME CALCULATED USING THE EFFECTIVE INTEREST METHOD**		
	Balances with other banks	64 687	121 038
	Advances	147 266	161 424
	Investment securities	138 718	128 047
		350 671	410 509

		2021 R'000	2020 R'000
19.	**INTEREST EXPENSE**		
	Deposits from banks	1 378	5 637
	Deposits from customers	110 605	138 776
		111 983	144 413

		2021 R'000	2020 R'000
20.	**COMMISSION AND FEES**		
	Commission income	11 981	11 882
	Fee Income	25 851	29 031
		37 832	40 913

		2021 R'000	2020 R'000
21.	**OTHER OPERATING INCOME**		
	Foreign exchange income	17 477	15 631
	Net profit on disposal of fixed assets	332	37
		17 809	15 668

For the year ended 31 December 2021

		2021 R'000	2020 R'000
22.	**OPERATING EXPENSES**		
	Operating expenses include :		
	Directors' remuneration (see note 23)	5 784	5 745
	Auditor's remuneration	1 212	2 036
	Statutory and regulatory audits	1 212	1 614
	Specific regulatory audits	-	422
	Depreciation	4 749	4 947
	Services rendered by group companies	32 240	48 157
	Retirement benefit costs	4 483	4 598
	- Key management personnel	1 052	549
	- Other personnel	3 431	4 049
	Equipment lease	1 010	802
	Staff costs	59 326	62 775

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

		2021 R'000	2020 R'000
23.	**DIRECTORS' AND PRESCRIBED OFFICERS REMUNERATION**		
	For services as a director and other services		
	Non-executive directors	1 674	1 802
	- O D Grobler	500	465
	- MY Chowdhury (resigned 30 April 2020)	-	190
	- HF Leenstra (deceased 7 April 2020)	-	164
	- D Dharmalingham	400	385
	- Y D Singh	400	380
	- NP Mnxasana (Appointed 1 June 2020)	374	218
	- MH Habib*	-	-

For the year ended 31 December 2021

	REMUNERATION	RETIREMENT BENEFITS	TOTAL REMUNERATION
2021 DIRECTORS EMOLUMENTS			
Executive directors	4 110	-	4 110
- ZA Khan - Chief Executive Officer	4 110	-	4 110
- A Iqbal*	-	-	-
Total directors' remuneration			5 784
Prescribed Officers	8 731	1 052	9 783
- Y Dockrat - Chief Financial Officer	2 034	278	2 312
- F Anwar - Chief Operating Officer	2 081	165	2 246
- K Maharaj - Chief Risk Officer	1 258	247	1 505
- C dT Harvey - Head of Corporate Governance (retired 31 March 2022)	1 829	152	1 981
- M Sewchuran - Head of Compliance	1 529	210	1 739
2020 DIRECTORS EMOLUMENTS			
Executive directors	3 943	-	3 943
- ZA Khan - Chief Executive Officer	3 943	-	3 943
- A Iqbal *	-	-	-
Total directors' remuneration	-	-	5 745
Prescribed Officers	9 330	550	9 880
- Y Dockrat - Chief Financial Officer	2 175	177	2 352
- F Anwar - Chief Operating Officer	1 774	87	1 861
- H Zia - Chief Risk Officer (retired 31 March 2021)	1 992	-	1 992
- K Maharaj - Chief Risk Officer (appointed 23 November 2020)	145	13	158
- C dT Harvey - Head of Corporate Governance	1 751	143	1 894
- M Sewchuran - Head of Compliance (appointed 14 January 2020)	1 493	130	1 623

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

- The Prescribed Officers of the Bank as approved by the Board, are the Chief Financial Officer, Chief Operating Officer, Chief Risk Officer, Head of Compliance and Head of Corporate Governance.
- 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.

For the year ended 31 December 2021

		2021 R'000	2020 R'000
24.	**TAXATION**		
24.1	**SOUTH AFRICAN NORMAL TAXATION**		
	- Current	30 600	32 557
	- Deferred	3 520	(3 641)
	- Prior year underprovision	361	873
	Total taxation	34 481	29 789
24.2	**RECONCILIATION OF TAX CHARGE**		
	SA Normal taxation	28,00%	28,00%
	Standard rate affected by:		
	- Permanent difference	0,58%	(0,67%)
	Effective rate - total taxation	28,58%	27,33%

Permanent differences relate to donations which do not qualify for S18A deductions.

		2021 R'000	2020 R'000
25.	**DIVIDENDS PER SHARE**		
	Final dividend of 500 cents per share (2020: 450 cents per share)	50 000	45 000
26.	**EARNINGS PER SHARE**		
	Earnings per share (cents)	862	792

The calculation of earnings per ordinary share is based on net income attributable to ordinary shareholders of R 86.2m (2020: R79.2m) and a weighted average of 10 000 000 (2020: 10 000 000) ordinary shares issued.

		2021 R'000	2020 R'000
27.	**CASH FLOW INFORMATION**		
27.1	**CASH RECEIPTS FROM CUSTOMERS**		
	Interest income	350 671	410 509
	Other income	51 259	51 380
		401 930	461 889

For the year ended 31 December 2021

		2021 R'000	2020 R'000
27.2	**CASH PAID TO CUSTOMERS, EMPLOYEES AND SUPPLIERS**		
	Interest expenses	(111 983)	(144 413)
	Other payments	(182 452)	(181 528)
		(294 435)	(325 941)

		2021 R'000	2020 R'000
27.3	**CASH AVAILABLE FROM OPERATIONS**		
	Profit before tax	120 644	109 005
	Adjusted for:		
	- Depreciation	4 748	4 948
	- Depreciation on right-of-use asset	6 379	7 110
	- Decrease and modification of right-of-use asset and lease liability	395	(43)
	- Effect of exchange rate fluctuations on cash and cash equivalents held	(4 382)	(5 201)
	- Impairment losses	(5 625)	21 123
	- Interest incurred on lease liabilities	1 149	1 702
	- Profit on disposal of property and equipment	(332)	(37)
	- Increase in prepayments	(6 995)	(498)
	- Decrease in creditors and other payables	(5 273)	(3 402)
	- (Decrease)/increase in provisions	(3 213)	1 241
		107 495	135 948

		2021 R'000	2020 R'000
27.4	**TAXATION PAID**		
	Amount (payable)/receivable at beginning of year	(845)	1 549
	Charge to profit or loss	(30 961)	(33 430)
	Amount payable at end of year	927	845
		(30 879)	(31 036)

		2021 R'000	2020 R'000
27.5	**DECREASE/(INCREASE) IN DERIVATIVES HELD FOR RISK MANAGEMENT**		
	Decrease/(Increase) in derivative assets	40 344	(31 136)
	(Decrease)/Increase in derivative liabilities	(39 761)	30 980
		583	(156)

For the year ended 31 December 2021

		2021 R'000	2020 R'000
28.	**LOAN COMMITMENTS AND FINANCIAL GUARANTEES**		
	Loan commitments	66 153	63 752
	Guarantees issued on behalf of customers	146 872	183 043
		213 025	246 795

Guarantees and loan commitments have fixed expiry dates. Since these commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements. These guarantees and loan commitments are on demand.

For details on the other off-balance sheet items, refer to note 30.1

		2021	2020
29.	**PRINCIPAL FOREIGN CURRENCY CONVERSION RATES**		
	One South African Rand equals		
	- Swiss Franc	0,058	0,060
	- United States Dollar	0,063	0,068
	- Pound Sterling	0,047	0,050
	- Emirati Dirham	0,231	0,251

30. RISK MANAGEMENT

30.1 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 local Central Credit Committee (CCC) monitors the Bank's credit portfolios, risk procedures, policies and credit standards.

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

For the year ended 31 December 2021

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 Banks participation in derivative contracts.

	2021			
	STAGE 1	STAGE 2	STAGE 3	TOTAL
BALANCES WITH OTHER BANKS	R'000	R'000	R'000	R'000
Grades 0: low to fair risk	1 824 800	-	-	1 824 800
Loss allowance	(7 599)	-	-	(7 599)
Carrying amount	1 817 201	-	-	1 817 201
ADVANCES AT AMORTISED COST				
Grade 0: Low to fair risk	2 008 748	-	-	2 008 748
Grade 1: Monitoring	-	82 964	-	82 964
Grade 2: Substandard	-	-	7 777	7 777
Grade 3: Doubtful	-	-	19 077	19 077
Grade 4 - 10: Loss	-	-	48 717	48 717
	2 008 748	82 964	75 571	2 167 283
Loss allowance	(3 714)	(2 053)	(27 398)	(33 165)
Carrying amount	2 005 034	80 911	48 173	2 134 118
INVESTMENT SECURITIES AT AMORTISED COST				
Grade 0: Low to fair risk	3 846 012	-	-	3 846 012
Loss allowance	(2 534)	-	-	(2 534)
Carrying amount	3 843 478	-	-	3 843 478
FINANCIAL GUARANTEE CONTRACTS				
Grade 0: Low to fair risk	212 479	-	-	212 479
Grade 1: Monitoring	-	546	-	546
Grade 2: Substandard	-	-	-	-
Loss allowance	(1 102)	(2)	-	(1 104)
Carrying amount	211 377	544	-	211 921

For the year ended 31 December 2021

	2020			
	STAGE 1	STAGE 2	STAGE 3	TOTAL
BALANCES WITH OTHER BANKS	R'000	R'000	R'000	R'000
Grades 0: low to fair risk	2 104 130	-	-	2 104 130
Loss allowance	(8 032)	-	-	(8 032)
Carrying amount	2 096 098	-	-	2 096 098
ADVANCES AT AMORTISED COST				
Grade 0: Low to fair risk	1 665 636	-	-	1 665 636
Grade 1: Monitoring	-	321 844	-	321 844
Grade 2: Substandard	-	-	23 402	23 402
Grade 3: Doubtful	-	-	33 438	33 438
Grade 4 - 10: Loss	-	-	31 778	31 778
	1 665 636	321 844	88 618	2 076 098
Loss allowance	(7 159)	(8 391)	(23 766)	(39 316)
Carrying amount	1 658 477	313 453	64 852	2 036 782
INVESTMENT SECURITIES AT AMORTISED COST				
Grade 0: Low to fair risk	2 541 502	-	-	2 541 502
Loss allowance	(1 701)	-	-	(1 701)
Carrying amount	2 539 801	-	-	2 539 801
FINANCIAL GUARANTEE CONTRACTS				
Grade 0: Low to fair risk	241 174	-	-	241 174
Grade 1: Monitoring	-	5 528	-	5 528
Grade 2: Substandard	-	-	93	93
Loss allowance	(1 368)	(32)	(12)	(1 412)
Carrying amount	239 806	5 496	81	245 383

Refer to note 28 for gross contingent liabilities and commitments for which the above ECL relate to.

The following table shows an analysis of counterparty credit exposures arising from derivative transactions. For further discussion of collateral and other credit enhancements, see notes below.

	OVER-THE-COUNTER OTHER BILATERAL COLLATERALISED	
	NOTIONAL AMOUNT	NOTIONAL AMOUNT
	2021	2020
Derivative assets	205 430	660 204
Derivative liabilities	205 158	659 349

For the year ended 31 December 2021

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 2021, the gross amount of advances to customers in default amounted to R75.6 million (2020: R 89.1 million) and the market value of identifiable collateral (mainly fixed properties) held against those loans and advances amounted to R 183.6 million (2020: R 265.5 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 2021	31 DEC 2020	PRINCIPAL TYPE OF COLLATERAL HELD
Mortgage lending	100	100	Commercial/ Residential Property/ Cash
Commercial lending	98	98	Commercial / Residential Property / Cash / Investments
Staff loans	-	-	None

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 2021

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 collateral value at origination. For credit-impaired loans the value of collateral is based on the most recent appraisals.

MORTGAGE LENDING	31 DEC 2021	31 DEC 2020
LTV ratio		
Less than 50%	32 505	43 893
51 - 70%	16 072	-
71 - 90%	-	3 000
91 - 100%	-	-
More than 100%	-	-
Total	48 577	46 893

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.

It is reasonably possible, on the basis of existing knowledge, that outcomes within the next financial year that are different from the assumptions could require a material adjustment to the carrying amount of the asset or liability affected. In all cases the Bank discloses the carrying amount and nature of the assets or liabilities affected by the assumptions.

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 based on movement in PD;
- qualitative indicators

CREDIT RISK GRADES

The Bank allocates each 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 2021

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	GRADING	12- MONTH WEIGHTED AVERAGE PD
Stage 1	Grades 0: Low risk	1,4%
Stage 2	Grades 1: Monitoring	2,2%
Stage 3	Grades 2-10: Substandard, doubtful, loss	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 initial 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);
- Transition (Downgrade) in the internal credit rating of the obligor;
- Tagging of exposures as 'Watch' – Internal ; and

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;

For the year ended 31 December 2021

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

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 its 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 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.
- The rating score of the borrower at the time of loan origination is compared to the rating (current) of the borrower as of the reporting date to determine significant increase in credit risk.

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.

As mentioned in the above notes, 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 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.

For the year ended 31 December 2021

The key drivers for credit risk for all portfolios are: Real Gross Domestic Product Growth (Real GDP Growth), Unemployment Rate, Debt to Gross Domestic Product (Debt to GDP), Inflation, Current Account Balance and Government Expenditures, Benchmark interest rates and new vehicle sales.

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:

- World Economic Outlook (WEO), a division of the International Monetary Fund

With regards to the model, it was observed that the variables Real GDP Growth, Debt to GDP and Current Account Balance were not highly correlated to each other. Hence, these variables were selected as the final independent variables for model development.

The economic scenarios used as at 31 December 2021 included the following key indicators for the years ending 31 December 2021 to 2026.

SCENARIO PROBABILITY	
Baseline	50,00%
Upturn	25,00%
Downturn	25,00%

PROBABILITY WEIGHTED MACROECONOMIC VARIABLE FORECASTS			
YEAR	REAL GDP GROWTH	LAG DEBT TO GDP	LAG CURRENT ACCOUNT BALANCE
2021	5,00%	69,40%	6,6
2022	3,30%	69,50%	8,6
2023	2,20%	72,70%	-3,3
2024	2,10%	75,80%	-5,8
2025	2,00%	78,40%	-7,7
2026	1,90%	81,20%	-9,5

Predicted relationships between the key indicators and default and loss 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.

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.

For the year ended 31 December 2021

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 cooling period of 3 months / 3 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 cooling period of 3 months / 3 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; and
- 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 the year ended 31 December 2021

For term products, the Bank may estimate EIR by converting a facility's contractual rate into its effective reducing rate. The contractual interest rate for a facility may be used as a substitute for the EIR when the Bank is not able to reliably estimate cash flows or expected life.

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.

ECL can be defined as the present value of the difference between all principal and interest cash flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive. Accordingly, the ECL will be computed as - Probability of Default (PD) x Loss Given Default (LGD) x Exposure at Default (EAD), discounted by the EIR under the different macro- economic scenarios defined by the Bank based on the macroeconomic forecasts and scenario probabilities and weights.

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.

	2021			
ECL ON ADVANCES	**STAGE 1**	**STAGE 2**	**STAGE 3**	**TOTAL**
Balance as at 1 January	7 159	8 391	23 766	39 316
Transfer to stage 1	1 249	(1 249)	-	-
Transfer to stage 2	(1 809)	1 966	(157)	-
Transfer to stage 3	-	(273)	273	-
Movements for the year*	(2 885)	(6 782)	(1 657)	(11 324)
New financial assets originated or purchased	-	-	1 813	1 813
Financial assets that have derecognised	-	-	-	-
Interest in suspense movement	-	-	3 360	3 360
Balance as at 31 December	3 714	2 053	27 398	33 165

	2020			
ECL ON ADVANCES	**STAGE 1**	**STAGE 2**	**STAGE 3**	**TOTAL**
Balance as at 1 January	5 100	2 323	11 740	19 163
Transfer to stage 1	1 078	(1 064)	(14)	-
Transfer to stage 2	(7 705)	7 705	-	-
Transfer to stage 3	(1 032)	(5 722)	6 754	-
Movements for the year*	8 821	5 257	768	14 846
New financial assets originated or purchased	1 447	87	18	1 552
Financial assets that have derecognised	(550)	(195)	(905)	(1 650)
Interest in suspense movement	-	-	5 405	5 405
Balance as at 31 December	7 159	8 391	23 766	39 316

For the year ended 31 December 2021

ECL ON BALANCES WITH OTHER BANKS	2021 STAGE 1	STAGE 2	STAGE 3	TOTAL
Balance as at 1 January	8 032	-	-	8 032
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Movements for the year*	419	-	-	419
New financial assets originated or purchased	-	-	-	-
Financial assets that have derecognised	(852)	-	-	(852)
Balance as at 31 December	7 599	-	-	7 599

ECL ON BALANCES WITH OTHER BANKS	2020 STAGE 1	STAGE 2	STAGE 3	TOTAL
Balance as at 1 January	8 131	-	-	8 131
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Impairment raised	(100)	-	-	(100)
Balance as at 31 December	8 032	-	-	8 032

ECL ON INVESTMENT SECURITIES	2021 STAGE 1	STAGE 2	STAGE 3	TOTAL
Balance as at 1 January	1 701	-	-	1 701
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Impairment raised	833	-	-	833
Balance as at 31 December	2 534	-	-	2 534

ECL ON INVESTMENT SECURITIES	2020 STAGE 1	STAGE 2	STAGE 3	TOTAL
Balance as at 1 January	1 448	-	-	1 448
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Impairment raised	253	-	-	253
Balance as at 31 December	1 701	-	-	1 701

ECL ON FINANCIAL GUARANTEE CONTRACTS	2021 STAGE 1	STAGE 2	STAGE 3	TOTAL
Balance as at 1 January	1 368	32	12	1 412
Transfer to stage 1	32	(32)	-	-
Transfer to stage 2	(2)	2	-	-
Transfer to stage 3	-	-	-	-
Movements for the year*	12	-	(12)	-
New financial assets originated or purchased	851	-	-	851
Financial assets that have derecognised	(1 159)	-	-	(1 159)
Balance as at 31 December	1 102	2	-	1 104

For the year ended 31 December 2021

ECL ON FINANCIAL GUARANTEE CONTRACTS	2020			
	STAGE 1	STAGE 2	STAGE 3	TOTAL
Balance as at 1 January	678	16	-	694
Transfer to stage 1	7	(7)	-	-
Transfer to stage 2	(22)	22	-	-
Transfer to stage 3	-	(12)	12	-
Movements for the year*	677	8	-	685
New financial assets originated or purchased	385	5	-	390
Financial assets that have derecognised	(357)	-	-	(357)
Balance as at 31 December	1 368	32	12	1 412

* 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	
	2021	2020	2021	2020	2021	2020
CONCENTRATION BY LOCATION	R	R	R	R	R	R
America	-	-	82 590	127 093	-	-
Europe	-	-	34 945	37 375	-	-
Asia	-	-	303	533	-	-
South Africa	2 134 118	2 036 782	1 699 363	1 931 097	3 843 478	2 539 801
Other African countries	-	-	-	-	-	-
	2 134 118	2 036 782	1 817 201	2 096 098	3 843 478	2 539 801

	ADVANCES - GROSS	
	2021	2020
CONCENTRATION BY INDUSTRY	R	R
Finance & insurance	12 939	51 346
Manufacturing	431 254	357 159
Transportation	91 500	106 385
Commercial real estate	733 318	743 614
Retailers & wholesalers	794 214	766 178
Other	104 058	51 415
	2 167 283	2 076 097

For the year ended 31 December 2021

30.2 DERIVATIVE INSTRUMENTS

	2021 R'000	2020 R'000
Nominal value of forward exchange contracts sold to customers	167 964	621 543
Nominal value of forward exchange contracts sold to banks	37 466	38 661
	205 430	660 204
Nominal value of forward exchange contracts purchased from customers	37 460	38 697
Nominal value of forward exchange contracts purchased from banks	167 698	620 652
	205 158	659 349

30.3 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; and
- 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).

For the year ended 31 December 2021

CONTRACTUAL NET LIQUIDITY GAP	ON DEMAND	1-6 MONTHS	6-12 MONTHS	> 12 MONTHS	TOTAL
2021	R	R	R	R	R
ASSETS					
Investment securities	172 473	1 803 880	1 867 125	-	3 843 478
Advances	713 737	316 292	185 922	918 167	2 134 118
Other assets (including derivatives and deferred taxation)	15 563	10 849	-	8 393	34 805
Cash and short term funds	1 025 512	248 959	542 730	-	1 817 201
	1 927 285	2 379 980	2 595 777	926 560	7 829 602
LIABILITIES					
Deposits and borrowings	(5 969 837)	(765 049)	(556 143)	-	(7 291 029)
Other liabilities (including derivatives)	(6 266)	(10 577)	-	-	(16 843)
Provisions	-	(7 069)	-	-	(7 069)
Lease liabilities	(535)	(2 652)	(3 025)	(18 632)	(24 844)
Loan commitments and letters of guarantee	(213 025)	-	-	-	(213 025)
	(6 189 663)	(785 347)	(559 168)	(18 632)	(7 552 810)
Net liquidity gap	(4 262 378)	1 594 633	2 036 609	907 928	276 792
2020					
ASSETS					
Investment securities	164 059	888 323	1 487 419	-	2 539 801
Advances	557 139	275 515	161 358	1 042 770	2 036 782
Other assets (including derivatives and deferred taxation)	7 119	51 193	-	11 913	70 225
Cash and short term funds	1 145 470	546 857	403 771	-	2 096 098
	1 873 787	1 761 888	2 052 548	1 054 683	6 742 906
LIABILITIES					
Deposits and borrowings	(4 712 712)	(850 661)	(619 928)	-	(6 183 301)
Other liabilities (including derivatives, lease liabilities, loan commitments and letters of guarantee)	(11 457)	(50 338)	-	-	(61 795)
Provisions	-	(10 590)	-	-	(10 590)
Lease liabilities	(644)	(3 264)	(2 984)	(17 528)	(24 420)
Loan commitments and letters of guarantee	(246 795)	-	-	-	(246 795)
	(4 971 608)	(914 853)	(622 912)	(17 528)	(6 526 901)
Net liquidity gap	(3 097 821)	847 035	1 429 636	1 037 155	216 005

For the year ended 31 December 2021

30.4 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 o 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
2021	R'000	R'000	R'000	R'000	R'000	R'000
FIXED RATE ITEMS						
Assets	382 838	1 066 765	1 202 926	2 652 071	426 365	5 730 965
Liabilities	(1 279 022)	(211 729)	(240 129)	(251 617)	(630 336)	(2 612 833)
	(896 184)	855 036	962 797	2 400 454	(203 971)	3 118 132
VARIABLE ITEMS						
Assets	2 179 648	-	-	-	-	2 179 648
Liabilities	(5 297 780)	-	-	-	-	(5 297 780)
	(3 118 132)	-	-	-	-	(3 118 132)
Net repricing gap	(4 014 316)	855 036	962 797	2 400 454	(203 971)	-
2020						
FIXED RATE ITEMS						
Assets	279 941	692 954	906 011	2 226 016	374 301	4 479 223
Liabilities	(1 489 168)	(241 364)	(302 836)	(229 859)	(647 663)	(2 910 890)
	(1 209 227)	451 590	603 175	1 996 157	(273 362)	1 568 333
VARIABLE ITEMS						
Assets	2 342 600	-	-	-	-	2 342 600
Liabilities	(3 920 075)	-	-	-	-	(3 920 075)
	(1 577 475)	-	-	-	-	(1 577 475)
Net repricing gap	(2 786 702)	451 590	603 175	1 996 157	(273 362)	(9 142)

For the year ended 31 December 2021

30.5 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 2021, a general increase of 1% in the interest rate would increase the Bank's monthly profit by R3 374 500 (2020: R2 798 500) and a general decrease of 1% in the interest rate would decrease the Bank's monthly profit by R3 374 500 (2020: R2 798 500).

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

30.6 FOREIGN EXCHANGE RISK MANAGEMENT

The Bank's risk management policies do not allow holding of significant foreign currency positions . ALCO is the monitoring body for compliance with this policy and is assisted by Central Treasury in its day-to-day monitoring activities. The Bank did not have any significant foreign currency exposure at 31 December 2021.

30.7 FINANCIAL ASSETS AND LIABILITIES

	FAIR VALUE THROUGH PROFIT AND LOSS	AMORTISED COSTS	TOTAL CARRYING AMOUNT
31 DECEMBER 2021	**R'000**	**R'000**	**R'000**
FINANCIAL ASSETS			
Cash and short-term funds	-	1 817 201	1 817 201
Investment securities	-	3 843 478	3 843 478
Derivative assets held for risk management	10 849	-	10 849
Advances	-	2 134 118	2 134 118
	10 849	7 794 797	7 805 646
FINANCIAL LIABILITIES			
Deposits and loans from banks	-	(104 400)	(104 400)
Deposits from customers	-	(7 186 629)	(7 186 629)
Derivative liabilities held for risk management	(10 577)	-	(10 577)
	(10 577)	(7 291 029)	(7 301 606)
31 DECEMBER 2020			
FINANCIAL ASSETS			
Cash and short-term funds	-	2 096 098	2 096 098
Investment securities	-	2 539 801	2 539 801
Derivative assets held for risk management	51 193	-	51 193
Advances	-	2 036 782	2 036 782
	51 193	6 672 681	6 723 874
FINANCIAL LIABILITIES			
Deposits and loans from banks	-	(122 020)	(122 020)
Deposits from customers	-	(6 061 281)	(6 061 281)
Derivative liabilities held for risk management	(50 338)	-	(50 338)
	(50 338)	(6 183 301)	(6 233 639)

- The fair value of non-trading derivatives is classed as a level 2 financial instrument in terms of the hierarchy requirements per IFRS 13.
- Effective interest rates on investment securities vary between 3.75% and 5.5%

For the year ended 31 December 2021

31. 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.

32. RELATED PARTIES

32.1 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.

32.2 MATERIAL RELATED PARTY TRANSACTIONS

	2021	2020
MATERIAL TRANSACTIONS WITH THE HOLDING COMPANY AND DIRECTORS	**R'000**	**R'000**
Dividends paid to the holding company - see note 25	50 000	45 000
Fees for services rendered	32 240	48 157
Directors' remuneration - see note 23	5 784	5 745
Loans to directors and prescribed officers (balance outstanding)	246	352
- F Anwar	246	352
Interest earned on directors and prescribed officers loans	14	24
- C dt Harvey	-	1
- F Anwar	14	23

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.

For the year ended 31 December 2021

	2021	2020
MATERIAL TRANSACTIONS WITH THE HABIB GROUP	**R'000**	**R'000**
RECEIVABLES DUE FROM GROUP COMPANIES:		
- Habib Bank AG Zurich, Zurich	28 767	30 948
- Habib Bank Zurich Plc, United Kingdom	6 178	6 427
- Habib Bank Zurich (Hong Kong) Ltd., Hong Kong	6	5
- Habib Canadian Bank, Canada	21	45
- Habib Metropolitan Bank, Pakistan	161	315
	35 133	37 740

These receivables all relate to short-term receivables with no fixed terms of repayment and are included as part of total cash and short term funds in note 1.

	2021	2020
PAYABLES DUE TO GROUP COMPANIES:		
- Habib Bank AG Zurich, Zurich	500	1 575
- Habib Bank Zurich Plc, United Kingdom	21 097	114 091
- Habib Bank AG Zurich, Nairobi (branch)	310	53
- Habib Bank AG Zurich, Deira Dubai (branch)	15 055	6 253
	36 962	121 972

These balances relate to short-term payables and are included as part of total.

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

	2021	2020
THE HIGHEST OUTSTANDING BALANCE FOR THESE PAYABLES DURING THE FINANCIAL YEAR WERE:		
- Habib Bank AG Zurich, Zurich	43 284	52 326
- Habib Bank Zurich Plc, United Kingdom	114 000	119 900
- Habib Bank AG Zurich, Nairobi (branch)	525	369
- Habib Bank AG Zurich, Deira Dubai (branch)	28 850	19 968
INTEREST AND RELATED TRANSACTION CHARGES PAID TO GROUP COMPANIES:		
- Habib Bank Zurich Plc, United Kingdom	1 261	5 310
- Habib Bank AG Zurich, Deira Dubai (branch)	55	136
	1 316	5 446

For the year ended 31 December 2021

33. 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.

	2021 R'000	2020 R'000
Credit risk exposure	2 667 052	2 788 474
Counterparty credit risk exposure	1 262	67 013
Operational risk exposure	549 410	524 379
Market risk exposure	13 322	5 804
Other risk exposure	107 897	89 241
Risk weighted exposure in relation to deferred tax assets	20 983	29 784
Aggregate risk weighted exposure	3 359 926	3 504 695
Regulatory capital requirement - 10.750% (2020: 10.750%)	361 192	376 755
QUALIFYING CAPITAL AND RESERVE FUNDS		
Tier I		
Ordinary share capital	10 000	10 000
Share premium	40 000	40 000
General reserve	448 617	448 617
Less: Prescribed deductions against capital and reserve funds	(532)	(700)
Total Tier 1 Capital	498 085	497 917
Tier II		
General allowance for ECL	17 003	26 693
Total qualifying capital and reserve funds	515 088	524 610

For the year ended 31 December 2021

CAPITAL ADEQUACY RATIO	2021	2020
Qualifying capital and reserve funds as a percentage of aggregate risk weighted exposure	15,3%	15,0%

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.

34. 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 30.7.

35. GOING CONCERN

The Bank assessed the appropriateness of the going concern assumption in the preparation of these financial statements. This assessment included the impact of the risks resulting from the ongoing pandemic as well as the financial forecasts for the year ahead.

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.

For the year ended 31 December 2021

36. EVENTS AFTER THE REPORTING PERIOD

DIVIDEND

On 31 March 2022 the Board declared a dividend of R50 million,which includes dividends witholding tax of R2.5 million (2021: R50 million including dividends witholding tax of R2.5 million).

The Directors are not aware of any adjusting events (as defined per IAS 10 Events After The Reporting Period) after the reporting date of 31 December 2021 and the date of authorisation 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