HBZ Bank Limited

HBZ Bank Limited

(A subsidiary of Habib Bank AG Zurich)

South Africa

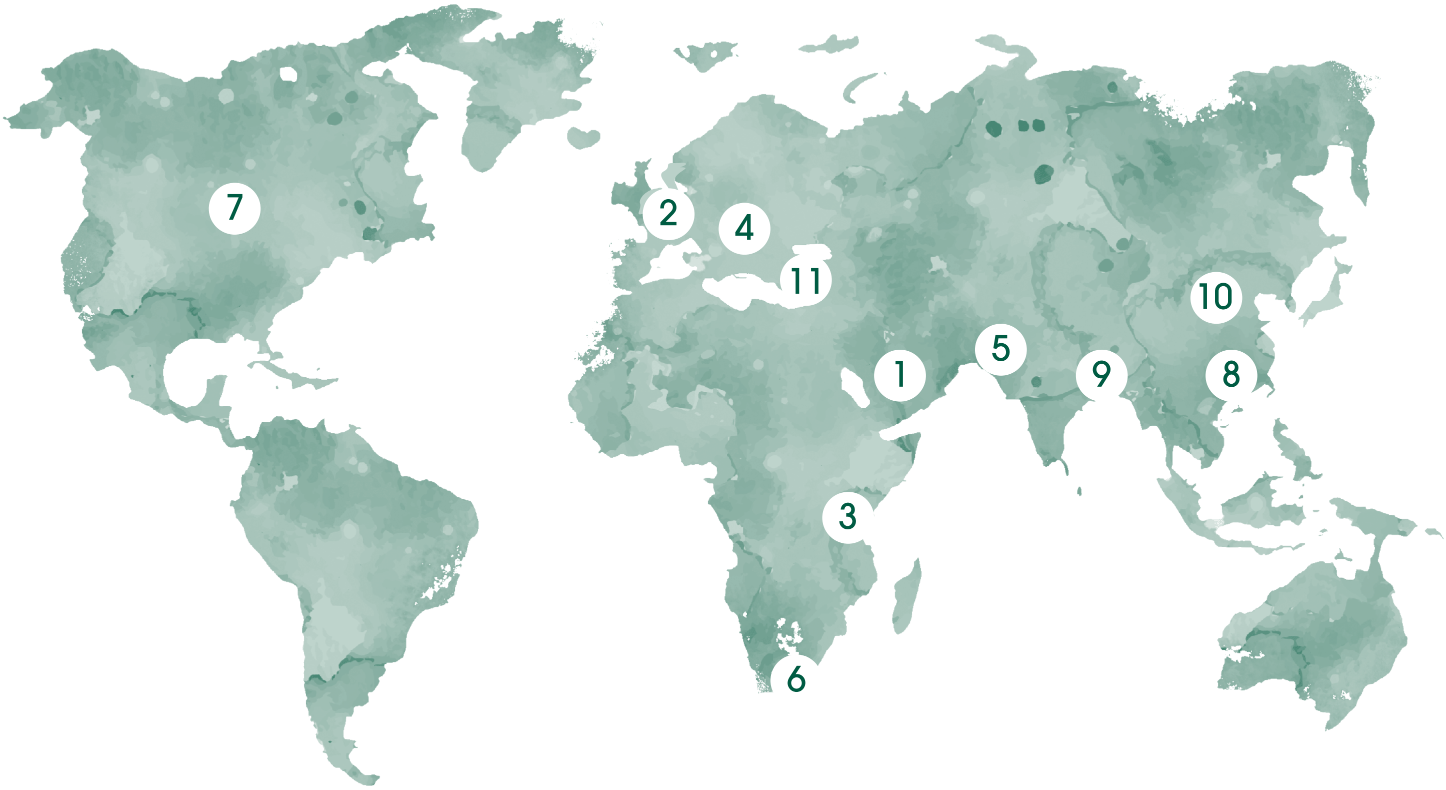
30 YEARS in SOUTH AFRICA

HBZ Bank Limited

Annual Report

for the year ended 31 December 2024

International Network Summary



1	UNITED ARAB EMIRATES	Habib Bank AG Zurich, Dubai	8 Branches
2	UNITED KINGDOM	Habib Bank Zurich Plc	8 Branches
3	KENYA	Habib Bank AG Zurich, Nairobi	4 Branches
4	SWITZERLAND	Habib Bank AG Zurich	2 Branches
5	PAKISTAN	Habib Metropolitan Bank Limited	551 Branches
6	SOUTH AFRICA	HBZ Bank Limited	8 Branches
7	CANADA	Habib Canadian Bank	3 Branches
8	HONG KONG	Habib Bank Zurich (Hong Kong) Limited	2 Branches
9	BANGLADESH	Habib Bank AG Zurich	Representative Office
10	CHINA	Habib Bank AG Zurich	Representative Office
11	TÜRKIYE	Habib Bank AG Zurich	Representative Office
12	HONG KONG	Habib Bank Zurich (Hong Kong) Limited	Representative Office
13	PAKISTAN	Habib Metropolitan Bank Limited	Representative office

Contents

Introduction

The operating context

Delivering on our strategy

Annual financial statements

Ten-Year Review

For the year ended 31 December 2024

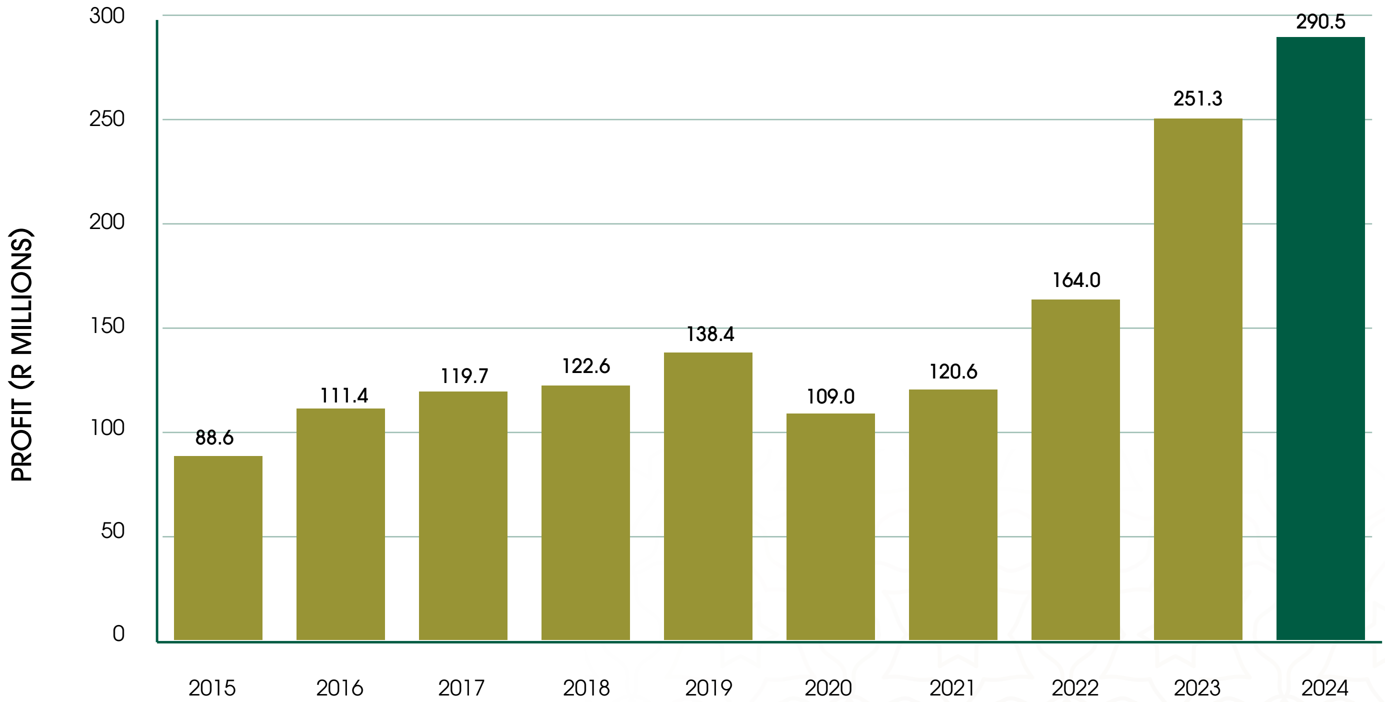
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
PROFITS										
(R MILLION)										
Profit before taxation	88,6	111,4	119,7	122,6	138,4	109,0	120,6	164,0	251,3	290,5
BALANCE SHEET										
(R MILLION)										
Loans and advances	1 619,0	1 537,9	1 468,1	1 714,3	1 908,9	2 036,8	2 134,1	2 127,4	2 125,5	2 650,4
Loans and advances growth %	20,1%	(5,0%)	(4,5%)	(16,8%)	11,4%	6,7%	4,8%	-0,3%	-0,1%	24,7
Deposits	4 049,4	3 820,5	4 369,7	4 856,2	5 330,2	6 183,3	7 291,0	7 746,5	7 841,6	8 574,3
Deposits growth %	15,2%	(5,7%)	14,4%	11,1%	9,8%	16,0%	17,9%	6,2%	1,2%	9,3%
Total assets	4 419,6	4 232,8	4 861,4	5 344,2	5 916,4	6 825,7	7 922,5	8 459,1	8 681,1	9 496,9
Total assets growth %	14,7%	(4,2%)	14,9%	9,9%	10,7%	15,4%	16,1%	6,8%	2,6%	9,4%
PERSONNEL										
Number of employees	136	141	133	146	141	137	136	130	140	146

South Africa

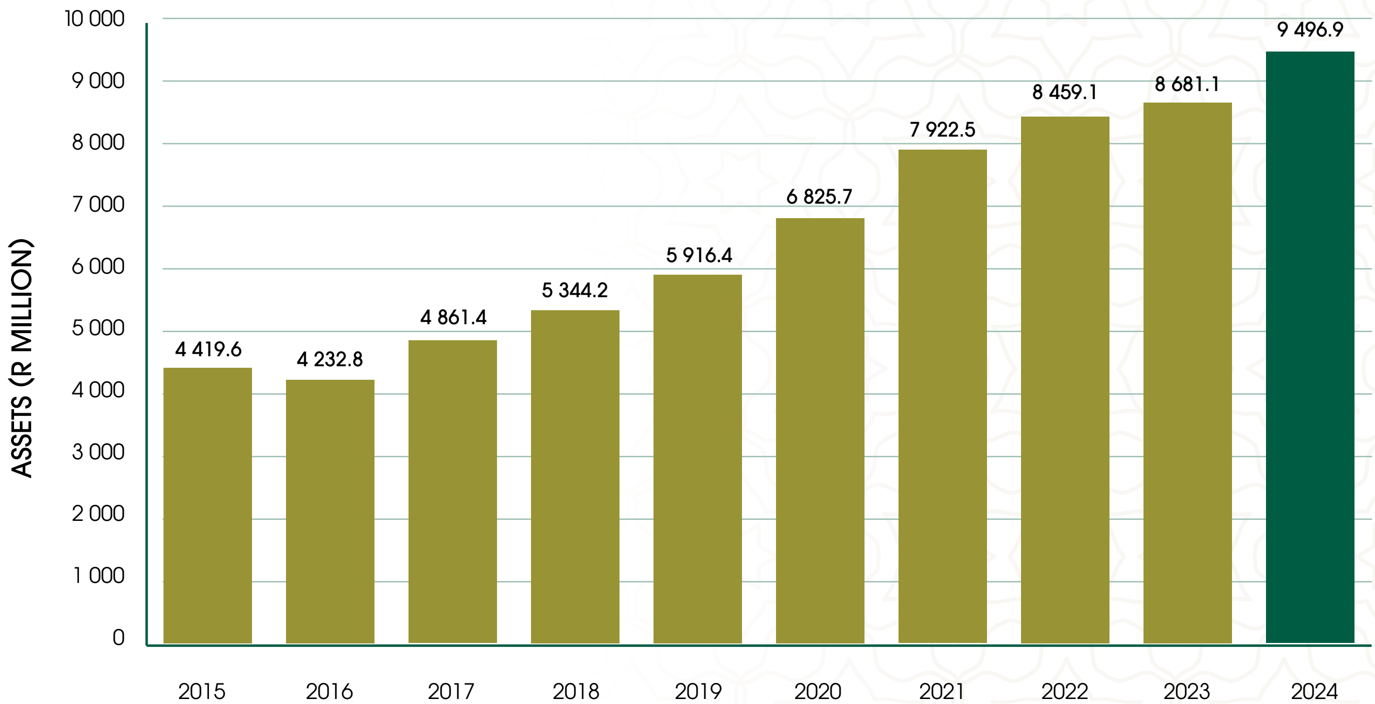
Ten-Year Review continued

For the year ended 31 December 2024

PROFIT BEFORE TAX



TOTAL ASSETS



Board of Directors and Board Committees

NON-EXECUTIVE DIRECTORS

YVETTE SINGH (71)

Chairman

B.Com (Honours), MBL

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

Appointed to the Board in 2019

MUHAMMAD HABIB (65)#

Bachelor of Business Administration (BBA) (USA)

President, Habib Bank AG Zurich

Appointed to the Board in 1995

Swiss

PIERRE FOURIE (65)

CA(SA)

Former Partner of KPMG Inc (retired)

Appointed to the Board in 2022

NOMAVUSO MNXASANA (68)

CA(SA)

Former Non-Executive Director of Nedbank Ltd

Appointed to the Board in 2020

DISEBO MOEPHULI (59)

MBA, BA in Economics, Executive Leadership (INSEAD)

Former Chief Executive: Corporate and Investment Banking at Standard Bank

Appointed to the Board in 2023

SHARODA RAPETI (60)

Higher National Diploma – Electronic Engineering

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

Appointed to the Board in 2023

MOHSIN NATHANI (59)*

MBA, Bachelor of Business Administration (BBA)

Member of the General Management of Habib Bank AG Zurich

Appointed to the Board in 2024

* Canadian

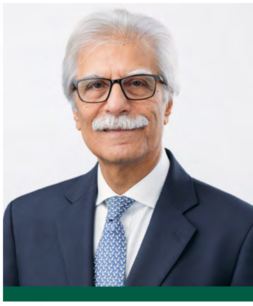
EXECUTIVE DIRECTORS

ASHLEY CAMERON (63)

Chief Executive Officer

B.Com

Appointed to the Board in 2023



ANJUM IQBAL (72) ^

B.Com, MBA

General Management, Habib Bank AG Zurich

Appointed to the Board in 2016

^ British

Independent Non-Executive Director

Non-Independent Non-Executive Director

Board of Directors and Board Committees continued

EXECUTIVE MANAGEMENT

Ashley Cameron
Chief Executive Officer

Zaakir Mitha
Chief Financial Officer

Farooq Anwar
Chief Operations Officer

Kosheek Maharaj
Chief Risk Officer

Michelle Sewchuran
Head of Compliance

AUDIT COMMITTEE

Pierre Fourie – Chairman
Nomavuso Mnxasana
Disebo Moephuli

DIRECTORS' AFFAIRS COMMITTEE

Yvette Singh – Chairman
Pierre Fourie
Nomavuso Mnxasana
Disebo Moephuli
Sharoda Rapeti
Mohsin Nathani

CAPITAL ADEQUACY AND RISK COMMITTEE

Disebo Moephuli – Chairman
Pierre Fourie
Nomavuso Mnxasana
Sharoda Rapeti
Mohsin Nathani
Anjum Iqbal
Ashley Cameron

REMUNERATION COMMITTEE

Sharoda Rapeti – Chairman
Pierre Fourie
Disebo Moephuli

SOCIAL, ETHICS AND CONDUCT COMMITTEE

Nomavuso Mnxasana – Chairman
Sharoda Rapeti
Mohsin Nathani
Ashley Cameron

INTERNAL AUDIT

Anisa Maharaj
Head of Internal Audit

CORPORATE

Thabisile Luthuli
Company Secretary and in charge of corporate affairs

REGISTERED OFFICE

1 Ncondo Place
Umhlanga Arch Umhlanga
Durban
KwaZulu-Natal
4320

REGISTRATION NUMBER

1995/006163/06

Overview of HBZ Bank's Mission, Vision, Core Values, History, and Global Operations

MISSION

To be the "Bank of Choice" for family enterprises across generations.

VISION

To be the most respected financial institution based on trust, service, and commitment.

CORE VALUES

- **Trust**: Trust is at the heart of everything we do. We prioritise transparency and reliability in our interactions with clients and colleagues, ensuring trust remains the cornerstone of our relationships.
- **Integrity**: Upholding the highest ethical standards is a non-negotiable for us. With honesty and integrity as guiding principles, we ensure that our actions and decisions are always in the best interest of our clients and the organisation.
- **Respect**: We believe in treating everyone with dignity and respect, fostering a culture of inclusivity and understanding. We encourage collaboration and creativity by valuing diverse perspectives and creating a respectful environment.
- **Responsibility**: We take responsibility for the impact of our actions on all stakeholders, from clients to the broader community. By practicing responsible business practices, we strive to make a positive difference in the lives of those we serve and the world around us.
- **Commitment**: Our dedication to excellence drives us to deliver consistent and exceptional service. We remain steadfast in our commitment to meeting clients' needs and exceeding their expectations with unwavering dedication.
- **Teamwork**: Collaboration is the key to our success. We promote a strong sense of teamwork, where each individual's unique strengths and expertise contribute to collective achievements, enabling us to overcome challenges together.

ABOUT US

Habib Bank AG Zurich was established in Switzerland in 1967 and has since grown into a global institution with a presence in 11 countries spanning four continents. Over the past six decades, Habib Bank AG Zurich has expanded internationally, combining modern technology with timeless value.

With the head office in Zurich, Habib Bank AG Zurich operates with branches in Kenya and the United Arab Emirates. It has subsidiaries in Canada, Hong Kong, Pakistan, South Africa, and the United Kingdom, and representative offices in Bangladesh, China, Hong Kong, Pakistan, and Türkiye.

Habib Bank AG Zurich's commitment to global expansion led to a significant milestone in South Africa, with a R50 million investment marking the Group's inaugural venture in the country. Since its establishment in 1995, HBZ Bank Limited has developed a substantial presence in South Africa, particularly in KwaZulu-Natal and Gauteng.

As a wholly owned subsidiary of Habib Bank AG Zurich, HBZ Bank Limited upholds Swiss traditions, ensuring our customers receive the highest standards of service. As a local commercial bank, we adhere to South African regulations and the South African Reserve Bank and Prudential Authority's guidelines while maintaining Swiss Banking standards of confidentiality and exceptional service.

Switzerland

Chairman's Report

INTRODUCTION

It is with immense pleasure that I present to all our stakeholders the HBZ Bank Limited Annual Report for the year ended 31 December 2024. By the Grace of God, the Bank continued to demonstrate its resilience by delivering remarkable results, despite the challenges of continued rising levels of inflation, high interest rates, and a decline in infrastructure. With the support of the Board, the management team has worked diligently to stand out from our competitors by offering a unique high touch banking experience to our customers and cater to their specific needs. I remain confident about our future prospects and our commitment to be the "Bank of Choice" for family enterprises across generations.

LEADERSHIP AND GOVERNANCE

The Board continued to strengthen its engagement with executive management through more frequent interactions on the execution of strategic initiatives throughout the year. Despite a challenging macroeconomic environment, the executive management team has successfully executed these initiatives.

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

Effective corporate governance is essential to a sustainable business and is therefore critical to ensure that the Bank operates in a way that protects the interests of all stakeholders.

I would like to express my gratitude to my fellow members of the Board for their solid commitment to the affairs of the Bank. We are privileged to have a highly engaged Board with experience within the financial services sector.

BOARD AND BOARD COMMITTEES SUCCESSION PLANNING

Succession planning is an extremely important responsibility of the Board, assisted by the Directors' Affairs Committee. The key role of the Directors' Affairs Committee is to ensure that, when directors are reaching a nine-year tenure and/or retirement age, the Board Continuity Plan is maintained through active succession planning that considers any changes to the skills needed on the Board, especially pertaining to strategic matters.

We are delighted to welcome Mr M Nathani to the Board as a Non-Executive Director with effect from 6 September 2024. Mr Nathani is a seasoned banker with more than 30 years of banking experience, having worked for Barclays Bank (UAE and Pakistan) and Standard Chartered Bank (UAE and Pakistan) where he held executive management positions. He is a member of General Management of Habib Bank AG Zurich Group, and we are looking forward to his invaluable contribution to the Board.

Mr Grobler, the former Chairman of the Capital Adequacy and Risk Committee and Remuneration Committee, has reached his nine years of service. As part of the rotation, he retired as a member of the Board during the year under review. The Board appointed Ms D Moephuli as the Chairman of the Capital Adequacy and Risk Committee and Ms S Rapeti as the Chairman of the Remuneration Committee effective 4 April 2024.

Operating perspective and economic challenges

The global economic landscape presents a delicate balance of opportunities and challenges. In recent years, unique global events, economic policies, and technological advancements have shaped the banking sector, which now stands at the cusp of a transformative era. The acceleration of digitalisation, coupled with evolving client expectations and regulatory changes, has significantly influenced banking operations and strategic direction.

The ANC's performance in the 2024 elections resulted in the formation of the Government of National Unity (GNU). The importance of the peaceful transfer of power by the ANC should not be underestimated. The GNU indicated its willingness to work with the private sector with a reformist agenda.

The Bank has embarked on a digitisation journey to enhance its digital offerings, streamline banking for customers, and deliver a unique customer value proposition.

Chairman's Report continued

Most importantly, this initiative aligns with the South African Reserve Bank (SARB)'s Vision 2025 goals: financial inclusion, digitisation, modernisation, and reducing cash in the economy. The Bank continues to increase the functionality of the HBZ mobile banking applications to provide free, secure, convenient, and simplified banking channels.

The high-interest-rate environment has presented significant challenges for businesses in South Africa as they struggle to adapt to rising financing costs, adding a new layer of complexity to the economic landscape. However, 2025 looks promising, as economists anticipate an easing cycle with a total of 75 basis points in rate cuts, bringing the repo rate down to 7.00% and the prime lending rate to 10.50%.

Inflation continued to be a pivotal challenge for the Bank, influencing everything from lending rates to our investment strategies. Notwithstanding, the Bank remained resilient in managing operational costs while maintaining competitive interest rates for our customers. South Africa's GDP growth rate for 2025 is forecast at 1.8%, following an estimated weak growth of 0.8% in 2024. Inflation is expected to average 4.5% in 2025, aligning closely with the midpoint of the central bank's current 3%-6% target range. However, the SARB has warned of upside risks to the costs of food, electricity, and water, particularly with the National Energy Regulator of South Africa (Nersa) announcing a 12.7% tariff increase. On a positive note, for the first time in years, the country experienced no load shedding throughout the third and final quarter of the 2024 financial year. This public and private sector partnership in addressing the energy crisis represents a blueprint for many further reform initiatives, to drive future economic growth.

OUR PERFORMANCE

Our motivation and confidence remain high. We continue to support our stakeholders at all levels and are grateful for our operating performance, as management continues to navigate this low-growth environment with resilience. The Bank achieved exemplary results with Profit before Tax increasing by 16% to R290.52 million (2023: R251.32 million). Total assets increased by 9% to R9.497 million (2023: R8.681 billion). Advances increased significantly by 24% to R2.650 billion (2023: R2.125 billion) whilst deposits increased by 9.3% to R8.574 billion (2023: R7.842 billion). The Capital Adequacy Ratio decreased from 19.01% to 16.26% during the year; however, it remains well above the board and regulatory minimum requirement.

LOOKING FORWARD

The Board will be focusing on several key areas to ensure robust and strategic growth of the business. Sustainability (Environmental, Social, and Governance) is one of the areas that the Board will be concentrating on in 2025, as it gains momentum with customers, investors, and regulators. In 2025, banks will be expected to demonstrate more robust ESG initiatives including sustainable financing, green bonds, and responsible lending practices. Consumers are looking to align their financial choices with their values, and financial institutions that prioritise sustainability will gain a competitive edge. Additionally, regulators are tightening ESG disclosure requirements, making it essential for banks to invest in systems that track and report on their ESG-related activities.

Cybersecurity will be another area of focus as digital banking gains further traction and banks integrate innovative technologies that give rise to vulnerabilities such as large-scale cyberattacks. Given the rising costs involved, we have observed increased regulatory focus on cyber resilience, cyber stress testing, and vulnerability assessments due to the significant downside risk this uncertain area poses to the global banking sector.

ACKNOWLEDGMENT AND APPRECIATION

I am grateful to all our external stakeholders – our Shareholder for their engagement, our customers for trusting us with their financial needs, and our suppliers and business associates, whose support has been critical to our success and sustainability over the past year.

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

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

Y Singh

Chairman

Chief Executive Officer's Report

INTRODUCTION

The 2024 financial year has proven the resilience of the Bank's strategy and business model, despite the challenges faced by our customers who remained under pressure due to high interest rates, a stagnant economy, and varying levels of uncertainty following the elections held on 29 May. However, following the elections there was a generally positive market reaction to the formation of a Government of National Unity, reflecting in lower government debt costs, a stronger Rand, and anticipated pace of interest rate cuts. Amidst these changes, the Bank remained focused on its strategic initiatives and consequently produced sound results and continued to create value for our stakeholders throughout the year.

REFLECTING ON OUR FINANCIAL PERFORMANCE

While 2024 was a challenging year, I am pleased with our financial performance. The Bank has achieved profitable top-line growth in a competitive environment while maintaining a strong balance sheet and shareholder investment returns. Our advances increased by 24% to R2.650 billion, deposits increased by 9% to R8.574 billion, profit after tax increased by 14% to R211.6 million and the Return on Equity increased to 24.8%. The Bank invested its surplus funds in Treasury Bills and longer-term investments with both Government Bonds and Islamic Sukuk locking in higher yields in anticipation of interest rate cuts in the last quarter of the year.

VALUE CREATION MODEL AND STRATEGIC APPROACH

Our successful strategic and operational delivery in the year under review supports our journey to be the "Bank of Choice" for family-owned enterprises across generations. We take pride in serving the business community and, over the past 29 years, have facilitated the growth of businesses in the country. Through their support, we have cemented our position within the business community. We provide deposit and trade financing solutions designed to enhance working capital efficiency through the effective management of receivables and process engineering of payables. Our customers have specific preferences and needs that set them apart from the broader sector and are at the forefront of everything we do. This creates a strong foundation for sustainable, long-term growth and is key to building the most valuable business in our niche market.

The Bank's value proposition is in its "high touch" banking model, with our customers valuing the opportunity to deal directly with bankers who understand their business model and ethos. We offer a range of banking services that cater to different types of businesses. Our Accounts and Services include Current Accounts, Savings Accounts, Time Deposit Accounts, Call Deposit Accounts, and e-banking services to support the operational and growth requirements of our customers. Whether it's tailored financial solutions, efficient transaction processing, or seamless online banking, we are committed to developing innovative customer value propositions, enhancing customer channels, adjusting pricing, and improving services.

We also offer Islamic Banking under SIRAT, including a complete range of Shariah-compliant products to meet our customer's business and personal banking needs. Our strength lies in our local Shariah expertise paired with our global insights, ensuring that our customer's receive the best banking experience. All our products adhere to Islamic Banking principles and are delivered through our network of branches across South Africa.

As a subsidiary of Habib Bank AG Zurich, we have developed a strong network of correspondent banking relationships across all major trading partner countries of South Africa. Our customer focused vision, combined with our global network, enables us to offer tailored solutions to meet their international trade requirements. Our products and services include Letters of Credit, Advising, Confirming, and Discounting Letters of Credit, Re-discounting Letters of Guarantee or Standby Letters of Credit, as well as Trade Loans or Buyers' Credit. We have a dedicated Financial Institutions team committed to providing bespoke solutions that address our customers' diverse foreign trade needs. These solutions are available in both conventional and Shariah-compliant banking.

In line with our strategy to expand our digital offering, we are launching exciting projects to enhance customer experience, including the implementation of digital account openings for both personal and business accounts in the second quarter of 2025. The implementation of online rate booking via internet banking and mobile applications is at an advanced stage and set for rollout in early 2025. The Bank will also be launching PayShap in the second quarter of 2025; an easy, instant, and convenient way to send and receive funds. PayShap will allow customers to receive immediate payments into their bank account from anyone, regardless of the bank they use. With the Bank's IT overseen by our parent company, we have made significant progress in transforming our technological landscape, achieving market-leading operational stability with zero incidents. At the same time, we remain vigilant, particularly as cyber threats continue to rise both locally and globally.

Chief Executive Officer's Report continued

LOOKING FORWARD

As outlined by the Chairman in her report, Sustainability (encompassing Environmental, Social, and Governance (ESG) factors) is one of our strategic focus areas for 2025, as it continues to gain momentum among customers, investors, and regulators. The development of an ESG framework and strategy will outline the Bank's approach to managing its environmental, social, and governance responsibilities. It will further provide a framework for embedding sustainability and ethical practices into business operations, ensuring that the Bank addresses issues ranging from climate change to employees well-being and corporate transparency.

We are also mindful of increasing regulatory pressures and evolving work dynamics. The Bank has a strong compliance culture to ensure that regulatory requirements are met consistently and effectively. This involves fostering a mindset that prioritises compliance, clear communication of regulatory expectations, and ongoing training of our employees. We have put in place tailored compliance strategies to ensure overall coherence in risk management and implemented a centralised oversight to ensure that all parts of the Bank remain aligned with regulatory requirements. We are continuously improving our systems and updating our compliance framework to ensure that the Bank remains on top of the regulatory developments.

While we are pleased to have achieved our 2024 targets, we aspire to deliver ongoing improvements in Return on Equity to further enhance shareholder value. Our strong financial performance in 2024, combined with the progress made in executing our strategy and the underlying momentum in our business (driven by attractive lending pipelines, digital transformation, customer and market share growth, and cost optimisation) gives us confidence in delivering on our medium-term targets, particularly our aim to increase Return on Equity to 26.4% in 2025.

30TH ANNIVERSARY

In 2025, the Bank will be celebrating 30 years of existence. Our continued success comes from our two biggest assets: our customers and employees. Our customers continually demonstrate their confidence in us by choosing our services, sharing new opportunities, and recommending us to others. We are deeply grateful for their trust and remain committed to earning it every day. This confidence is made possible by our talented and dedicated employees, whose commitment and passion give us every reason to be excited about the future.

30th Anniversary celebratory logo

ACKNOWLEDGMENT AND APPRECIATION

I would like to extend my sincerest gratitude to the Board for their continued support and guidance. Thank you to my executive management for their consistency and steadfast delivery, as well the ongoing support from our regulators and all stakeholders.

On behalf of my executive management team, I also offer my heartfelt appreciation to our employees for their dedication and marked resilience as they continue to support our customers.

A Cameron

Chief Executive Officer

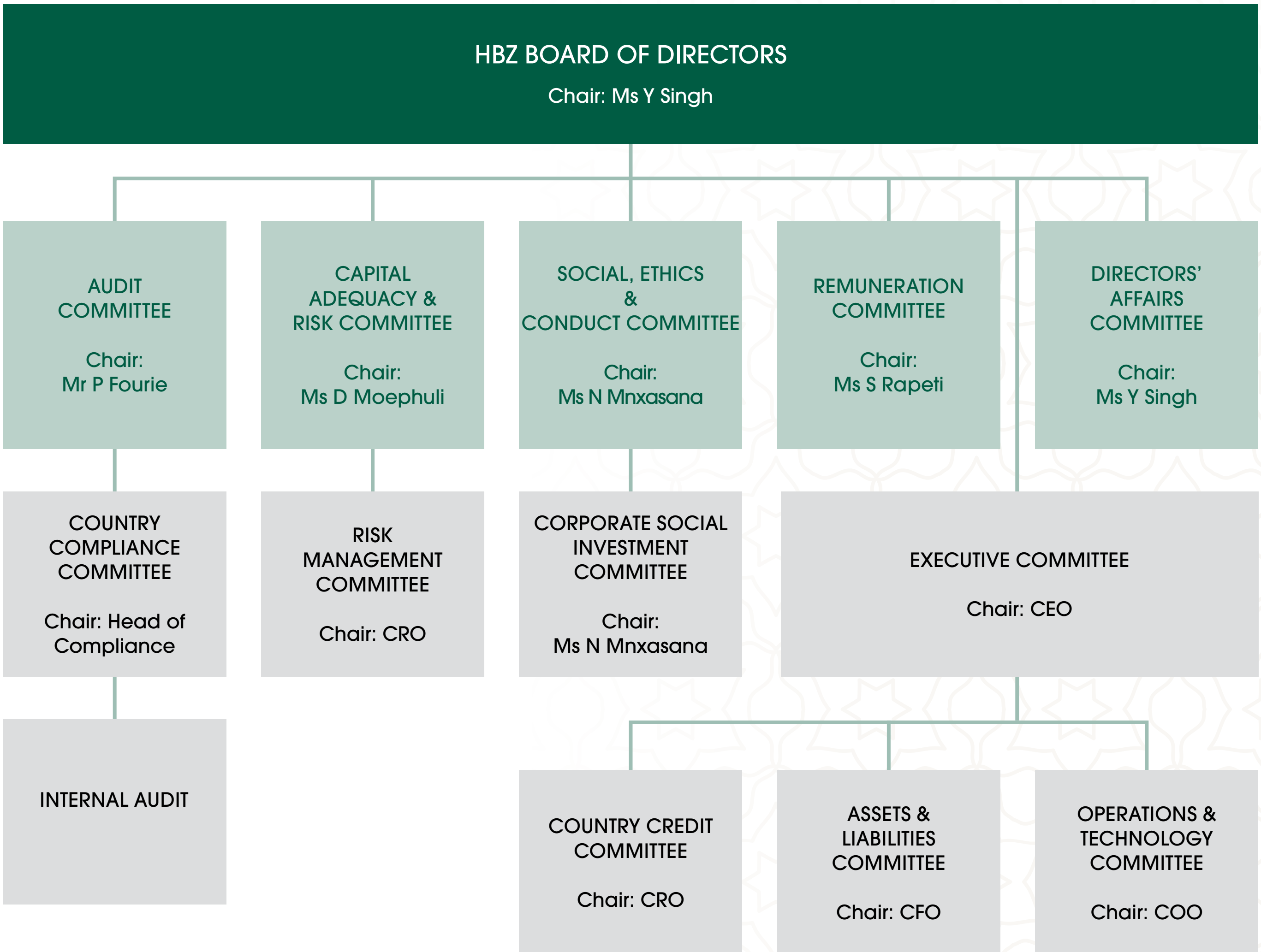
Corporate Governance Report

The Board of Directors is the highest governing body responsible for the strategic guidance of the Bank, as well as financial soundness, governance structures and practices, risk management, and all statutory compliance obligations. The application of sound corporate governance practices ensures that an adequate and effective process of corporate governance, which is consistent with the nature, size and complexity of the Bank, remains an integral part of the Bank's operations. The approach to sound corporate governance extends beyond compliance which is an outcome – our goal is ethical business conduct enabled by efficient operations and competent personnel. We believe that good governance creates and preserves value by, enhancing accountability, developing leadership focus and competencies, and overseeing risk and performance management.

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

The Board fulfils its duties and responsibilities by monitoring adherence to the approved policies and frameworks with the support of its Board Committees. The Board ensures that risks are adequately identified, measured, managed, monitored, and mitigated to maintain the Bank's risk exposure within its defined risk appetite. Effective control is maintained through a structure of well-functioning Board Committees that provide focused oversight on specific elements of the Bank's Governance Framework.

GOVERNANCE STRUCTURES



Corporate Governance Report continued

BOARD OF DIRECTORS

Charter

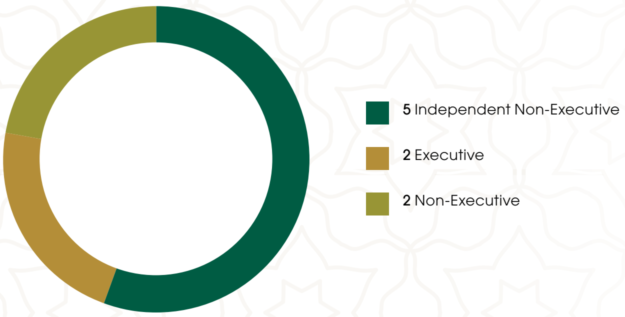
The Board has a written Charter that is reviewed annually and has been updated in line with the most recent regulatory and statutory changes. The Charter confirms the Board's accountability, fiduciary duties, conflict of interest management, appointments, and tenure. The Board is fully committed to upholding the standards of integrity, accountability, and transparency in its activities to achieve effective corporate governance.

Board composition and diversity

The Board is deemed suitably constituted and comprises a majority of five Independent Non-Executive Directors, two Non-Executive Directors and two Executive Directors. The composition of the Board facilitates effective oversight on an ongoing basis and promotes robust discussions. The Bank is committed to promoting diversity at Board level, recognising that diverse perspectives and skills encourage constructive discussions among Directors. The Board considers its composition in terms of business and industry knowledge, skills, experience, age, gender, and independence to ensure it remains diverse and able to discharge its roles and responsibilities objectively and effectively on an annual basis.

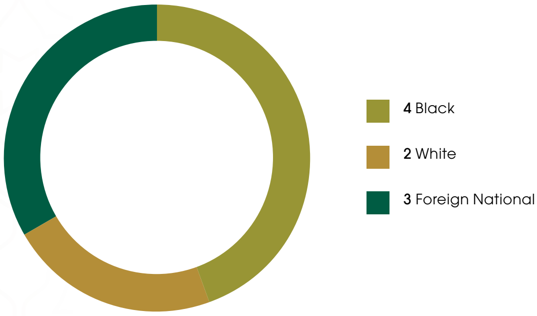
The Board is confident that its collective expertise,

BOARD COMPOSITION



BOARD GENDER DIVERSITY

BOARD RACIAL DIVERSITY



cultural diversity, and experience are well-suited to overseeing the implementation of the approved strategy and facilitating long-term value for stakeholders.

Conflict of interest

The Bank considers actual and potential conflicts of interest at each of the Board and Board Committee meetings; in the declarations of interest reviewed annually; and in the annual assessment of Directors' independence. Directors are responsible for avoiding situations that place, or are perceived to place, their personal interests in conflict with their duties. Directors are prohibited from using their position or access to confidential information to benefit themselves or any related third party, financially or otherwise. Where actual or potential conflicts of interest are declared, and determined to be material, the affected director is recused from discussions and any decisions on subject matter.

A director may accept other board appointments, provided potential conflicts are considered and appropriately disclosed and managed, and the appointments do not conflict with the Bank and/or adversely affect the Director's duties. Before accepting any Board appointment, proposed appointments are tabled at the Directors' Affairs Committee to consider matters of capacity and of potential conflict and recommendation to the Board for approval.

Determining independence

The Board, through its Directors' Affairs Committee, considers the Directors' independence assessment results. The process includes an assessment of each Director's circumstances and performance to ensure Directors remain independent and objective to facilitate robust debates. The Board is satisfied that the independent Directors exercise objective judgement and there are no interests, positions, associations, or relationships which, when judged from the perspective of a reasonable and informed third party, is likely to unduly influence or cause bias in decision-making.

Corporate Governance Report continued

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
- Have not been employed by the Bank or the Group in any capacity
- Have not been appointed as the designated auditor or partner in the Group's external audit firm, or senior legal adviser for the preceding three financial years
- Are not a member of the immediate family of an individual who is, or has during the preceding three financial years, been employed by the Bank or the Group
- Are not professional advisers to the Bank or the Group, other than as Directors
- 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

Directors' appointments and induction

The Directors' Affairs Committee identifies and recommends suitably qualified and experienced candidates to the Board for potential appointments as Independent and Non-Independent Non-Executive Directors. The Chair of the Board is responsible for taking the lead, with the assistance of the Company Secretary, in providing a comprehensive induction programme for new Directors. A formal induction programme, aligned with the Induction Policy, informs new Directors about the Bank and selected operations. The induction programme includes engagements with the executive management team responsible for the day-to-day management of the businesses and external training as and when required.

Directorship and time commitment

The Board has set a limit on corporate boards a director may serve on. On an annual basis, directors submit directorships declaration detailing other directorships, amount of time involved in discharging their responsibilities on other directorships and confirm that they are able to devote sufficient time to discharging their duties as a Director of the Bank effectively.
The Directors' Affairs Committee conducts an annual assessment to ensure that Directors have adequate time to perform their work, prepare for meetings and actively participate in discussions as well as availing themselves at *ad hoc* meetings as and when required.

The Chairman

The Chairman of the Board is an Independent Non-Executive Director. In terms of Board-approved policies, there is an equal balance of power and authority at Board level, and no one individual has unfettered decision-making powers.

The Chief Executive Officer

The Chief Executive Officer (CEO) is appointed by the Board. The roles and duties of the Chairman and the CEO are separate. The CEO chairs the Executive Committee, thereby leading the implementation and execution of approved strategy, policy, and operational planning. The CEO is accountable and reports to the Board on the day-to-day operations of the Bank as well as the implementation of the approved strategy.

Changes to the Board

The Board has appointed Ms D Moephuli as the Chairman of the Capital Adequacy and Risk Committee and Ms S Rapeti as the Chairman of the Remuneration Committee effective 4 April 2024 and appointed Mr Mohsin Nathani to the Board as a Non-Executive Director effective 6 September 2024. Mr O Grobler has retired effective 31 March 2024.

Meetings and attendance

The Board met four times during 2024, in addition to special meetings and informal interactions between senior management and Executive Directors. Directors who are unable to physically attend a meeting, may attend through teleconference to allow them to participate in the decision-making process.

Members attended all scheduled meetings during the year.

Board members	Number of meetings attended
Y Singh (Chairman)	4/4
M Habib*	4/4
LP Fourie	4/4
N Mnxasana	4/4
D Moephuli	4/4
S Rapeti	4/4
M Nathani@*	2/2
A Iqbal#	4/4
A Cameron#	4/4

* Non-Independent Non-Executive Director
\# Executive Director
@ Appointed 6 September 2024

Board duties and responsibilities

The Board discharges its duties through policies and frameworks and is supported by five Board Committees. Comprehensive management reports are distributed to the Board prior to each meeting, while relevant reports are shared with Board Committees to provide an in-depth perspective.

The Chair of each Board Committee submits a quarterly report detailing the Board Committee's activities and providing recommendations to the Board to facilitate comprehensive discussions. On a monthly basis, all Directors receive financial information that includes, but is not limited to, the statement of comprehensive income and the statement of financial position.

Corporate Governance Report continued

All Directors are regularly updated on statutory, regulatory, financial, non-financial, and industry developments that may impact the Bank. Furthermore, all Directors have full access to management, the Company Secretary, and independent professionals, as well as unrestricted access to all documentation required to discharge their duties.

The Board Charter provides an overview of Board policies and practices concerning corporate governance, declarations of conflicts of interest, Board meeting documentation and procedures, composition, and the nomination, appointment, induction, training, and evaluation of Directors and Board Committee members.

The Board's performance is evaluated against the guidelines set out in the work plan of the Charter. The Board further has a fiduciary duty to act in good faith, with due care, skill and diligence, and in the best interest of the Bank.

The powers and responsibilities of the Board include the following:

- Ensuring that the Bank is seen as a responsible corporate citizen by taking into consideration to not only the financial aspects of business but also the impact that the Bank has on the environment and society within which it operates
- Developing clear definitions of materiality in order to determine the scope and delegation of its authority to ensure specific powers are reserved for the Board
- Reviewing the corporate governance process annually and report to the Prudential Authority (PA) as set out in Regulation 39(18) of the Banks Act
- Reviewing reports from management on strategic matters and discussing emerging matters that could affect the business
- Performing an annual assessment of the Internal Capital Adequacy Process of the Bank and report to the Prudential Authority
- Ensuring that Board and Board Committee members receive appropriate and ongoing training so they can properly discharge their duties in the best interests of the Bank
- Monitoring performance of the Bank through various Board Committees

Delegation of Authority

The Delegation of Authority provides the authority to implement and execute approved strategies. It is reviewed annually by management and approved by the Board to ensure this authority remains aligned with risk appetite, strategy and appropriately balances governance oversight with operational efficiency. The Board is satisfied that the Governance Framework and Delegation of Authority provide role clarity while contributing towards the effective exercise of authority.

Board performance and independent evaluations

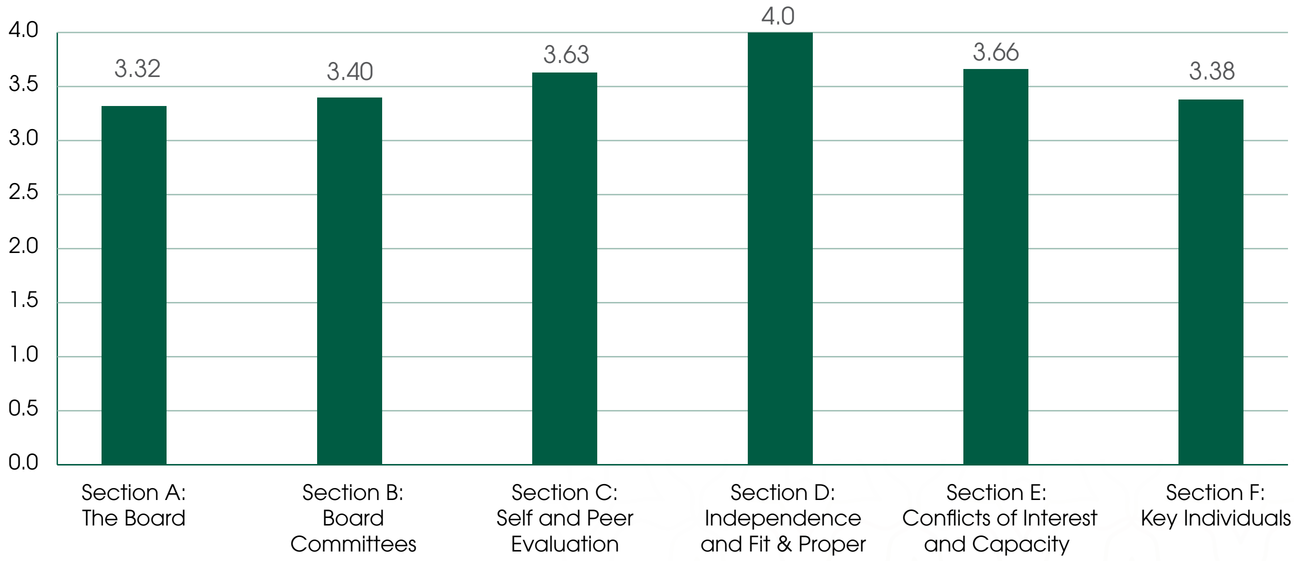
The Board of Directors appointed Acorim (Pty) Ltd (Acorim), a division of Merchantec Capital, to conduct an independent evaluation of the Board, Board Committees, Independent and Non-Independent Non-Executive Directors and the Chairman of the Board and Board Committees.

The results of the Board Independent Evaluation confirm that the Board is performing well, with an overall average score of 3.56 out of 4.00 (89%). This score indicates that the Board is confident in its overall performance and contributions to the Bank, with minimal areas of improvement identified. The results further confirm that there is a healthy and transparent relationship between the Board and the CEO with a formal delegation of authority that effectively separates duties and responsibilities. The Board is satisfied that the evaluation contributes to continuous improvement of the Board's performance and effectiveness.

The areas of improvement will be dealt with as part of the governance process by the relevant Board Committees in the 2025 financial year.

Corporate Governance Report continued

The below graph details the main sections and the average score:



Board Committees

The Board is supported by five Board Committees. The responsibilities of each Committee, and the skills and qualifications required for Committee membership, are clearly defined, captured, and approved by the Board. The details of the Board members are on page 4 of this Annual Report.

Audit Committee

The Audit Committee operates under Board-approved Terms of Reference, assisting the Board to fulfil its oversight responsibility on corporate governance. Its specific responsibility is to ensure accurate financial reporting and the existence of appropriate financial systems and controls. The Committee assists the Board in its oversight of the integrity of the financial statements through the evaluation of the adequacy and efficiency of internal control systems, internal financial controls, accounting policies for financial, corporate reporting processes and compliance with rules and regulations relating to financial reporting.

Composition and attendance

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

The Chief Executive Officer, Chief Financial Officer, Head of Internal Audit, Head of Compliance and External Auditors are standing invitees to Committee meetings but do not vote. Other members of the Board are also encouraged to attend. Internal audit and external auditors have unfettered access to Committee members.

Four meetings were held during 2024 with attendance in accordance with requirements.

Committee members	Number of meetings attended
LP Fourie (Chairman)	4/4
D Moephuli	4/4
N Mnxasana	4/4

Main statutory and regulatory duties

The duties and responsibilities of the Committee are:

- Assisting the Board in evaluating the adequacy and efficiency of the Bank's internal control systems, accounting practices, information systems, and auditing processes applied in the day-to-day management of its business
- Introducing measures that, in the Committee's opinion, enhance the credibility and objectivity of the Bank's annual financial statements and reports
- Nominating an independent registered auditor for appointment as the Bank's auditor
- Determining the terms of engagement and fees payable to the auditor
- Ensuring that the auditor's appointment complies with the Companies Act and any other applicable legislation governing the appointment of auditor
- Determining, subject to the Companies Act, the nature and extent of non-audit services the auditor may provide to the Bank, or any services the auditor is prohibited from providing to the Bank or a related company

Corporate Governance Report continued

- Receiving and addressing concerns or complaints, whether raised internally or externally, or on its own initiative, relating to:
  - The Bank's accounting practices and internal audit functions
  - The content or auditing of the Bank's financial statements
  - The Bank's internal financial controls
  - Any other related matter
- Make submissions to the Board on any matter concerning the Bank's accounting policies, financial controls, record-keeping, and reporting
- Performing any other function determined by the Board, including the development and implementation of a policy and plan for a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, compliance, control, and governance processes within the Bank

During the 2024 financial year, the Committee assisted the Board with:

- Reviewing quarterly Chief Financial Officer (CFO) reports, business performance reviews, budgets and received quarterly reports on the Bank's tax position and status of compliance
- Assessing the quality, performance, and delivery of the internal audit plan, scope of work performed, level of resources, and coverage of the audit plan
- Review reports submitted by the compliance function and consider risks evaluated by Chief Risk Officer (CRO)
- Reviewing the CFO's performance as well as the performance and independence of the Head of Internal Audit and Head of Compliance, all of which were confirmed to be satisfactory
- Monitoring the integrity of the Annual Financial Statements and recommending them to the Board for approval
- Reviewing the 2024 Annual Report and considering the fair presentation thereof

In 2025, the Bank's focus areas are to continue to:

- Monitor business and financial performance in line with anticipated strategic outcomes
- Monitor anti-money laundering (AML) and financial crime compliance activities as well as compliance management
- Enhance the completeness of the combined assurance approach

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

CAPITAL ADEQUACY AND RISK COMMITTEE

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

Composition and attendance

The Committee is made up of both Independent and Non-Independent Non-Executive and Executive Directors with an Independent Non-Executive Director being the Chairman. Four meetings were held during 2024 with attendance in accordance with requirements.

Committee members	Number of meetings attended
D Moephuli (Chairman)	4/4
LP Fourie	4/4
N Mnxasana	4/4
S Rapeti	4/4
M Nathani@	1/1
A Cameron#	4/4
A Iqbal#	4/4

@ Appointed 2 December 2024

Executive Directors

Main statutory and regulatory duties:

The duties and responsibilities of the Committee are:

- Assessing the Bank's capital management strategy at least once per annum through the Internal Capital Adequacy Assessment Process
- Assisting the Board in managing the Bank's capital requirements to ensure sufficient capital is maintained to support future growth, considering stress-testing scenarios
- Evaluating the adequacy and efficiency of the Bank's risk policies, procedures, practices, and controls applied in the day-to-day management of its business
- Identifying the buildup and concentration of various risks to which the Bank is exposed
- Developing a risk mitigation strategy to ensure the Bank manages risk optimally
- Ensuring that a formal risk assessment is conducted at least annually
- Monitoring key risks and key performance indicators regularly to support informed decision-making and maintain the accuracy of reporting
- Establishing and implement internal controls and review processes to ensure the integrity of the overall risk and capital management process

Corporate Governance Report continued

- Facilitating and promoting communication between the Board and Executive Officers regarding matters within the Committee's authority through established reporting structures
- Ensuring the establishment of an independent risk management function, with the head of this function serving as the reference point for all risk management aspects within the Bank, including training Board members on various risk areas
- Introducing measures to enhance the adequacy and efficiency of the Bank's risk management policies, procedures, practices, and controls
- Coordinate the monitoring of risk management on a global basis
- Establishing and implementing policies and procedures to ensure the Bank identifies, measures, and reports all material risks
- Developing and implementing a process that aligns capital with the level of risk

During the 2024 financial year, the Committee assisted the Board with:

- Ongoing management of the Bank's capital requirements to ensure sufficient capital is maintained to support future growth expectations, considering stress-testing scenarios. Despite economic challenges, the Bank's capital adequacy ratio remained above the Prudential and Board minimum requirement
- Evaluating the adequacy and efficiency of the Bank's risk policies, procedures, practices, and controls applied in the day-to-day management of its business
- Monitoring the identification of the buildup and concentration of various risks to which the Bank is exposed
- Reviewing the annual refresh of risk appetite statements and metrics
- Monitoring the risk mitigation strategy to ensure the Bank manages risk optimally

Planned focus areas in 2025:

- Continuing to focus on the Committee's core activities, as outlined in its Terms of Reference
- Monitoring climate change-related risks and opportunities
- Considering detailed risk reports from the Chief Risk Officer (CRO), the residual risk profile, and key risk trends, including top-of-mind topics related to various risk exposures

DIRECTORS' AFFAIRS COMMITTEE

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

Composition and attendance

In line with the Terms of Reference, two meetings were held during 2024. Executive Directors and the CFO were invited to attend. Attendance at these meetings was in accordance with the requirements of the Terms of Reference.

Committee members	Number of meetings attended
Y Singh (Chairman)	2/2
LP Fourie	2/2
N Mnxasana	2/2
D Moephuli	2/2
S Rapeti	2/2
M Nathani@	1/2

@ Appointed 2 December 2024

Main statutory and regulatory duties:

The main duties and responsibilities of the Committee are to:

- Assisting the Board in establishing and maintaining a Board Directorship continuity programme, which includes:
  - Reviewing the performance of, and planning for, successors to the Executive Directors
  - Implementing measures to ensure continuity of Non-Executive Directors
  - Regularly reviewing the composition of skills, experience, and other qualities required for the Board's effectiveness
  - Conducting an annual self-assessment of the board as a whole, its diversity and evaluating the contribution of each individual director
- Assisting the Board in nominating successors for key positions within the Bank to ensure a structured management succession plan is in place
- Supporting the Board in determining whether the services of any Director should be terminated
- Conducting an annual assessment of each Director to determine whether:
  - Directors classified as independent continue to exercise objective judgement
  - No interest, position, association, or relationship exists that, from the perspective of a reasonable and informed third party, would unduly influence or cause bias in the Director's decision-making

Corporate Governance Report continued

During the 2024 financial year, the Committee assisted the Board with:

- Reviewing Directors' declarations regarding their status as Independent Directors to ensure they meet the independence criteria, continue to exercise objective judgement, and have no interests that could unduly influence or bias their decision-making
- Evaluating the adequacy, efficiency, and appropriateness of the Bank's corporate governance structures and practices
- Reviewing the composition, skills, experience, and qualifications of Directors to assess whether additional expertise was required within the Board
- Recommending the appointment of Independent Non-Executive Directors

Planned focus areas in 2025:

- Overseeing Board and Board Committees succession planning
- Continuing to assess the independence and performance of Non-Executive Directors to ensure a balanced and independent Board

SOCIAL, ETHICS AND CONDUCT COMMITTEE

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

Composition and attendance

The Board appoints the Chairman of the Committee who is an Independent Non-Executive Director. The Committee is made up of Non-Executive and Executive Directors. The Committee held four meetings during the period under review.

Committee members	Number of meetings attended
N Mnxasana (Chairman)	4/4
S Rapeti	4/4
M Nathani@	1/1
A Cameron	4/4

@ Appointed 2 December 2024

Main statutory and regulatory duties

The main duties and responsibilities of the Committee are to:

- Govern the Bank's ethics in a manner that fosters an ethical culture, which includes:
  - Setting the direction for ethics in the Bank
  - Approving codes of conduct and ethics policies, ensuring they encompass all stakeholders and key ethical risks
  - Ensuring stakeholders are familiar with codes of conduct and ethics-related policies
  - Delegating the implementation of codes of conduct and ethics policies to management and overseeing their enforcement, including areas such as recruitment, employee remuneration, supplier selection, breach management and whistleblowing
  - Reporting on the management of ethics within the Bank, focus areas, monitoring measures, and how ethical outcomes are addressed
  - Ensuring management has implemented effective staff training on the following topics:
    i. Fraud prevention
    ii. Data protection
    iii. Treat Customer Fairly
    iv. Information security
  - Ensuring that management has Codes of Conduct addressing:
    i. Whistleblowing
    ii. Anti-bribery and corruption
    iii. Conflicts of interest
- Monitor the Bank's activities and ensure policies are in place to establish the Bank as a responsible corporate citizen by overseeing governance in the following areas:
  - Economy: Economic development, fraud and corruption, Broad-Based Black Economic Empowerment
  - Environment: Environmental impact, pollution, waste disposal, biodiversity, climate change
  - Workplace: Employment equity, decent work, employee safety and health, employee relations, employee education, fair remuneration, organisational ethics
  - Society: Community development, donations and sponsorships, public health and safety, advertising, consumer protection, consumer relations, human rights, and stakeholder relations

During the 2024 financial year, the Committee assisted the Board with the:

- Monitoring of the Bank's activities regarding social and economic development, business conduct, transformation, market conduct (including the customer complaint process), ethics, and corporate social investments
- Ensuring management has implemented effective staff training on the above topics as well as fraud prevention, data protection, Treating Customer Fairly (TCF), and information security

Corporate Governance Report continued

- Report to the Shareholder at the Bank's Annual General Meeting on the matters within its mandate

Planned focus areas in 2025:

- Progress in all elements of the B-BBEE transformation scorecard
- Monitor progress on employment equity plans and barriers to achieving targets
- Monitor the Bank's corporate citizenship approach, as well as objectives that promote equality, prevent unfair discrimination and corruption, and support Corporate Social Investment (CSI) initiatives, corporate sponsorships, and donations
- Continuing to monitor the effectiveness of the compliance framework and the approach to regulatory compliance and mandatory compliance training

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

REMUNERATION COMMITTEE

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

Composition and attendance

The Chairman is an Independent Non-Executive Director. The Remuneration Committee comprises of Independent Non-Executive Directors only. The Committee met twice during 2024 in addition to special meetings to execute its duties.

Committee members	Number of meetings attended
S Rapeti (Chairman)	2/2
LP Fourie	2/2
D Moephuli	2/2

Main statutory and regulatory duties:

The duties and responsibilities of the Committee are to:

- Exercise competent and independent judgement on compensation policies, processes, and practices ensuring that remuneration is fair and adequate
- Ensure that all relevant decisions align with an assessment of the Bank's financial condition and future prospects
- Collaborate with the Bank's Capital Adequacy and Risk Committee to evaluate the incentives created by the compensation system and consider and approve incentive schemes
- Ensure that the Bank's compensation policy, processes, and procedures comply with the relevant requirements specified in the Regulations and any additional requirements specified in writing by the Authority
- Conduct an annual compensation review independently of management, assessing the Bank's compliance with the Regulations and any additional requirements specified in writing by the Authority
- Ensure that the remuneration of employees in risk control and compliance functions is determined independently of all relevant business areas and is sufficient to attract qualified and experienced staff
- Ensure that performance measures are primarily based on achieving Board-approved objectives for the Bank and its relevant functions
- Consult with Shareholder

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

Corporate Governance Report continued

COMPANY SECRETARY

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

The Company Secretary is responsible for the duties as stipulated in Section 88(2) of the Companies Act 71 of 2008, as amended. The Board recognises the pivotal role the Company Secretary plays as the guardian of corporate governance within the Bank.

In addition to the statutory duties, the Company Secretary is expected to:

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

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

EXECUTIVE COMMITTEE

The CEO and Executive Officers are accountable to the Board for developing, implementing, and monitoring corporate governance processes. They are also responsible for integrating these processes into the Bank's day-to-day activities and providing the Board with sufficient information to assess the level of corporate governance.

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

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

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

- Compliance Committee, chaired by the Head of Compliance
- Risk Management Committee, chaired by the CRO

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

COMPLIANCE

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

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

RISK MANAGEMENT

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

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

Corporate Governance Report continued

INTERNAL CONTROL

The Board is 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 Bank's internal controls are designed to provide assurance regarding the:

- Integrity, accuracy, and reliability of the accounting records
- Accountability of the safeguarding and verification of assets
- Detection and prevention of risks associated with fraud, potential liabilities, loss, and material misstatements
- Effectiveness and efficiency of operations
- Compliance with applicable laws and regulations

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

INTERNAL AUDIT

The Bank's independent internal audit function supports management in effectively discharging its responsibilities. The department is led by the Head of Internal Audit, a senior, suitably qualified, and experienced executive officer who reports to the Audit Committee. Internal audit operates independently of Executive Management and has unrestricted access to the Chairman of the Audit Committee, as well as all staff and information required to execute its duties.

Internal audit is appointed by the Audit Committee. Financial and Regulatory audits are co-signed with an independent audit firm.

REGULATION AND SUPERVISION

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

Where appropriate, the Bank participates in discussion groups with various regulators to ensure the latest knowledge and insight is gained to maintain efficient and compliant operations within the regulatory framework.

PUBLIC DISCLOSURE OBLIGATIONS

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

Risk Management Framework

RISK MANAGEMENT PHILOSOPHY

The primary purpose of the Risk Management Framework is to ensure the Bank's long-term financial sustainability and operational resilience by implementing best banking practices and fostering a sound and prudent risk culture across all business lines.

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

The Bank defines risk as any factor that could prevent it from achieving its desired business objectives or result in adverse outcomes, including reputational damage. The Bank acknowledges that risk is an inherent and unavoidable aspect of banking and, therefore, seeks to take calculated business risks in line with its risk appetite.

The Board enforces a conservative approach to its overall risk appetite and fully endorses efforts to achieve the best international practices in risk management.

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

- Protecting the Bank's financial strength by managing risk exposures and avoiding potential undue risk concentrations
- Protecting the Bank's reputation through a sound risk culture, full compliance with regulatory requirements, and adherence to ethical standards and principles
- Systematically identifying, classifying, and measuring risks by applying best practice
- Ensuring management accountability whereby Business Line Management, rather than risk control, owns all risks assumed throughout the Bank and is responsible for the continuous and active management of all risk exposures to maintain a balance between risk and return
- Organising independent risk control functions or units to monitor the effectiveness of the business's risk management and oversee risk-taking activities
- Disclosing risks to the executive committee, Board of Directors, Regulators, and other stakeholders with an appropriate level of comprehensiveness and transparency
- Maintaining a strongly defined risk management structure
- Engaging in independent review and oversight of the risk process
- Performing continuous evaluation of the risk appetite of the Bank through clearly defined limits
- Communicating and coordinating between the Committees, Executive Management and other role-players in the risk management framework without compromising segregation of duties, controls, or review

COMBINED ASSURANCE

The Audit Committee promotes a coordinated approach to all assurance activities. It reviews the work of external auditors, internal auditors, compliance, and independent assurance providers and assesses their adequacy in addressing significant financial risks facing the Bank that could impair the integrity of information used for decision-making and external reporting.

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

The five lines of assurance include:

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

ORGANISATIONAL STRUCTURE AND GOVERNANCE

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

In line with international best practice, various Board Committees oversee policy formulation and implementation while monitoring risk management processes and exposures. The main Board Committees are the Audit Committee and the Capital Adequacy and Risk Committee.

Risk Management Framework continued

In addition, the Risk Management Committee, the Assets and Liabilities Committee, the Compliance Committee and the Credit Committee are management committees appointed to enhance the Bank's Risk Management Framework further.

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

RISK ASSESSMENT

The Board reviews the relevant risk areas bi-annually. The risk assessment is based on exposure data and risk analysis provided by the risk department of the Bank. This covers liquidity risk, market risk, credit risk, concentration risk, operational risk, and other relevant risk types. 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)

The Capital Adequacy and Risk Committee comprises of seven members and four of its members are Independent Non-Executive Directors. The Chairman of the Committee is an Independent Non-Executive Director appointed by the Board. The Committee has the power to investigate any activity within the scope of its Terms of Reference. In the fulfilment of its responsibilities, the Committee may call upon the Chairs of the other Board Committees, any of the Executive Directors, Executive Officers or the Company Secretary to provide it with information necessary to carry out its mandate subject to following a Board-approved process.

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

The main responsibilities of the CARC are to:

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

Four meetings were held during the 2024 calendar year with attendance in accordance with requirements.

Risk Management Committee (RMC)

The RMC has a written charter clearly setting out its responsibilities, authority, and functions. The Terms of Reference are 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 the effectiveness of risk identification and compliance with internal guidelines and external requirements in support of the Bank's strategy.

The main responsibilities of RMC are to:

- Ensure risks are identified, measured, controlled, monitored, and reported
- Review the Bank's risk profile and appetite
- Set and review policies, control standards, risk exposure limits or other control levers
- Initiate stress tests and scenario plans and review their results
- Review the credit risk regulations, policies, procedures and credit impairment provisions
- Review the operational risk regulations, policies, procedures, IT and third-party application systems, key risk indicators, and events
- Review the risks associated with material outsourced services that are provided to the Bank

Risk Management Framework continued

- Ensure that all risk reports presented to management and the Board align with the Bank's Risk Data Aggregation and Risk Reporting Framework
- Review all risks individually and anticipate any resulting risk issues
- Review all matters raised by Internal Audit and External Auditors

In executing its duties, the RMC reports to the CARC.

The RMC is chaired by the CRO and is made up of the CEO, CFO, the COO and Head of Compliance. The Company Secretary, Head of Internal Audit and the Operational Risk Manager attend as observers. Area Managers are invited to attend as and when required by the Committee. During 2024, the RMC met four times as per the Terms of Reference.

Credit Management Committee (CMC)

The Credit Management Committee is chaired by the CRO and comprises the CEO, Senior Credit Manager, and Area Managers (KZN and Gauteng). The CMC is the Bank's credit decision-making body. It approves all credit proposals and reviews and monitors all credit risks that fall within its Board-approved competency.

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

Assets and Liabilities Committee (ALCO)

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

The main responsibilities of this Committee are to:

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

The Committee is chaired by the CFO and includes the CEO, CRO, and Treasury Manager. In 2024, the ALCO met four times as per its Terms of Reference. Minutes were kept and filed.

Compliance Committee (CC)

The Compliance Committee is chaired by the Head of Compliance and is made up of the CEO, CFO, CRO, COO and Area Managers. The Committee has written Terms of Reference and is responsible for overseeing the compliance function in the Bank. The Terms of Reference are 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 following reports:
  - list of high-risk accounts and provide recommendations
  - list of accounts that the Bank has reported to the FIC as suspicious in nature
- Review the account opening procedures to ensure that they meet local regulatory requirements
- Review reports from the Head of Compliance on the following:
  - observations from branch compliance inspections
  - accounts opened since the last meeting (to ensure they have been correctly risk assessed)
  - number and type of outstanding compliance monitor transactions

Risk Management Framework continued

- Report on all market conduct related issues affecting the Bank and its level of compliance
- Review the list of new acts or regulations promulgated since the last Compliance Committee meeting, assess their impact on the Bank and ensure that the Bank is compliant with them (if applicable)

In executing its duties, the Compliance Committee reports to the Audit Committee.

The Committee met as required in 2024.

Risk Appetite

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

RISKS DIRECTLY IMPACTING THE BANK AND THE MANAGEMENT THEREOF

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

RISK CLASS	RISK TYPE
Strategic and business risk	• Strategic risk • Business risk • Concentration risk • Solvency risk • Capital adequacy risk
Liquidity risk	• Liquidity funding risk
Market risk	• Interest rate risk
Credit risk	• Credit risk – general • Counterparty risk • Settlement risk
Operational risk	• Operational risk (including IT risk) • Cyber risk • Human capital risk • Fraud risk • Physical security risk
Legal, compliance and tax risk	• Legal risk • Compliance risk • AML risk • Sanctions risk • Tax risk
Conduct risk	• Conduct risk
Reputation risk	• Reputation (including Shariah risk)
Systemic risk	• Systemic risk

Risk Management Framework continued

STRATEGIC AND BUSINESS RISK

1. Strategic risk

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

The Bank proactively manages this risk by ensuring that:

- Governance and ownership for strategic risk management are well-established
- All stakeholders responsible for strategy and risk management are effectively integrated
- Risk review processes are in place that allow for independent oversight and the challenging of strategies, which are linked to risk appetite setting
- Risk frameworks are in place to assess risk impacts on key business variables
- Strategic objectives and direction of the organisation, including the associated risks, are determined at Board level
- Strategic planning and decision-making processes are thorough
- Management has sufficient information about how the business is performing, and about relevant aspects of economic, commercial, and technological environments
- Management is balanced in skills, knowledge, and experience to assess the variety of strategic risks the organisation faces
- The Bank has the ability to respond to abrupt changes or fast-moving conditions
- Strategic risks are avoided or rejected when potential impacts are too significant or when the probability of success is too low to justify the returns offered
- Change risk assessments are performed for all new initiatives such as the launch of new products and business processes as well as the setup of new branches
- Detailed key performance indicators (KPIs) are in place to measure results, identify risks that may drive variability in performance, and highlight areas for improvement
- The Bank has established key risk indicators (KRIs) and tolerance levels for critical risks which provide forward-looking indicators that may anticipate potential roadblocks.
- The KRIs are monitored on a continuous basis to not only manage risks but take advantage of opportunities as they arise

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

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

- Continuous review of risk management aspirations, including setting clear objectives and defining risk levels and appetite
- Agile risk management practices that enable quick decision-making on innovation and risk management to mitigate an increasingly unpredictable environment
- A strong risk culture set by the Board and senior management, ensuring the Bank can respond swiftly to emerging threats

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 counterparties, industry, commodity, product and type of security held
- Clearly defined counterparty exposure limits
- Managing and supervising 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 exposures at Board level
- Performing stress testing where applicable in the identification of concentration risk
- Reviewing the concentration risk at each risk meeting

Taking appropriate action when issues of concern are identified, such as reducing thresholds on risk concentrations, adjusting business strategy to address undue concentrations, or diversifying asset allocation and funding in line with the Bank's risk appetite.

Risk Management Framework continued

4. Solvency risk

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

As part of its risk management system, the Bank conducts a risk and solvency assessment to ensure adequate capitalisation and access to additional sources of capital to address a wide range of scenarios. This assessment is an integral part of the Bank's strategy and is continuously considered in strategic decision-making.

Solvency risk is further mitigated by the effective management of major risks, both individually and collectively, ensuring that there is no risk of insolvency. Signs of failure in any of these risks serve as a precursor to solvency risk being red-flagged.

The Bank's investment in relatively short-term, high-quality liquid assets (HQLA), where capital is guaranteed, ensures its ability to meet commitments.

5. Capital adequacy risk

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

The management of the capital adequacy risk is governed by an effective risk management framework, with an independent Capital Adequacy and Risk Committee overseeing and reviewing the risk.

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

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

The Board has developed an Internal Capital Adequacy Assessment Process (ICAAP) and set capital targets that are commensurate with the Bank's risk profile and control environment, ensuring the Bank has adequate capital to support its risks beyond minimum requirements. During 2024, the Board reviewed the capital management and capital adequacy processes and confirmed that it achieved the specified objectives.

LIQUIDITY RISK

1. Liquidity risk

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

The Bank controls liquidity at source by having strong internal controls, simplifying its product range, and having a centralised treasury function. The liquidity risk management controls ensure sufficient liquidity to meet payment obligations even under stress conditions.

The Bank is conservative in its management of liquidity risk. It 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 proactively. 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 a Recovery Plan, which consider various stress test scenarios and funding sources. The Bank conducts comprehensive stress tests for cases where an intraday liquidity shortfall is predicted, such as a sudden drain in funds due to a 'run' on the Bank or a single large bank placement becoming irrecoverable.

Bank funding is primarily obtained through deposits which are mainly at sight or short-term deposits. Excess liquidity is held as bank placements or financial investments, with the latter primarily consisting of high-quality liquid investments.

The contractual maturities of the Bank's financial assets exceed those of its financial liabilities. When determining maturity gaps, the stability of deposits is considered, significantly reducing these gaps. While the Bank is exposed to potentially larger deposit outflows and sudden adverse market developments, related scenarios have been analysed as part of the Bank's liquidity stress tests. The results indicate that available liquid assets could absorb projected outflows.

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

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

Risk Management Framework continued

MARKET RISK

Market risk is the risk of potential losses that may result from changes in the valuation of the Bank's assets due to changes in market prices, volatilities, or other valuation-relevant factors. The Bank's exposure to market risk is limited to Interest Rate Risk.

1. Interest rate risk

Interest rate risk is the risk of losses to the Bank due to adverse variations in interest rates i.e., the effect of changes in market interest rates on the Banks' financial condition.

The Bank's interest rate risk in the banking book refers to the current and prospective risk to its capital and earnings arising from adverse movements in interest rates that impact balance sheet positions. The Interest Rate Risk in the Banking Book (IRRBB) approach considers both value and earnings perspectives. For IRRBB, Economic Value of Equity (EVE) sensitivity limits have been defined by the Board, with adherence monitored periodically.

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

- Ensuring that the majority of the Bank's borrowing and lending activities are at variable rates so as to allow for relatively stable interest rate margins
- Having the ALCO review and monitor 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
- Reviewing the interest rate management process at each Capital Adequacy and Risk Committee meeting while considering the impact of a rate increase/decrease on the Banks profitability
- The focused range of products offered by the Bank that facilitate the management of Interest Rate Risk

CREDIT RISK

1. Credit risk

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

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

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

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

- A clear definition and in-depth understanding of its niche client base
- A centralised credit department to manage credit applications and related security
- An adequate and clear segregation of duties established among the various organisational units involved in the acquisition of credit business, the analysis and approval of a credit request, and the subsequent administration
- Detailed credit granting procedures, including rigorous assessment of the creditworthiness of all parties
- Detailed and documented account opening procedures and due diligence requirements
- An emphasis on diversification of the Bank's client base, limiting single-party exposure as well as exposure to certain industries
- Formation of high-level credit committees with clearly defined limits
- Periodic and routine review of facilities against, *inter alia*, updated financial information
- Detailed credit inspection, quality review, and prompt follow-up by high-level management, the independent external and internal auditors
- Executive and Non-Executive Directors involvement in decision-making and review
- Strict adherence to the regular revaluation of the Bank's collateral
- 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 watchlist reports
- Structured procedure for recovery of non-performing accounts as per the Bank's impairment policy
- A clear policy on the appropriate provisioning in respect of the estimated loss inherent in the advances book

2. Counterparty risk

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

The Bank proactively 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
- Dealing only with banks and sovereigns situated in countries that have a well-regulated banking industry

Risk Management Framework continued

3. Settlement risk

Settlement risk is the risk that a third-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, all of which arise due to the possibility that a counterparty may fail to settle a trade.

The Bank proactively manages this risk by:

- Utilising currency-matched funding
- Establishing sub-limits by currency
- Implementing independent limit adherence controls
- Prohibiting staff from engaging in foreign exchange speculation or holding uncovered forward positions
- Allowing only short-term open positions on NOSTRO accounts within conservative limits stipulated by the Board for each currency. These limits are reviewed on an annual basis and are lower than the 10% of qualifying net capital and reserves limit stipulated by the South African Reserve Bank
- Monitoring, on a daily basis:
  - The overbought and oversold positions to ensure all forward positions are covered
  - The open position of the Bank to ensure it is within the limit stipulated by the Board
- Monitoring, on a monthly basis, the open position of the Bank 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
- Dealing only with correspondent banks that have been carefully selected by the Bank and approved by the Board. This selection includes evaluating the risks and benefits of using one or more correspondent banks to settle its FX transactions in each currency
- Ensuring that all FX deals are settled via payment-*versus*-payment (PVP) settlement. PVP is a mechanism that ensures the final transfer of a payment in one currency if, and only if, a final transfer of a payment in another currency occurs, thereby removing principal risk. In a basic PVP arrangement, a trade will settle only if a bank and its counterparty pay in the correct amount. If the counterparty fails to pay in, a bank will receive back the currency it was selling, thus providing protection against principal risk
- Signing a legally enforceable collateral arrangement (ISDA credit support annexes) to mitigate its replacement cost risk. Collateral arrangements should describe the parties' agreement on all aspects of the margining regime, including collateral eligibility, timing and frequency of margin calls and exchanges, thresholds, valuation of exposures, and collateral and liquidation

OPERATIONAL RISK

1. Operational risk (including IT risk)

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. To effectively manage these risks, the Bank employs a comprehensive operational risk management framework consisting of the following key processes:

- The use of key risk indicators
- Executing change risk assessments
- Conducting risk self-assessments
- Risk event management
- Issuing management with action-tracking capabilities

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

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

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

- Continuously updating procedure manuals to incorporate best practice methodologies
- Centralising operational processes to improve accuracy and efficiency
- Regularly reviewing accounts, including reporting large transactions with meaningful comments
- Appropriate investment in computer technology to support operations
- Regular testing of security equipment and processes
- Ensuring effective Business Continuity Management and Disaster Recovery processes are in place
- Having independent internal and external audit checks and review of controls
- Having an independent Risk Management Committee, made up of senior management, meet quarterly with a detailed agenda that includes addressing the major operational risk issues

Risk Management Framework continued

- Having comprehensive insurance cover for any material losses
- Outsourcing critical and material services for activities that are performed by third parties on behalf of the Bank
- Having a risk data aggregation risk reporting policy to ensure management is provided with accurate information for decision-making purposes
- Maintain the Bank's internal operational risk loss reporting mechanism that identifies and quantifies 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 bank's reputation from a failure of its information technology systems, network, and/or transaction sites.

Cyber risk has become a key focus area, given the increasing frequency and sophistication of cyber-attacks on organisations globally and locally. Advanced cyber and malware attacks, including distributed denial-of-service (DDoS) and ransomware attacks, pose a growing threat to financial institutions.

The Bank has an established formal governance framework for cyber risk, outlining its risk-based approach and response to cyber threats.

The Bank actively manages this risk through the following measures:

- Designing and engineering systems to the best levels of security
- Promoting staff awareness and training on cyber risk-related matters
- Communicating with customers to validate critical transactions
- Providing regular updates on external events at other institutions and organisations, including scams, email hacking, and e-banking breaches
- Conducting in-depth assessments of incidents affecting the Bank and reporting on these events to senior management to minimise financial and reputational damage
- Securing insurance cover, wherever possible, for financial losses caused by cyber risks
- Ensuring responsibility for managing cyber risk is clearly defined
- Implementing policies and a procedures manual covering information security and access control Monitoring and reviewing cyber risks at the periodic Risk Management Committee meeting

3. Human Capital risk

Human capital risk relates to the human skills, knowledge, and ethical conduct component of operational risk and is defined as the risk of an organisation's human resources failing to meet:

- Operational goals (i.e., prevent or mitigate financial losses during normal operations)
- Business resilience and continuity goals (i.e., maintain ongoing operations during a severe business disruption)

4. Fraud risk

The Bank's existing risk framework and capabilities include managing human capital risks, such as employee conduct and standards while incorporating governance and oversight through documented policies, processes, and procedures. In terms of talent acquisition and retention, the Bank has effective recruitment and retention programs which focus on attracting top talent and enhancing employee engagement and satisfaction.

The Bank has comprehensive succession plans in place to address leadership and key employee replacements, which ensures a smooth knowledge transfer and mitigates knowledge loss risks.

The Bank invests in continuous training and upskilling programs to enhance employee competencies and bridge skills gaps.

The Bank also has in place robust compliance frameworks that promote a culture of ethical behaviour throughout the Bank.

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

The Bank's fundamental principles for managing fraud risk include:

- Instilling a sound culture and an ethics and values driven ethos in employees
- Providing appropriate and meaningful staff training on internal and external fraud, including sharing best practices
- Preparing and continually updating the Code of Conduct and Ethics Manual
- Ensuring an effective Complaints and Whistleblower process, supported by well-documented manuals Taking immediate and effective action against any persons implicated in fraudulent activities.
- Maintaining adequate and effective internal controls.
- Ensuring the timely and accurate processing of transactions

Risk Management Framework continued

- Reviewing suspicious transactions and eliminating transactions with blacklisted companies and individuals
- Investing appropriately in technology to support operations
- Conducting independent internal and external audits to check and review controls
- Maintaining an independent Risk Management Committee, composed of senior management, that meets quarterly with a detailed agenda, including fraud risk issues
- Ensuring the Bank has extensive insurance cover for any material losses

5. 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 ensures that:

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

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

LEGAL, COMPLIANCE AND TAX RISKS

1. Compliance and regulatory risk

Compliance risk refers to the risk of financial loss resulting from non-adherence to statutory, regulatory, and supervisory requirements, industry codes of conduct, or internal controls, or from ineffective or inefficient controls.

Compliance risk includes regulatory risk, which arises when the Bank does not comply with applicable laws, regulations, or supervisory requirements. As statutory regulations and directives from central banks increase, the Bank must continuously monitor its adherence to these laws. Compliance risk is recognised as a distinct risk within the Bank's risk management framework.

The Bank has an adequately staffed compliance department to oversee and ensure the effective management of Compliance Risk.

In addition, the Bank has an independent Compliance Committee, made up of senior management, that meets quarterly with a detailed agenda addressing all major compliance and AML issues.

The Bank's compliance function operates independently from internal audit and branch operations. Measures aimed at minimising compliance risks include:

- Developing and implementing policies and procedures related to regulatory requirements, with regular monitoring of adherence
- Raising employee awareness of legal and regulatory issues, particularly when new acts, regulatory requirements, and codes of conduct are introduced, through training and internal directives
- Implementing controls to ensure adherence to the legal and regulatory requirements governing the Bank's operations
- Maintaining an effective system to monitor high-risk transactions, with reports escalated to the relevant compliance officials

In line with the legal and regulatory environment of the industry, the Bank has consistently invested in personnel and technical resources to ensure adequate compliance coverage. A comprehensive framework of policies and regular specialised training sessions ensure that employees receive appropriate ongoing education and training in this area.

2. Anti-money laundering (AML) risk

AML compliance is the process of identifying, assessing, and mitigating the risks associated with money laundering and other criminal activities. It involves implementing internal controls, procedures, and policies designed to reduce the risk of non-compliance and malicious activity.

The Bank has processes and policies that facilitate the monitoring and reporting of suspicious activity. These enable the Bank to monitor and report any suspicious activity that may indicate potential fraud or money laundering. This includes alerts for large transactions, unusual customer activity, and any other abnormalities.

The Bank has in place internal controls that are designed to protect it from fraud and other malicious activities by setting up boundaries and protocols that must be followed. This includes establishing policies and procedures to ensure employees are adhering to the organisation's AML guidelines and that financial transactions are properly monitored and recorded.

The Bank carries out periodic risk assessments that help identify any potential weaknesses in its AML compliance framework and develop plans to address them. This includes assessing the Bank's risk exposure, developing strategies to reduce it, and ensuring that appropriate controls are in place.

Risk Management Framework continued

3. Sanctions risk

Sanction risk takes into consideration the probability of an individual or entity violating sanctions laws, directly or indirectly, through circumstances, layering, or other means. This violation may lead to legal or regulatory penalties, financial loss, or reputational damage caused by the Bank's failure to comply with sanctions laws, rules, and/or regulatory compliance

The Bank's systems and controls, which include the policy, prohibits business relationships or transactions that constitute the direct or indirect, unlawful and wilful provision and collection of funds reasonably thought to be linked to acts of terrorism, proliferation of weapons of mass destruction, or acts prohibited by financial sanctions. The policy ensures the availability of appropriate risk-based training, awareness, communication, and guidance on the policy and related topics for all associated persons subject to it.

4. Legal risk

Legal risk refers to the risk that the Bank may engage in activities or transactions where it is inadequately covered or exposed to potential litigation. It is the risk that failure to meet legal requirements could result in unenforceable contracts, litigation, fines, penalties, claims for damages, or other adverse consequences. These risks may arise from:

- Inadequate documentation or technical defects in the way transactions are carried out
- Infringements of laws or regulations, or acts or omissions–such as negligence or other actions–giving rise to civil or criminal liability

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

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

5. 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 competent staff with relevant qualifications
- Consultation with external tax experts on compl*ex* tax matters where applicable
- Audit of tax compliance by the Bank's external auditors

CONDUCT RISK

Conduct risk refers to the risk of poor outcomes for the Bank's customers arising from the provision of banking services, products, or advice. More specifically, it is defined as the 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

The Bank has mitigated this risk through the following measures:

- Addressing conduct risk within both the Bank's governance structure and operational model by establishing and embedding a strong organisational culture
- Implementing robust controls, ensuring adequate skill sets, and establishing appropriate decision-making capabilities to support the Bank's objective of understanding customer requirements and ensuring fair treatment
- Ensuring compliance with the Code of Conduct
- Aligning the Bank's strategic and business objectives with ethical, efficient, effective, and equitable practices, ensuring:
  - A balance of interests between shareholders and other stakeholders affected by the conduct of Directors or executive officers, within a framework of effective accountability
  - A commitment by the Bank to uphold corporate behaviour that is universally recognised and accepted as correct and proper
- Establishing processes, procedures, and controls to minimise or avoid potential conflicts of interest between the business interests of the Bank/controlling company and the personal interests of Directors
- Ensuring responsible conduct by all Directors and officers of the Bank
- Enhancing employee engagement and ensuring that employees are appropriately skilled and trained
- Promoting risk awareness and ethics training
- Ensuring compliance with applicable laws

Risk Management Framework continued

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 proactively manages this risk by ensuring that:

- There are strong internal values that are regularly and proactively reinforced
- The Bank subscribes to sound corporate governance practices, which require activities, processes, and decisions to be 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 and that these risks are effectively monitored
- 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 that complies with the relevant rules and regulations
- There is compliance with all relevant statutory, regulatory, and supervisory requirements

SYSTEMIC RISK

Systemic risk refers to the risk of disruption to financial services caused by an impairment of all or part of the financial system, with the potential to result in serious negative consequences for the real economy.

It arises from interlinkages and interdependencies within the financial system, where the failure of a single entity or cluster of entities can trigger a cascading failure, potentially leading to the collapse of the entire system.

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

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

United
Arab Emirates

Islamic Banking

As outlined by the Chief Executive Officer in his report, the Bank offers Islamic Banking under SIRAT, offering a complete range of Shariah-compliant products to meet our customer's business and personal banking needs. Islamic Banking is offered through a window operating model, which is a separate ring-fenced division formed solely to offer Islamic financial services.

The Islamic banking division is premised on Islamic financial principles and utilise the established infrastructure of conventional banking. Islamic banking is offered to all our customers, and, like conventional banking, the Bank provides comprehensive Islamic Banking services, including Islamic accounts, financing solutions, and trade financing.

Our Islamic banking division is comprised of Shariah Islamic Experts, including a Shariah Advisor and Shariah Quality Assurance Officer. The Shariah Advisor plays a strategic role by offering expertise and direction, providing Shariah training to staff, dealing with queries that arise from the day-to-day operations of the Bank, and identifying and managing Shariah risks. The Shariah Advisor also provides guidance on product development, from conception to implementation stage. The Shariah Quality Assurance Officer ensures the practical implementation of guidelines within the Bank's operations. Together, they uphold the integrity of Shariah compliance in the Bank. This team oversees and approves all products, contracts, and transactions to ensure they meet Shariah requirements which includes adhering to the prohibition of Riba (interest), Gharar (uncertainty), and any practices not aligned with Islamic values.

The Bank strives to maintain ethical standards and transparency in all dealings. Financial solutions are structured using Shariah-compliant methods such as Murabaha, Diminishing Musharakah, and Mudarabah, to meet the needs of our customers while adhering to Islamic financial principles.

The Bank undergoes a Shariah Compliance Audit on an annual basis to ensure full compliance with Shariah in its day-to-day business activities and that is subscribes to International Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) and AAOIFI Shariah Standards.

We are proud to report that our Shariah Advisor has issued a Shariah Advisor Report for the year ended 31 December 2024, confirming that the Bank has upheld the ethical governance framework of Shariah while providing value to our customers and remaining true to our Islamic banking principles.

SHARI'AH ADVISOR REPORT FOR THE YEAR ENDED 31 DECEMBER 2024

The Management, Customers and the Shareholder of HBZ Bank Limited

I the undersigned have reviewed the policies, contracts and transactions offered by SIRAT HBZ Bank Limited during the year under review. I have endeavored, to the best of my capability, to form an independent opinion based on Standard Operating Procedures of Islamic products, Shari'ah and legal contracts, relevant source documents and appropriate interviews, where necessary. Direction was drawn from our internal Shari'ah Quality and Assurance function, broader domestic scholarly opinion, as well as internationally accepted best practice where applicable and as espoused by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI).

The scope of the audit included, and was not limited to:

1. Murabaha based products
2. Musharaka based products
3. Shari'ah Forward Exchange Contracts
4. Liquidity Management Transactions
5. Profit Distribution procedures
6. Management Accounts
7. Disposal of Impermissible Income
8. Foreign Exchange Transactions
9. Syndicated Financing
10. Sukuk

In addition, HBZ Bank Limited's Global Islamic Banking division seeks to assess the effectiveness of the Bank's Shari'ah Governance Framework and related controls. In this regard, we have, to the best of our ability, endeavoured to comply with applicable directives.
In our opinion:

1. The contracts, transactions and dealings of HBZ Bank Limited – SIRAT during the year under review comply with the applicable Shari'ah Rules and Principles;
2. The allocation of profit and charging of losses relating to investment accounts conform to the basis that we had approved under the applicable Shari'ah Rules and Principles;

Our Shari'ah Governance Framework that comprises a Shari'ah Advisor and a Shari'ah Quality and Assurance Officer has proven effective in trying to uphold and implement Shari'ah principles.

We seek pardon from the Almighty for any oversight and pray for guidance throughout our endeavors. Aameen.

Mufti Ismail Haffejee
Shari'ah Advisor
8 April 2025
9 Shawwaal 1446

Social, Ethics and Conduct Committee Report

It is with great pleasure that, on behalf of the Social, Ethics and Conduct Committee, I present the report for the financial year ended 31 December 2024. This report stands as a testament to our commitment to transparency, accountability, and ethical conduct, as mandated by the Companies Act of South Africa (No. 71 of 2008, as amended) and the King IV Report on Corporate Governance for South Africa, 2016 (King IV).

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

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

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

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

COMPOSITION

The Committee operates according to written Terms of Reference which outline the composition, role, responsibilities, and duties of the Committee. The Terms of Reference are reviewed annually.

The following Directors are members of the Committee:

- Ms N Mnxasana (Chairman) – Independent Non-executive Director
- Ms S Rapeti – Independent Non-executive Director
- Mr M Nathani – Non-executive Director
- Mr A Cameron – Executive Director

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

RESPONSIBILITIES

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

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

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

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

Social, Ethics and Conduct Committee Report continued

- Ensuring that the Bank's financial products and services perform or are executed as the Bank has led financial customers to expect, which expectations include those created through advertising and disclosure.

The Committee also reviews the Bank's engagements with retail and business clients and the status of its client relationships. It monitors complaints and reports received regarding its products and services through quarterly reports on material matters affecting customers who use our products.

FUNCTIONING

The Committee met four times during the period under review. Meeting attendance details are included in the Report on Corporate Governance.

GOOD CORPORATE CITIZENSHIP

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

- Reviewing and recommending the Corporate Social Investment (CSI) Policy to the Board for approval
- Ensuring that CSI projects, programmes, and activities contribute to the five SDGs adopted by the Bank
- Monitoring, on an ongoing basis, progress in the implementation of community development initiatives and material sponsorships, and evaluating whether or not the objectives are being realised

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

The Bank allocates 1% of its net profit after tax to CSI projects. Details of the CSI projects are on page 38-42 of the Corporate Social Investment report.

ETHICS GOVERNANCE

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

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

Employees and third parties have access to an independent whistleblowing facility.

Social, Ethics and Conduct Committee Report continued

The Lead Independent Non-Executive Director oversees the process to ensure the confidentiality of matters disclosed through the whistleblowing line.

EMPLOYMENT EQUITY

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

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

TRANSFORMATION

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

CONCLUSION

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

The Social, Ethics and Conduct Committee is a statutory Committee recommended by the Board and appointed by the Shareholder in line with S72 of Companies Act Amendment No.16 of 2024. The Social, Ethics and Conduct Committee is satisfied that, for the year under review, it has complied with its statutory responsibilities and the responsibilities assigned to it by the Board.

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

Nomavuso Mnxasana

Chairman of the Social, Ethics and Conduct Committee

Umhlanga
8 April 2025

Our Corporate Social Investment Report

Corporate Social Responsibility has been part of the Bank's ethos since inception. Giving is part of our DNA, and we have a legacy of sharing and caring that we diligently continue to uphold. Throughout 2024, the Bank has remained steadfast in our commitment to Corporate Social Investment (CSI), striving to make a meaningful impact in the communities in which we operate. This report provides an overview of our CSI progress for the 2024 financial year, highlighting key projects, employee engagement initiatives, funding allocations, and future plans.

VALUE CREATION

The Sustainable Development Goals (SDGs) were adopted by the United Nations (UN) in 2015 as a universal call to action to end poverty, protect the planet, and ensure that all people enjoy peace and prosperity by 2030. Meeting the 17 Sustainable Development Goals requires involvement from all individuals, civil society, businesses, states, and UN organisations.

The Bank has adopted the following five SDGs as part of its commitment to supporting the United Nations' global agenda:

- **SDG2: Zero Hunger** – Eradicating hunger, enhancing food security and nutrition, and promoting sustainable agriculture.
- **SDG3: Good Health and Well-Being** – Ensuring healthy lives and fostering well-being for people of all ages.
- **SDG4: Quality Education** – Promoting inclusive, equitable, and high-quality education while supporting lifelong learning opportunities for all.
- **SDG5: Gender Equality** – Advancing gender equality and empowering women and girls in all spheres of life.
- **SDG6: Clean Water and Sanitation** – Securing access to clean water and ensuring sustainable water and sanitation management for all.

2 ZERO HUNGER

END HUNGER, ACHIEVE FOOD SECURITY AND IMPROVED NUTRITION AND PROMOTE SUSTAINABLE AGRICULTURE

KHANQA E ZIAEE

The Khanqa e Ziaee Foundation provides freshly cooked meals to orphanages and impoverished members of the Lenasia community every week. To facilitate this, a dedicated team of volunteers has been renting large cooking pots, which must be returned by Sunday morning. However, the recurring cost of hiring these pots, coupled with the tight turnaround time for their return, has placed financial and logistical strain on the initiative. These challenges not only reduce the number of meals that can be prepared but also add pressure on the team to manage the timely return of the rented equipment.

Funding

To support the Khanqa e Ziaee Foundation in its efforts to provide meals to orphanages and vulnerable members of the Lenasia community, the Bank purchased 20 large cooking pots, known as degs, at a cost of R65 000. This contribution ensures that the foundation can prepare meals more efficiently, eliminating the financial and logistical challenges associated with renting cookware.

Impact

The Bank's contribution has significantly enhanced the Khanqa e Ziaee Foundation's capacity to serve the community. With the purchase of the 20 degs, the Foundation can now prepare and distribute more meals each week, ensuring that orphanages and vulnerable members of the Lenasia community have access to hearty and nutritious food on a more consistent basis. This support not only alleviates hunger but also fosters a sense of stability and well-being for those in need.

Our Corporate Social Investment Report continued

3 GOOD HEALTH AND WELL-BEING

ENSURE HEALTHY LIVES AND PROMOTE WELL-BEING FOR ALL AT ALL AGES

THE GARDEN SOCIAL SERVICES

The Garden Social Services plays a vital role in supporting the blind community of Laudium by providing housing, catering, and educational facilities. In addition to these services, the organisation operates feeding schemes for scholars from previously disadvantaged communities in the Pretoria area.

A dedicated team of qualified educators facilitates Braille education, transporting and teaching students essential literacy skills. Furthermore, students are provided with daily transport to a specialised school for the blind, ensuring access to advanced education and fostering their academic and personal development.

Funding

To support the vital work of Garden Social Services, the Bank purchased Braille equipment and software valued at R280 815 and donated it to the organisation. This contribution enhances the accessibility and quality of education for visually impaired students, equipping them with the tools needed to develop essential literacy skills and further their learning. By investing in specialised resources, the Bank is helping to empower the blind community in Laudium and enabling greater independence and access to education.

Impact

Through this donation, the Bank has helped ensure that students in the Laudium district have access to high-quality education. The Braille equipment and software enhance learning opportunities, enabling students to develop essential literacy skills and pursue further education with greater ease. By investing in specialised resources, the Bank has contributed to fostering independence, empowerment, and a brighter future for visually impaired learners in the community.

United Kingdom

Our Corporate Social Investment Report continued

4 QUALITY EDUCATION

ENSURE INCLUSIVE AND EQUITABLE QUALITY EDUCATION AND PROMOTE LIFELONG LEARNING OPPORTUNITIES FOR ALL

ISIPINGO SECONDARY SCHOOL AND SIMLA PRIMARY SCHOOL

Isipingo Secondary School and Simla Primary School are located in previously disadvantaged areas in Durban, KwaZulu-Natal. As government-funded institutions, they serve communities where many children come from impoverished households. These schools play a crucial role in providing education and support to learners who face socio-economic challenges, ensuring they have access to the resources and opportunities necessary for their academic and personal development.

Sponsorship

To support digital literacy and enhance learning opportunities, the Bank donated a computer lab valued at R529 448 to Isipingo Secondary School and a multi-media resource lab worth R248 175 to Simla Primary School.

These contributions provide students with access to essential technology, equipping them with digital skills that are critical for academic success and future career opportunities. By investing in these educational resources, the Bank is helping to bridge the digital divide and empower learners from previously disadvantaged communities in Durban, KwaZulu-Natal.

Impact

Each year, the Bank provides computer labs to underprivileged schools that lack access to technology and digital learning resources. This initiative ensures that students receive the necessary educational curriculum to equip them with critical digital skills, opening doors to greater opportunities in their adult lives.

At Isipingo Secondary School and Simla Primary School, students now have access to robotics and programming government modules, empowering them with the foundational knowledge needed to thrive in a technology-driven world. Through these contributions, the Bank is actively working to bridge the digital divide and foster innovation among young learners.

INKANYISO CRECHE AND PRESCHOOL

Inkanyiso Creche and Preschool is a non-profit organisation (NPO) located in the heart of the Umlazi district. Originally established as a daycare, the school provides a safe and nurturing environment for children aged two to six years from an impoverished community, where parents are unable to afford school fees. Despite financial constraints, the dedicated educators not only provide quality early childhood education but also ensure that the children receive nutritious meals and essential care.

During the Bank’s visit, it was evident that while the school was neat and well-maintained, the infrastructure was in urgent need of repairs and upgrades. Recognising the importance of a safe and stimulating learning environment, the Bank has adopted Inkanyiso Creche and Preschool as a year-on-year project. This long-term commitment aims to uplift the school’s infrastructure and facilities, ensuring that these young learners receive the quality education and care they rightfully deserve.

Our Corporate Social Investment Report continued

Sponsorship

To support Inkanyiso Creche and Preschool, the Bank funded a comprehensive refurbishment of the school's infrastructure, addressing critical maintenance issues to create a safer and more conducive learning environment. This included:

- Repairing the roof, gutters, windows, and doors to ensure the school remains structurally sound and weatherproof.
- Fixing electrical and plumbing faults to enhance safety and functionality
- Building a fantasy play area to encourage creative and imaginative learning
- Restoring the children's cubbies, providing them with personal storage space for their belongings

Thus far, the value of this initiative amounts to R368 000, reflecting the Bank's commitment to uplifting early childhood education and ensuring that the children of Umlazi have a nurturing and inspiring space to learn and grow.

Impact

The children of Inkanyiso Creche and Preschool can now enjoy their schooling in a safe and well-maintained environment. With fully functional toilets, secure electrical infrastructure, and a refreshed school space, the learning experience has been significantly enhanced.

The school's transformation not only improves the daily well-being and safety of the children but also fosters a more engaging and stimulating atmosphere for early childhood development. With these foundational upgrades complete, the school is now well-prepared for the Bank's next phase of support in 2025.

5 GENDER EQUALITY

ACHIEVE GENDER EQUALITY AND EMPOWER ALL WOMEN AND GIRLS

Bursaries

We are committed to supporting young women who demonstrate academic excellence and the potential to uplift their lives through higher education but face financial barriers. By partnering with organisations such as the Women's Cultural Group, we have been able to make a meaningful impact, ensuring that 80% of the Bank's sponsored students are female.

Through this initiative, we strive to bridge the gender gap in education, empowering talented young women with the resources and opportunities they need to pursue degrees, achieve their aspirations, and contribute meaningfully to their communities and the broader economy.

Sponsorship

The Bank has provided bursaries worth R143 245 to female students, ensuring they can pursue higher education despite financial barriers. Through this support, we empower young women to build brighter futures and drive meaningful change.

Impact

With financial burdens lifted, these students can focus entirely on their studies. Upon completing their qualifications, they will be equipped to enter the workforce, achieving economic independence and contributing to their communities.

Our Corporate Social Investment Report continued

6 CLEAN WATER AND SANITATION

ENSURE AVAILABILITY AND SUSTAINABLE MANAGEMENT OF WATER AND SANITATION FOR ALL

SBC WATER IS LIFE BOREHOLE PROJECT

The Sultan Bahu Centre, an NPO based in Fordsburg, is dedicated to community projects that ensure access to safe drinking water. Their primary initiative focuses on drilling boreholes in areas where clean water is scarce or unavailable, providing communities with a sustainable and long-term solution to water accessibility.

Sponsorship

The Bank donated R100 000 to the SBC Water is Life Borehole Project, funding the drilling of a borehole in the Soweto community. This initiative ensures sustainable access to clean drinking water, improving the well-being and quality of life for residents.

Impact

The Soweto community now has sustainable access to clean drinking water, free from the disruptions of water-shedding. Additionally, the borehole serves a local school, ensuring that learners also have a reliable supply of safe drinking water.

Our Commitment

The Bank prioritises sustainable community development, focusing on education, healthcare, and infrastructure to maximise social impact.

In the 2024 financial year, the Bank allocated R3.9 million to Corporate Social Investment (CSI) initiatives, with R3.5 million dedicated to ongoing projects, including infrastructure development, healthcare provision, and educational support. This strategic funding ensures equitable distribution and lasting community benefits.

FUTURE PLANS AND ONGOING INITIATIVES

Looking ahead, the Bank remains dedicated to expanding its reach and deepening its impact through strategic partnerships, innovation, and community-driven projects. Our future plans include:

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

Through these efforts, we aim to create sustainable, long-term change in the communities we serve.

WITH THANKS

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

Remuneration Committee Report

The Remuneration Committee is constituted to enable it to exercise competent and independent judgement on remuneration policies, practices, and incentives. The governance of remuneration includes ensuring fairness of pay and that the Bank remunerates responsibly and transparently. The ethos of the Bank is defined by people and the success of the Bank is through its valued leadership team, and employees. The Bank's Remuneration and Human Capital seek to strike a balance of attracting and retaining key talent while rewarding for performance in achieving the Bank's strategic goals.

This report is prepared in accordance with the Companies Act and King IV Code and serves to provide information on the Bank's overall remuneration philosophy as well as key remuneration matters for the 2024 period.

COMPOSITION

The Committee is chaired by an Independent Non-Executive Director with all members of the Committee being independent non-executive directors. The members have the necessary experience and expertise to guide the Committee in executing its duties. The Committee held two (2) scheduled meetings during the year with 100% attendance by members.

GOVERNANCE

The Committee is appointed by the Board. It is governed by a mandate, set out in its Terms of Reference, that incorporates best practice governance recommendations and assists its members in executing their roles and responsibilities. The mandate is reviewed and approved by the Board annually.

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

The committee members are also members of the Capital Adequacy and Risk Committee and Audit Committee, ensuring that all relevant decisions are consistent with an assessment of the Bank's financial condition and future prospects.

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

The Committee's main responsibilities are summarised as follows:

In respect of the remuneration function:

- Oversee the setting and administering of remuneration at all levels in the Bank
- Oversee the establishment of a compensation policy that promotes the achievement of strategic objectives and encourages 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 sufficient to attract qualified and experienced staff
- Determine the remuneration of the CEO and other executive staff after considering the results of their performance evaluations as directors and executives
- Ensure that the Bank's compensation policy, processes, and procedures comply with the relevant requirements specified in the Banks Act Regulations and any additional requirements specified in writing by the Prudential Authority Review remuneration disclosures in the Annual Report to ensure it will promote acceptance of the necessity for and benefits of realistic directors' remuneration
- Recommend to the Board on the remuneration to be paid to Independent Non-Executive Directors

KEY MATTERS DURING 2024

During the year under review in 2024, the Committee successfully achieved its goals which were geared towards monitoring the achievement of the Bank's overall strategic objectives. In addition to the Committee's normal duties in executing on its Annual Work Plan, the Committee:

- Facilitated and completed the hand-over and transition processes for the Chief Executive Officer to have continuity in the implementation of the Bank's strategy
- Continued to exercise oversight on the Executive Management Succession Plan to ensure the Bank's succession plan includes a deliberate capacity building focus, and ideally has sound bench strength through multiple potential candidates and developmental programmes
- Approved the overall remuneration budget for the Bank's employees
- Reviewed and confirmed the CEO and CFO key performance indicators

Remuneration Committee Report continued

The Committee applied considered judgement in the implementation of the Short-Term Incentive (STI) Scheme with the purpose of enhancing a performance-based culture and reinforcing the required behaviour and culture of the Bank. The STI methodology deployed seeks to drive short-term performance in the context of sustainable long-terms performance. Permanent staff who were employed for at least six months during the year of assessment and having met the qualifying criteria received their first STI payment.

Lastly, the Committee also considered the challenging macro-economic environment and trading conditions that the Bank and the Bank's clients faced in 2024.

2025 FOCUS AREAS

- The Committee will continue to keep a heightened focus on fair recognition and reward. The Bank has completed a salary benchmark exercise examining guaranteed pay and variable benefits at different employee grades. An independent expert will assist with the finalisation of this exercise by providing a fair and objective analysis of the work undertaken. Implementation of recommendations from this initiative is planned to commence in 2025
- Maintaining attention on the Succession Plan, overall talent development including digital transformation projects advancing strategic growth imperatives
- Assessment of ESG metrics for inclusion within the CEO and CFO KPIs
- Updating the relevant policies and disclosure requirements subject to the effective date of the Companies Amendment Act 2024, No. 16 and the Companies Act Second Amendment 2024, No. 17 ascended into law on 25 July 2024 pending publication of proclamation in the gazette.

INDEPENDENT AND NON-INDEPENDENT NON-EXECUTIVE DIRECTORS

Terms of service

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

All Independent and Non-Independent Non-Executive Directors are provided with a letter of appointment setting out the terms of their engagement. Independent and Non-Independent Non-Executive Directors retire at the age of 75. In addition, the Independent Non-Executive Directors who have served on the Board for a period of nine years retires at the preceding Annual General Meeting.

Fees

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

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

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

The Committee is satisfied that, for the year under review, it has complied with its statutory and regulatory responsibilities as well as the responsibilities assigned to it by the Board. The Committee is committed to continue to carefully consider and evaluate the Bank's remuneration policy framework, methodologies and implementation of key policies using a forward looking approach.

For and on behalf of Remuneration Committee

Sharoda Rapeti
Chairman of the Remuneration Committee

Umhlanga
8 April 2025

Report of the Audit Committee

This report is presented by the Audit Committee for the 2024 financial year of HBZ Bank Limited, in compliance with Section 94(7)(f) of the Companies Act (No. 71 of 2008), Section 64 of the Banks Act (No. 94 of 1990), and the principles outlined in the King IV Report on Corporate Governance.

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

COMPOSITION AND ATTENDANCE OF THE MEETING

The Committee comprises three Independent Non-Executive Directors. Its members have the necessary experience and expertise to guide the Committee in the execution of its duties. The Committee met four times during the year, with 100% member attendance.

The Chair of the Board of Directors attended all meetings. The Chief Executive Officer, CFO, Head of Compliance, Head of Internal Audit and External Auditors attended by invitation.

EXECUTION OF FUNCTIONS

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

1. IN RESPECT OF COMBINED ASSURANCE:

The Audit Committee considered the cooperation between the assurance providers and confirmed that the combined assurance process had not identified any unmitigated reporting risks.

2. IN RESPECT OF THE EXTERNAL AUDITORS AND THE EXTERNAL AUDIT:

- Recommended the reappointment of KPMG as independent external auditors for the year ended 31 December 2024
- Recommended the appointment of the lead audit engagement partner
- In consultation with executive management, considered the external auditor's terms of engagement and approved the audit fees
- Held meetings with the external auditors
- Reviewed and evaluated KPMG's audit plan
- Considered the significant audit risks identified
- Evaluated the effectiveness of the audit
- Considered KPMG's view in other qualitative aspects of the Bank's accounting practices
- Considered statutory matters reported to the Audit Committee
- Considered the summary of corrected and uncorrected misstatements
- Considered significant matters raised by KPMG and the adequacy of management's corrective action in response to such findings
- Obtained assurance from the auditors that their quality standards and independence were not impaired as set out by the Independent Regulatory Board for Auditors (IRBA) and other regulatory authorities, including their internal processes
- Evaluated a statement by KPMG confirming that their independence was not impaired
- Confirmed the nature and extent of non-audit services provided by external auditors during the year under review and endorsed that the non-audit services provided by KPMG did not compromise the external auditors' independence
- Auditor's remuneration includes fees paid for the statutory audit and assurance reports performed on behalf of various regulatory bodies. The statutory audit fees paid to KPMG Inc. amounts to R2.6m (2023: R2.5m), audit-related fees paid amounts to R0.7m (2023: R1.2m) and fees paid for non-audit services amounts to R0.04m (2023: R0.04m)
- Considered the external audit report section on the Bank's systems of internal control
- Held meetings with external auditors, without management being present, to facilitate an exchange of views and concerns
- Confirmed that no reportable irregularities were identified and reported by the external auditors in terms of the Auditing Professions Act (No. 26 of 2005)

3. IN RESPECT OF INTERNAL CONTROLS AND INTERNAL AUDIT:

- The Audit Committee satisfied itself that the internal audit function is independent and has the necessary resources and authority to discharge its duties
- Reviewed and approved the internal audit charter and annual internal audit plan, and considered the effectiveness of the internal audit function

Report of the Audit Committee continued

- Held meetings with the internal auditor, including Group internal audit without management being present
- Considered reports from the internal auditors, including written assurance on the Bank's system of internal control, and concluded that the Bank has adequate procedures and controls to ensure the timely and accurate preparation of Annual Financial Statements and the safeguarding of assets
- Reviewed matters raised by internal audit and the adequacy of management's corrective action in response to such findings
- Noted that there were no significant differences of opinion between the internal audit function and management

4. IN RESPECT OF THE FINANCIAL STATEMENTS AND GOING CONCERN:

- Confirmed the going concern principle as the basis of preparation of the Annual Financial Statements
- Received assurance from the finance function that the internal financial controls are effective
- Considered the accounting treatment for significant or unusual transactions and all material accounting judgements and estimates applied by management
- Considered the appropriateness of the Bank's accounting policies
- Met separately with management, KPMG and internal audit to assess reporting controls and matters pertaining to the Annual Financial Statements
- Reviewed the solvency and liquidity tests undertaken prior to the dividend declaration
- Reviewed the Annual Financial Statements for recommendation to the Board and satisfied itself that they accurately present the results of operations, cash flows and the financial position of the Bank
- Considered and made recommendations to the Board on the proposed dividend payment to the Shareholder
- Noted that there were no material adverse reports or complaints received concerning accounting practices, internal audit, internal financial controls, content of Annual Financial Statements, internal controls and related matters

5. IN RESPECT OF RISK MANAGEMENT:

- Considered risk matters reported by the Capital Adequacy and Risk Committee
- Reviewed reports from management on risk management, including IT risks pertaining to financial reporting
- The Chairman of the Audit Committee is a member of the Risk and Capital Adequacy Committee and attended all meetings held during the year under review

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

6. IN RESPECT OF THE FINANCE FUNCTION:

- Considered the expertise, resources, experience and succession plan of the members of the finance function and concluded that these were appropriate
- Considered the appropriateness, experience and expertise of the finance function inclusive of senior management and concluded that the finance function has the necessary experience and qualifications to fulfill their responsibilities

7. IN RESPECT OF THE COMPLIANCE FUNCTION:

- Considered the independence and effectiveness of the compliance function
- Received and approved the Compliance Charter and annual Compliance Activity Plan
- Considered the findings by the regulators and ensured management's actions in response thereof, were appropriate
- Increased its focus on anti-money laundering (AML) and financial crime compliance activities as well as compliance management in general:
  - Recommended the revised Risk Management and Compliance Programme (RCMP) to the Board for approval
  - Recommended the revised AML and Combating the Financing of Terrorism Risk Based Approach to the Board for approval
  - Received reports on and monitored the AML, combating the financing of terrorism (CFT) and sanctions compliance levels
- In respect of legal and regulatory requirements to the extent that they may have an impact on the financial statements:
  - Reviewed, with management, legal matters that could have a material impact on the Annual Financial Statement of the Bank
  - Considered reports provided by management, external audit and internal audit regarding compliance with legal and regulatory requirements

Report of the Audit Committee continued

Conclusion

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

Recommendation to the Board

Following its review and conclusion on its findings, the Audit Committee recommended the Annual Financial Statements of the Bank for the year ended 31 December 2024 for approval by the Board. The Board approved the Annual Financial Statements.

On behalf of the Audit Committee

LP Fourie
Chairman of the Audit Committee
Umhlanga
8 April 2025

Directors' approval of the Annual Financial Statements

RESPONSIBILITY FOR THE ANNUAL FINANCIAL STATEMENTS

The Directors are responsible for the preparation and fair presentation of the annual financial statements of HBZ Bank Limited, comprising the statement of financial position for the year ended 31 December 2024, the statement of profit or loss and other comprehensive income, changes in equity and cash flows for the 2024 year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, and the Directors' report, in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

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

The Directors are of the opinion that:

- Appropriate accounting policies have been consistently applied
- Adequate accounting records have been maintained
- Internal control systems are adequate to the extent that no material breakdown in the operation of these systems occurred during the year under review
- The financial statements fairly present the financial position of HBZ Bank Limited at 31 December 2024 and its financial performance and cash flow for the year then ended.

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

GOING CONCERN

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

FINANCIAL STATEMENTS AND BOARD APPROVAL

The Board is responsible for overseeing the integrity and completeness of this report. The Board, the Audit Committee, the Capital Adequacy and Risk Committee, Social, Ethics and Conduct Committee, Directors' Affairs Committee and Remuneration Committee considered the accuracy and completeness of the report and are satisfied with the reliability of all data and information. The Board is satisfied that the report fairly presents the integrated performance of the Bank for the reporting period. The Report of the Directors (page 50) and the Annual Financial Statements of HBZ Bank Limited (pages 56 to 110) were approved by the Board of Directors on 8 April 2025 and are signed on its behalf by:

YD Singh
Chairman
8 April 2025

A Cameron
Chief Executive Officer
8 April 2025

Company Secretary's Certificate

In terms of Section 88(2)(e) of the Companies Act (No. 71 of 2008), as amended, I hereby certify to the best of my knowledge and belief, that the Bank has lodged with the Registrar of Companies all such returns as are required of the Bank in terms of the Act and that all such returns are true, correct and up to date.

Thabisile Luthuli
Company Secretary
Umhlanga
8 April 2025

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 (No. 71 of 2008) and have been prepared under the supervision of the Chief Financial Officer, who is a Chartered Accountant.

General Information

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

Report of the Directors

The Board of Directors takes pleasure in presenting the Annual Financial Statements for the year ended 31 December 2024.

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 R211.5 million (2023: R 184.8 million).

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, fairly valued exceed the liabilities, and 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:

	2024	2023
GENERAL RESERVE	R	R
Transfer made	–	R58 691 000
DIVIDEND		
Dividend distributed	R135 000 000	R60 000 000

(On 8 April 2025 the Board declared a dividend of R150 million, which includes dividend withholding tax of R7.5 million.)

EVENTS AFTER THE REPORTING PERIOD

The Directors are not aware of any events after the reporting date of 31 December 2024 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 provisions of the Bank's Memorandum of Incorporation, Mr LP Fourie and Ms N Mnxasana retired by rotation, being eligible, will offer themselves for re-election at the next Annual General Meeting. Mr Mohsin Nathani, having been appointed as a Non-Executive Directors on 6 September 2024, after the last Annual General Meeting will retire and offer himself for election by the Shareholder at the Annual General Meeting.
The Company Secretary of the Bank is Ms Thabisile Luthuli whose business and postal address is Umhlanga Arch, Level 4, 1 Ncondo Place, Umhlanga Ridge, Durban, 4320, KwaZulu-Natal, South Africa.

DIRECTORS' AND PRESCRIBED OFFICERS REMUNERATION

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

Y Singh
Chairman

A Cameron
Chief Executive Officer

Independent Auditor's Report

TO THE SHAREHOLDER OF HBZ BANK LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of HBZ Bank Limited (the Company) set out on pages 56 to 110, which comprise the statement of financial position as at 31 December 2024, 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 notes to the financial statements, excluding the section marked as unaudited in note 32, and including material accounting policy information.

In our opinion, the financial statements present fairly, in all material respects, the financial position of HBZ Bank Limited as at 31 December 2024, and its financial performance and cash flows for the year then ended in accordance with IFRS® Accounting Standards and the requirements of the Companies Act of South Africa.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa.

We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In terms of the IRBA Rule on Enhanced Auditor Reporting for the Audit of Financial Statements of Public Interest Entities, published in Government Gazette No. 49309 dated 15 September 2023 (EAR Rule), we report:

Final materiality

The scope of our audit was influenced by our application of materiality. We set quantitative thresholds and overlay qualitative considerations to help us determine the scope of our audit and the nature, timing and extent of our procedures, and in evaluating the effect of misstatements, both individually and in the aggregate, on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Final materiality	R13 million, which is 4,5% of Profit before taxation ("PBT").
Rationale for benchmark and percentage applied	We have identified PBT as the most appropriate basis given the Company is a public interest entity and profit orientated. Profitability is a key performance measure used by shareholder and other users of the financial statements because it is a relevant indicator of the Company's ability to generate profits and to return capital to its shareholder.
	The percentage applied to the benchmark was based on our professional judgement after consideration of qualitative factors that impact the Company.

Independent Auditor's Report continued

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In terms of the EAR Rule, we are required to report key audit matters and the outcome of audit procedures or key observations with respect to the key audit matters, and these are included below.

Expected credit losses on loans and advances

Refer to:

- Basis of preparation, note 2(c), judgements and estimates
- Material accounting policies, note 4(d)(vii)
- Note 5, loans and advances, note 6, impairment reversals/losses on financial instruments and note 29.1, credit risk management

Key audit matter	How the matter was addressed in our audit
The Company's loans and advances to customers and the related expected credit losses (ECL) are core to the corporate and retail banking operations. The key assumptions, judgements and estimates applied in the determination of the ECL are: • Definitions, methodologies applied, judgements made in applying accounting policies including significant increase in credit risk (SICR), stage determination and migration, forward-looking information and collateral valuation; and • Modelled ECL.	Our response to the key audit matter included performing the following audit procedures in respect of the corporate and retail banking operations.
Definitions, methodologies applied, judgements made in applying accounting policies including SICR, stage determination and migration, forward-looking information and collateral valuation There is judgement involved in the definitions and methodologies applied to the modelled ECL, including the determination of what constitutes SICR, incorporation of forward-looking information and the consequent timely allocation of the loans and advances to the appropriate stage. The Company is required to recognise an allowance for either 12-month or lifetime ECLs in accordance with IFRS 9, Financial instruments (IFRS 9) depending on whether there has been a SICR since initial recognition. This includes an assessment of any refinements to default definitions, curing definitions and industry trends.	**Definitions, methodologies applied, judgements made in applying accounting policies including SICR, stage determination and migration, forward-looking information and collateral valuation** • With the assistance of our credit modelling teams, we assessed whether the key judgements made and the assumptions applied in the determination of SICR, stage determination and migration, forward-looking information and collateral valuations, in respect to the loan portfolio, were appropriate and aligned with the principles of IFRS 9.

Independent Auditor's Report continued

Expected credit losses on loans and advances

Refer to:

- Basis of preparation, note 2(c), judgements and estimates
- Material accounting policies, note 4(d)(vii)
- Note 5, loans and advances, note 6, impairment reversals/losses on financial instruments and note 29.1, credit risk management

Key audit matter	How the matter was addressed in our audit
In respect of stage 3 exposures, assumptions are applied to estimate the recoverable amounts (including valuation in respect of the collateral) and timing of future cash flows of individual exposures. Management raised judgmental post model adjustments to certain stage 3 exposures to accommodate for additional risks unique to these customers that were not captured in the model.	• We identified relevant controls relating to the staging of loans and advances and evaluated the design and implementation and tested the operating effectiveness of these relevant controls. • For a sample of performing loans, we performed a review of the counterparty to assess whether there were any indicators of SICR which could indicate a staging migration. • For a sample of stage 3 exposures, we considered the impairment indicators and assumptions made by management in their assessment of the recoverability of the exposure, including assumptions applied in judgmental post model adjustments. Relating to the sample selected, we inspected the legal agreements and other relevant documentation to confirm the legal right to the collateral and independently calculated the ECL based on our assessment of the expected cash flows and recoverability of collateral at an individual counterparty level. • We assessed the disclosures in the financial statements for compliance in accordance with the requirements of IFRS 9.

Independent Auditor's Report continued

Expected credit losses on loans and advances

Refer to:

- Basis of preparation, note 2(c), judgements and estimates
- Material accounting policies, note 4(d)(vii)
- Note 5, loans and advances, note 6, impairment reversals/losses on financial instruments and note 29.1, credit risk management

<table>
<tr><th>Key audit matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>Modelled ECL
A significant portion of ECL is calculated on a modelled basis. The development and execution of these models requires significant management judgement and assumptions, including estimation of the probability of default (PD); exposure at default (EAD) and loss given default (LGD).
• SICR is assessed based on the current risk of default of an account relative to its risk of default at origination. This incorporates judgement and estimation by management.
• The assessment of SICR and subsequent classification of the asset into stage 3 takes into account qualitative criteria and quantitative criteria.
• The determination of the write-off point, and application of the cure rules are based on management's judgement.
The IFRS 9 impairment models are subject to formal model governance and approval.</td><td>Modelled ECL
• We obtained an understanding of management's data, methodologies and assumptions used in the various ECL models and how these were calibrated to use historical information and forward-looking information to estimate ECL.
• We tested the design, implementation and operating effectiveness of relevant controls over the governance of changes to the ECL models.
• With the assistance of our credit modelling teams, we independently reperformed and recalculated ECL estimates for the portfolios, and independently reperformed the PD, EAD and LGD parameters, to test the assumptions and appropriateness of the judgements applied in the ECL calculations.
• We tested the completeness and accuracy of data inputs, and with the assistance of our credit modelling teams, the assumptions and techniques into the models.</td></tr>
<tr><td>Due to the significant judgement applied by management, the impairment of loans and advances to customers was considered to be a key audit matter.</td><td>Outcome
Based on the procedures performed above on the ECL for loans and advances to customers, we did not identify any significant matters requiring further consideration in concluding on the procedures performed.</td></tr>
</table>

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 2024", which includes the Report of the Audit Committee, Company Secretary's Certificate and the Report of the Directors as required by the Companies Act of South Africa. The other information does not include the financial statements and our auditor's report thereon but does include the section marked as unaudited in note 32.

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 IFRS® Accounting 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.

Independent Auditor's Report continued

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 scepticism throughout the audit. We also:

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

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

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Audit tenure

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 30 years.

KPMG Inc.
Registered Auditor

Per Willem Pretorius
Chartered Accountant (SA)
Registered Auditor
Partner

22 April 2025

6 Nokwe Avenue
Umhlanga
4000

Statement of Financial Position

as at 31 December 2024

	NOTES	2024 R'000	2023 R'000
ASSETS			
Cash and cash equivalents	1	2 014 775	1 738 708
Investment securities	2	4 708 254	4 699 586
Other assets	3	21 089	21 591
Derivative assets held for risk management	4	18 884	5 936
Loans and advances	5	2 650 428	2 125 469
Property and equipment	7	51 407	53 662
Investment property	8	8 207	8 258
Right-of-use assets	9	11 085	16 937
Deferred tax assets	11	12 746	10 976
Total assets		9 496 875	8 681 123
EQUITY AND LIABILITIES			
Capital and reserves		854 493	777 909
Ordinary share capital	12	10 000	10 000
Share premium	12	40 000	40 000
General reserve	13	543 138	543 138
Retained earnings		261 355	184 771
LIABILITIES		8 642 382	7 903 214
Deposits and borrowings	14	8 574 309	7 841 627
Provisions	15	14 845	15 038
Other liabilities	16	20 814	20 970
Derivative liabilities held for risk management	17	18 161	5 217
Lease liabilities	10	14 253	20 362
Total equity and liabilities		9 496 875	8 681 123

Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2024

	NOTES	2024 R'000	2023 R'000
Interest income calculated using the effective interest method	18	798 563	694 902
Interest expense	19	(304 390)	(248 655)
Net interest income		494 173	446 247
Commission and fees	20	33 671	37 123
Other operating income	21.1	25 279	22 437
Other revenue	21.2	–	4 530
Net interest and other operating income		553 123	510 337
Impairment reversals / (losses) on financial instruments	6	5 366	(14 544)
Operating expenses	22	(267 961)	(244 478)
Profit before taxation		290 528	251 315
Taxation	24.1	(78 944)	(66 493)
Profit for the year		211 584	184 822
Other comprehensive income		–	–
Total comprehensive income for the year		211 584	184 822

Statement of Changes in Equity

for the year ended 31 December 2024

	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 2022		10 000	40 000	484 447	118 640	653 087
Total profit and comprehensive income for the year		–	–	–	184 822	184 822
Ordinary dividends	25	–	–	–	(60 000)	(60 000)
Increase in general reserve		–	–	58 691	(58 691)	–
Balance at 31 December 2023		10 000	40 000	543 138	184 771	777 909
Total profit and comprehensive income for the year		–	–	–	211 584	211 584
Ordinary dividends		–	–	–	(135 000)	(135 000)
Increase in general reserve		–	–		0	0
Balance at 31 December 2024		10 000	40 000	543 138	261 355	854 493

Statement of Cash Flows

for the year ended 31 December 2024

	NOTES	2024 R'000	2023 R'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers	26.1	956 656	710 879
Cash paid to customers, employees and suppliers	26.2	(545 751)	(472 815)
Cash available from operations	26.3	410 905	238 064
Increase in advances		(519 352)	(5 055)
Increase in deposits and borrowings		714 475	95 084
Taxation paid	26.4	(79 304)	(72 341)
Decrease in sundry debtors	3	1 135	531
Increase in derivatives held for risk management	26.5	(4)	(50)
Dividends paid	25	(135 000)	(60 000)
Net cash inflow from operating activities		392 855	196 233
CASH FLOWS FROM INVESTING ACTIVITIES			
Net Movement in Treasury Bills		1 640 194	(655 715)
Capital expenditure on property and equipment		(3 060)	(3 428)
Acquisition of Government Bonds		(1 748 921)	-
Proceeds on disposal of property and equipment		47	10 978
Cash utilised in investing activities		(111 740)	(648 165)
CASH FLOWS FROM FINANCING ACTIVITIES			
Lease repayment		(6 109)	(6 639)
Net decrease in financing activities		(6 109)	(6 639)
Increase/(decrease) in cash and cash equivalents		275 006	(458 571)
Cash and cash equivalents at the beginning of the year		1 738 708	2 194 982
Effect of exchange rate fluctuations on cash and cash equivalents held		1 061	2 297
Cash and cash equivalents at the end of the year		2 014 775	1 738 708

As part of operating activities, interest income amounting to R899m (2023: R654m) and interest expense amounting to R285m (2023: R249m) were received and paid in cash respectively.

Accounting Policies

for the year ended 31 December 2024

1. REPORTING ENTITY

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

2. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements have been prepared in accordance with IFRS® Accounting Standards as issued by the International Accounting Standards Board IFRS® Accounting Standards),and the requirements of the Companies Act of South Africa of 2008 as amended. They were authorised for issue by the Board of Directors on 8 April 2025.

(b) Functional and presentation currency

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

(c) Judgements and Estimates

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

Actual results may differ from these estimates.

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

Judgements

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

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

Note 29: classification of financial assets: assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest (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 note:

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

(d) Basis of measurement

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

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

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

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2024 and earlier application is permitted; however, the Bank has not early adopted the new and amended standards in preparing these financial statements.

The remaining new and revised standards that have not made mention are not applicable to the Bank and have no impact on the financial statements.

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

Lack of Exchangeability (Amendments to IAS 21)

Annual periods beginning on or after 1 January 2025

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

Accounting Policies continued

for the year ended 31 December 2024

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

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

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

Classification and Measurement of Financial Instruments (Amendments to IFRS 9 and IFRS 7)

Annual Periods beginning on or after 1 January 2026

The amendments introduce an additional SPPI test for financial assets with contingent features that are not related directly to a change in basic lending risks or costs. Under the amendments, certain financial assets including those with ESG-linked features could now meet the SPPI criterion, provided that their cash flows are not significantly different from an identical financial asset without such a feature.

The amendments also include additional disclosures for all financial assets and financial liabilities that have certain contingent features that are:

- not related directly to a change in basic lending risks or costs; and
- are not measured at fair value through profit or loss

The amendments also clarify the key characteristics of contractually linked instruments (CLIs) and how they differ from financial assets with non-recourse features. This includes factors that a company needs to consider when assessing the cash flows underlying a financial asset with non-recourse features.

The amendments require additional disclosures for investments in equity instruments that are measured at fair value with gains or losses presented in other comprehensive income (FVOCI) and address the recognition and derecognition of financial assets and financial liabilities, including an exception relating to the derecognition of financial liabilities that are settled using an electronic payment system.

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

Annual Improvements to IFRS Accounting Standards – Volume 11

Annual Periods beginning on or after 1 January 2026

The amendments contained in the Annual Improvements relate to:

- IFRS 1 First-time Adoption of International Financial Reporting Standards – Hedge Accounting by a First-time Adopter

IFRS 7 Financial Instruments: Disclosures:

- Gain or loss on derecognition
- Disclosure of differences between the fair value and the transaction price
- Disclosures on credit risk

IFRS 9 Financial Instruments:

- Derecognition of lease liabilities
- Transaction price
- IFRS 10 Consolidated Financial Statements – Determination of a '*de facto* agent'
- IAS 7 Statement of Cash Flows – Cost Method

In this volume of improvements, the International Accounting Standards Board (IASB) makes minor amendments to IFRS 9 Financial Instruments and to a further four accounting standards. The amendments to IFRS 9 address:

- a conflict between IFRS 9 and IFRS 15 Revenue from Contracts with Customers over the initial measurement of trade receivables; and
- how a lessee accounts for the derecognition of a lease liability under paragraph 23 of IFRS 9

The IASB has amended IFRS 9 to require companies to initially measure a trade receivable without a significant financing component at the amount determined by applying IFRS 15.

In the case of lease liabilities, the amendment states that when lease liabilities are derecognised under IFRS 9, the difference between the carrying amount and the consideration paid is recognised in profit or loss.

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

Presentation and Disclosure in Financial Statements (IFRS 18)

Annual Periods beginning on or after 1 January 2027

IFRS 18 Presentation and Disclosure in Financial Statements aims to provide greater consistency in presentation of the income and cash flow statements, and more disaggregated information.

Accounting Policies continued

for the year ended 31 December 2024

IFRS 18 promotes a more structured income statement, as it introduces a newly defined 'operating profit' subtotal and a requirement for all income and expenses to be classified into three new distinct categories based on a company's main business activities.

The standard also requires some of the 'non-GAAP' information used to explain financial performance to be reported in the financial statements.

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

Subsidiaries without Public Accountability: Disclosures IFRS 19

Annual Periods beginning on or after 1 January 2027

IFRS 19 allows eligible subsidiaries to apply IFRS Accounting Standards with the reduced disclosure requirements of IFRS 19.

A subsidiary may choose to apply the new standard in its consolidated, separate or individual financial statements provided that, at the reporting date:

- it does not have public accountability
- its parent produces consolidated financial statements under IFRS Accounting Standards

A subsidiary applying IFRS 19 is required to clearly state in its explicit and unreserved statement of compliance with IFRS Accounting Standards that IFRS 19 has been adopted.

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

Contracts Referencing Nature-dependent Electricity – Amendments to IFRS 9 and IFRS 7

Companies face challenges in applying IFRS 9 Financial Instruments to contracts referencing nature-dependent electricity – sometimes referred to as renewable power purchase agreements (PPAs). The International Accounting Standards Board (IASB) has now amended IFRS 9 to address these challenges. The amendments include guidance on:

- the 'own-use' exemption for purchasers of electricity under such PPAs;
- and hedge accounting requirements for companies that hedge their purchases or sales of electricity using PPAs.

The IASB has also added new disclosure requirements for certain PPAs to IFRS 7 Financial Instruments: Disclosures and IFRS 19 Subsidiaries without Public Accountability: Disclosures.

3. ADOPTION OF NEW AND REVISED STANDARDS

The following newly effective standards and requirements did not have a material impact on the Bank:

- Lease Liability in a Sale and Leaseback-Amendments to IFRS 16 Leases.
- Classification of liabilities as Current or Non-Current and Non-Current – Liabilities with Covenants-Amendments to IAS 1 Presentation of Financial Statements.
- Amendments to IAS 7 Statement of Cash Flows and IFRS7 Financial Instruments: Disclosures-Supplier Finance Arrangements.

4. MATERIAL ACCOUNTING POLICIES

Management has considered the principles of materiality in IFRS Practice Statement 2 Making Materiality Judgements, and only those accounting policies which are considered material have been presented in these annual financial statements.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, except if mentioned otherwise.

(a) Foreign currency transactions

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

(b) Interest

Effective interest rate

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

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

Accounting Policies continued

for the year ended 31 December 2024

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

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

Amortised cost and gross carrying amount

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

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

Calculation of interest income and expense

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

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

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

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

Impact of IFRS 9 ECL on Interest recognition

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

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

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

Presentation

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

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

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

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

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

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

(c) Commission and fees income and expenditure

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

Accounting Policies continued

for the year ended 31 December 2024

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 at a point in time, as the related services are performed.

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

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

(d) Financial assets and liabilities

i. Initial recognition and measurement

The Bank initially recognises loans and advances and deposits and borrowings, 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.

Subsequent to initial recognition, financial assets are measured at their amortised cost using the effective interest method except where the Bank designates assets at FVTPL.

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

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

The effective interest of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest is applied to the gross carrying amount of the asset (when the asset is not credit – impaired) or to the amortised cost of the liability.

ii. Classification

Financial assets

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

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

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

Cash and cash equivalents, Loans and advances and Investment securities are classified as held at amortised cost.

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

Business model assessment

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

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

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

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

Investment securities comprise treasury bills, government bonds and sukuks with the objective of holding these assets to collect contractual cash flows.

Accounting Policies continued

for the year ended 31 December 2024

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

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

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

Reclassifications

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

Financial liabilities

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

iii. Derecognition

A financial asset is derecognised when:

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

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

iv. Modifications of financial assets and financial liabilities

Financial assets

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

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

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

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

Accounting Policies continued

for the year ended 31 December 2024

Financial liabilities

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

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

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

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

v. Offsetting

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

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

vi. Fair value measurement

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

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

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

vii. Impairment

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

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

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

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

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

Accounting Policies continued

for the year ended 31 December 2024

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

Measurement of ECL

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

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

Restructured financial assets

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

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

Credit-impaired financial assets

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

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

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

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

Accounting Policies continued

for the year ended 31 December 2024

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

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

Presentation of allowance for ECL in the statement of financial position

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

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

Write-off

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

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

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

viii. Non-financial assets

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

ix. Other payables

Other payables are measured at cost.

x. Derivative financial instruments

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

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

(e) Cash and cash equivalents

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

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

(f) Loans and advances

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

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

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

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

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

(g) Investment securities

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

(h) Share capital

Ordinary shares

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

Accounting Policies continued

for the year ended 31 December 2024

(i) Property and equipment

i. Recognition and measurement

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

ii. Subsequent costs

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

iii. Depreciation

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

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

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

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

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

(j) Investment property

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

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

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

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

(k) Impairment of property and equipment and investment property

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

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

An impairment loss is recognised immediately in profit or loss.

Reversals of Impairment

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

Accounting Policies continued

for the year ended 31 December 2024

(l) Leases

The Bank as a lessee

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

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

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

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

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

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

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

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

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

The Bank did not make any such adjustments during the periods presented.

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

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

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

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

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

Accounting Policies continued

for the year ended 31 December 2024

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

The Bank as lessor

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

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

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

(m) Provisions

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

(n) Loan commitments and financial guarantees

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

Canada

Accounting Policies continued

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

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

Subsequent measurement is at the higher of:

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

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

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

(o) Employee benefits

i. Defined contribution plans

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

ii. Short-term benefits

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

(p) Income tax

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

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

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

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

In determining the amount of current and deferred tax, the Bank takes into account the impact of uncertain tax positions regarding the Income Tax Profit/(Loss) and whether additional tax and interest may be due. This assessment relies on estimates and assumptions and may involve series of judgements about future events. New information may become available that causes the bank to change its judgement regarding the adequacy of existing liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made. In the 2024 financial period, there have been no information which resulted in the bank changing its judgement which could impact the tax expense for the period.

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

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

(q) Contingencies and commitments

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

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

(r) Related party transactions

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

Notes to the Financial Statements continued

for the year ended 31 December 2024

		2024 R'000	2023 R'000
1.	**CASH AND CASH EQUIVALENTS**		
	Balances with central bank other than the mandatory reserve balance	903 427	486 629
	Mandatory reserve with central bank	203 041	173 529
	Balances with other banks	904 763	1 077 285
	Cash on hand	4 230	2 991
	Less: ECL on performing cash and cash equivalents (stage 1)	(686)	(1 726)
	Cash and cash equivalents after ECL	2 014 775	1 738 708
	Mandatory reserves with the central bank are subject to certain restrictions and limitations leveled by the central bank.		
	Maturity analysis		
	On demand to one month	1 673 302	1 538 007
	One month to six months	209 929	180 721
	Six months to one year	131 544	19 980
		2 014 775	1 738 708
2.	**INVESTMENT SECURITIES**		
	Treasury bills	3 009 218	4 709 397
	Less: ECL on performing investment securities (stage 1)	(6 720)	(9 811)
		3 002 498	4 699 586
	Maturity analysis		
	On demand to one month	99 122	–
	One month to six months	265 783	1 003 088
	Six months to one year	2 637 593	3 696 498
		3 002 498	4 699 586
	Government bonds	1 706 107	–
	Less: ECL on performing investment securities (stage 1)	(351)	–
		1 705 756	–
	Maturity analysis		
	On demand to one month	–	–
	One month to six months	–	–
	Six months to one year	–	–
	Greater than one year but less than five years	1 705 756	–
		4 708 254	4 699 586
3.	**OTHER ASSETS**		
	Prepayments	12 821	12 188
	Sundry debtors	8 268	9 403
		21 089	21 591
	There is insignificant credit risk on the above, due to their short-term nature.		

Notes to the Financial Statements continued

for the year ended 31 December 2024

		2024 R'000	2023 R'000
4.	**DERIVATIVE ASSETS HELD FOR RISK MANAGEMENT**		
	Forward foreign exchange contracts	18 884	5 936
		18 884	5 936
5.	**LOANS AND ADVANCES**		
	Overdrafts	362 614	270 289
	Loans	2 335 700	1 906 078
	Staff loans	2 424	1 944
	Commercial loans	2 160 946	1 769 077
	Trust receipts	172 330	135 057
	Bills receivable	-	-
		2 698 314	2 176 367
	Stage 3 Expected Credit Losses	(40 587)	(45 733)
	Stage 2 Expected Credit Losses	(256)	(1 009)
	Stage 1 Expected Credit Losses	(7 043)	(4 156)
		(47 886)	(50 898)
		2 650 428	2 125 469
	Maturity analysis		
	On demand to one month	726 127	573 585
	One month to six months	441 083	418 632
	Six months to one year	269 076	178 876
	Greater than one year	1 214 142	954 376
		2 650 428	2 125 469

Interest rates charged on clients loans and advances range between 6% and 16.75% during 2024 (2023:6.5% and 16.75%).

Islamic Banking advances are included in commercial loans.

		2024 R'000	2023 R'000
6.	**IMPAIRMENT REVERSALS/(LOSSES) ON FINANCIAL INSTRUMENTS**		
	Net impairment reversals/(losses)		
	Stage 3 Expected Credit Losses	5 266	(7 253)
	Stage 2 Expected Credit Losses	753	(756)
	Stage 1 Expected Credit Losses	725	(7 513)
		6 744	(15 522)
	Other adjustments	1 499	978
	Write-offs	(2 877)	-
		5 366	(14 544)

Notes to the Financial Statements continued

for the year ended 31 December 2024

7. PROPERTY AND EQUIPMENT

2024	COST R'000	ACCUMULATED DEPRECIATION R'000	CARRYING AMOUNT R'000
Land and buildings	41 380	–	41 380
Furniture & fittings	5 770	(4 303)	1 467
Leasehold improvements	8 945	(8 678)	267
Capital improvements	10 414	(6 827)	3 587
Office equipment	6 711	(5 807)	904
Motor vehicles	1 812	(1 348)	464
Computers	14 928	(11 590)	3 338
	89 960	(38 553)	51 407

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

2024 MOVEMENTS	OPENING CARRYING AMOUNT R'000	ADDITIONS R'000	DISPOSALS R'000	DEPRECIATION R'000	CARRYING AMOUNT R'000
Land and buildings	41 380	–	–		41 380
Furniture & fittings	1 766	226	–	(525)	1 467
Leasehold improvements	240	146	–	(119)	267
Capital improvements	5 016	551	–	(1 980)	3 587
Office equipment	990	364	(2)	(448)	904
Motor vehicles	832	–	–	(368)	464
Computers	3 438	1 773	(45)	(1 828)	3 338
	53 662	3 060	(47)	(5 268)	51 407

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

As at 31 December 2024 the fair value of Land and Buildings equated to R44 500 000 (2023: R43 750 000).

Notes to the Financial Statements continued

for the year ended 31 December 2024

8. INVESTMENT PROPERTY

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

	2024			2023		
	COST	ACCUMULATED DEPRECIATION	CARRYING AMOUNT	COST	ACCUMULATED DEPRECIATION	CARRYING AMOUNT
	R'000	R'000	R'000	R'000	R'000	R'000
Investment property	8 486	(279)	8 207	8 486	(228)	8 258

	2024 R'000	2023 R'000
CARRYING AMOUNT AS AT 1 JANUARY	8 258	8 314
Additions	–	–
Disposals	–	–
Depreciation	(51)	(56)
Carrying amount as at 31 December	8 207	8 258
Amounts recognised in profit or loss		
- Rental income	376	462
- Direct operating expenses that generated rental income	(94)	(107)
- Depreciation	(51)	(56)

The fair value of the property was determined to be R9.6 million (2023: R9.2 million).

The fair value was determined by external valuators based on the comparable sales method.

Investment property is recognised under the depreciated initial cost model. Refer to the investment property accounting policy for further details.

Notes to the Financial Statements continued

for the year ended 31 December 2024

	2024 R'000	2023 R'000
9. RIGHT-OF-USE ASSETS		
The Bank leases several commercial buildings.		
Opening balance as at 1 January	16 937	19 468
Additions	–	–
Modifications	–	3 266
Depreciation	(5 852)	(5 797)
Balance as at 31 December	11 085	16 937
Amounts recognised in profit or loss		
Depreciation expense on right-of-use asset	5 852	5 797
Interest expense on lease liability	1 004	1 294
Expense relating to leases of low value assets	584	818
Lease cancellation and restoration costs	–	–
Amounts recognised in statement of cash flows		
Total cash outflow	7 113	6 639

At 31 December 2024, 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.

Notes to the Financial Statements continued

for the year ended 31 December 2024

	2024 R'000	2023 R'000
10. LEASE LIABILITIES		
Opening balance as at 1 January	20 362	22 441
Additions	–	–
Interest incurred on lease liability	1 004	1 294
Modifications	–	3 266
Lease repayments	(7 113)	(6 639)
Balance as at 31 December	14 253	20 362
Amounts due for settlement within 1 year	5 290	6 108
Amounts due for settlement after 1 year	8 963	14 254
	14 253	20 362
Maturity analysis		
Not later than 1 year	5 956	7 113
Later than 1 year and not later than 5 years	7 972	13 105
Later than 5 years	2 312	3 134
Less future finance charges	(1 987)	(2 990)
Present value of lease obligations	14 253	20 362

For the year ended 31 December 2024, the average effective borrowing rate was an interpolated rate of 7.63% (2023: 7.74%).

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 2024 is estimated to approximate the carrying value of the lease. The Bank's obligations under finance leases are secured by the lessors' rights over the leased assets disclosed in note 9.

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

Notes to the Financial Statements continued

for the year ended 31 December 2024

		2024 R'000	2023 R'000
11.	**DEFERRED TAX ASSETS**		
	Deferred tax analysis		
	- impairment of doubtful debt	2 733	5 220
	- other accruals and provisions	5 550	1 779
	- wear and tear allowances	31	(8)
	- right-of-use asset	(2 993)	(4 573)
	- lease liabilities per note 10	3 849	5 498
	- deferred loan origination fees	3 576	3 060
	Deferred taxation asset	12 746	10 976
	Deferred tax movement		
	Opening balance as at 1 January	10 976	7 889
	Current year temporary differences	1 770	3 087
	- impairment of doubtful debt	(2 487)	2 775
	- other accruals and provisions	3 771	52
	- fixed asset allowances	39	(66)
	- right of use asset	1 580	878
	- lease liability	(1 649)	(784)
	- deferred loan origination fees	516	232
	Balance as at 31 December	12 746	10 976
12.	**ORDINARY SHARE CAPITAL AND SHARE PREMIUM**		
	Authorised		
	10 000 000 Ordinary shares of R1 each	10 000	10 000
	10 000 000 Ordinary shares at no par value	-	–
	Issued		
	10 000 000 Ordinary shares of R1 each issued at R5 each		
	Ordinary share capital	10 000	10 000
	Share premium	40 000	40 000
13.	**GENERAL RESERVE**		
	General reserve	543 138	543 138

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 (No. 94 of 1990). The Bank appropriates profits that were not issued as a dividend into the general reserve when necessary. Refer to note 32 for further details on capital risk.

Notes to the Financial Statements continued

for the year ended 31 December 2024

		2024 R'000	2023 R'000
14.	**DEPOSITS AND BORROWINGS**		
	Deposits and loans from banks	180 241	53 817
	Demand deposits	3 703 621	3 670 447
	Savings deposits	580 700	703 426
	Fixed deposits	2 924 878	2 343 263
	Notice deposits	1 184 869	1 070 674
		8 574 309	7 841 627
	Maturity analysis		
	On demand to one month	6 609 854	6 358 008
	One month to six months	946 607	761 885
	Six months to one year	1 017 848	721 734
	Greater than one year	–	–
		8 574 309	7 841 627

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

		2024 R'000	2023 R'000
15.	**PROVISIONS**		
	Provision for leave pay		
	Opening balance as at 1 January	7 690	6 636
	Provisions (released)/made during the year	(533)	1 054
	Balance as at 31 December	7 157	7 690
	Provision for short-term incentives		
	Opening balance as at 1 January	7 218	–
	Prior year under provision	46	–
	Short-term incentives paid	(7 264)	–
	Provisions made during the year	7 510	7 218
	Balance as at 31 December	7 510	7 218
	ECL on off balance sheet items		
	Opening balance as at 1 January	130	192
	stage 1 net movement	168	(180)
	stage 2 net movement	–	(2)
	stage 3 net movement	(120)	120
	Balance as at 31 December	178	130
	Total provisions on statement of financial position	14 845	15 038

Notes to the Financial Statements continued

for the year ended 31 December 2024

		2024 R'000	2023 R'000
16.	**OTHER LIABILITIES**		
	Creditors	5 162	4 288
	Other payables	13 164	15 604
	Income tax payable	2 488	1 078
		20 814	20 970
17.	**DERIVATIVE LIABILITIES HELD FOR RISK MANAGEMENT**		
	Forward foreign exchange contracts	18 161	5 217
18.	**INTEREST INCOME CALCULATED USING THE EFFECTIVE INTEREST METHOD**		
	Cash and cash equivalents	99 625	118 574
	Investment securities	429 895	340 518
	Loans and advances	269 043	235 810
		798 563	694 902
19.	**INTEREST EXPENSE**		
	Deposits from banks	8 310	6 135
	Deposits from customers	296 080	242 520
		304 390	248 655
20.	**COMMISSION AND FEES**		
	Account servicing fees	19 105	22 194
	Fees from telegraphic transfers	2 947	2 695
	Foreign exchange fees	180	171
	Facility processing fees	10 372	11 118
	Fees from bank charges	1 067	945
		33 671	37 123
21.1	**OTHER OPERATING INCOME**		
	Foreign exchange income	25 279	22 437
		25 279	22 437
21.2	**OTHER REVENUE**		
	Net profit on disposal of property and equipment	–	4 530
		–	4 530

Notes to the Financial Statements continued

for the year ended 31 December 2024

	2024 R'000	2023 R'000
22. OPERATING EXPENSES		
Operating expenses include:		
Directors' remuneration (see note 23)	9 743	10 416
Auditor's remuneration	3 298	2 878
- Statutory	2 526	1 626
- Non audit services	50	42
- Audit-related services	722	1 210
Depreciation expense for Investment property and property and equipment	5 319	5 104
Commission expense	25 063	24 424
Services rendered by group companies	67 325	60 879
Retirement benefit costs	6 206	5 602
- key management personnel	491	767
- other personnel	5 715	4 835
Equipment leases	584	818
Staff costs	88 827	80 819

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

Commission expense has been included in the above to further enhance the disclosure.

	2024 R'000	2023 R'000
23. DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION		
Non-executive directors		
For services as a director	3 431	2 709
- O D Grobler (retired 31 March 2024)	156	625
- Y D Singh	1 100	1 000
- NP Mnxasana	525	450
- LP Fourie	625	500
- DC Moephuli	531	67
- S Rapeti	494	67
- MH Habib*	-	-
- MA Nathani*	-	-

Notes to the Financial Statements continued

for the year ended 31 December 2024

23. DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION CONTINUED

	REMUNERATION	RETIREMENT BENEFITS	TOTAL REMUNERATION
2024 DIRECTORS EMOLUMENTS			
Executive directors	5 962	350	6 312
- AN Cameron - Chief Executive Officer	5 962	350	6 312
- A Iqbal*	–	–	–
Total directors' remuneration			9 743
Prescribed Officers	7 583	491	8 074
- Z Mitha - Chief Financial Officer	2 447	191	2 638
- F Anwar - Chief Operating Officer	3 147	150	3 297
- K Maharaj - Chief Risk Officer	1 989	150	2 139
2023 DIRECTORS EMOLUMENTS			
Executive directors	7 387	320	7 707
- ZA Khan - Chief Executive Officer (retired 31 March 2023)**	3 371	–	3 371
- AN Cameron - Chief Executive Officer (appointed 1 April 2023)	4 016	320	4 336
- A Iqbal*	–	–	–
Total directors' remuneration			10 416
Prescribed Officers	5 932	447	6 379
- Z Mitha - Chief Financial Officer	1 851	169	2 020
- F Anwar - Chief Operating Officer	2 403	135	2 538
- K Maharaj - Chief Risk Officer	1 678	143	1 821

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

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

- The Prescribed Officers of the Bank are assessed and approved by the Board on an annual basis. The Prescribed Officers are the Chief Financial Officer, Chief Operating Officer and Chief Risk Officer.
- Non-Executive Directors are only compensated for their services in the form of directors fees. No other form of remuneration was paid to these directors.
- Remuneration for Executive Directors and Prescribed Officers include all compensation received for services rendered to the Bank.
- In terms of the Memorandum of Incorporation the appointment of an Independent Non-Executive Director is for a period of three years where-after each director is expected to retire on rotation. Independent Non-Executive Directors are however eligible to offer themselves for reappointment and the Board will consider reappointing them depending on current circumstances.
- Executive Directors are appointed for a period of 5 years.
- If there are circumstances necessitating the termination of the contract before the three year period has expired then each party will have the right to terminate the contract by giving the other party three months written notice of termination.

The Bank has a short-term incentive scheme in place for its employees. The incentive is based on the Bank's financial performance for the 2024 financial year but payable in the 2025 financial year.

Notes to the Financial Statements continued

for the year ended 31 December 2024

		2024 R'000	2023 R'000
24.	TAXATION		
24.1	SOUTH AFRICAN NORMAL TAXATION		
	Current tax expense	78 216	70 486
	Prior year under/(over) provision	2 498	(906)
	Deferred tax expense	(12)	(3 087)
	Prior year (over) provision	(1 758)	–
	Total taxation	78 944	66 493
24.2	RECONCILIATION OF EFFECTIVE TAX RATE		
	SA normal taxation	27.00%	28.00%
	- Rate change	0.00%	(1.00%)
	- Permanent difference	(0.08%)	(0.54%)
	- Prior year net under provision	0.25%	0.00%
	Effective tax rate	27.17%	26.46%
	The income tax rate decreased by 1% from 28% to 27% on 1 April 2023 impacting the 2023 financial year.		
25.	DIVIDENDS		
	Final dividend of 1350 cents per share (2023: 600 cents per share)	135 000	60 000
26.	CASH FLOW INFORMATION		
26.1	CASH RECEIPTS FROM CUSTOMERS		
	Interest income	898 767	653 619
	Other income	57 889	57 260
		956 656	710 879
26.2	CASH PAID TO CUSTOMERS, EMPLOYEES AND SUPPLIERS		
	Interest expenses	(285 179)	(248 655)
	Other payments	(260 572)	(224 160)
		(545 751)	472 815

Notes to the Financial Statements continued

for the year ended 31 December 2024

		2024 R'000	2023 R'000
26.	**CASH FLOW INFORMATION CONTINUED**		
26.3	**CASH AVAILABLE FROM OPERATIONS**		
	Profit before tax	290 528	251 315
	Adjusted for:		
	- Depreciation	5 319	5 105
	- Depreciation on right-of-use asset	5 852	5 797
	- Effect of exchange rate fluctuations on cash and cash equivalents held	(1 061)	(2 297)
	- Impairment losses	(5 704)	14 797
	- Interest incurred on lease liabilities	–	1 294
	- Profit on disposal of property and equipment	–	(4 530)
	- Increase in prepayments	(633)	(2 413)
	- Decrease in creditors and other payables	(1 566)	2 007
	- Increase in provisions	(241)	8 272
	- Adjustment for non-cash interest income	118 411	(41 283)
		410 905	238 064

		2024 R'000	2023 R'000
26.4	**TAXATION PAID**		
	Amount payable at 1 January	(1 078)	(3 839)
	Tax expense	(80 714)	(69 580)
	Amount payable as at 31 December	2 488	1 078
		(79 304)	(72 341)

		2024 R'000	2023 R'000
26.5	**DERIVATIVES HELD FOR RISK MANAGEMENT**		
	Increase in derivative assets	(12 948)	3 187
	Increase in derivative liabilities	12 944	(3 237)
		(4)	(50)

		2024 R'000	2023 R'000
27.	**LOAN COMMITMENTS AND FINANCIAL GUARANTEES**		
	Letters of credit	56 412	56 366
	Guarantees issued on behalf of customers	207 493	140 737
		263 905	197 103

Loan commitments and guarantees have fixed expiry dates.
As commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.
For details on the other off-balance sheet items, refer to note 29.1.

Notes to the Financial Statements continued

for the year ended 31 December 2024

	2024	2023
28. PRINCIPAL FOREIGN CURRENCY CONVERSION RATES		
Swiss franc	20.81	21.98
United States dollar	18.79	18.54
Pound sterling	23.62	23.56
Emirati Dirham	5.12	5.03
	One unit of foreign currency converted to the Rand equals	

29. RISK MANAGEMENT

29.1 CREDIT RISK MANAGEMENT

Credit Risk Management is to maximise a bank's risk-adjusted rate of return by maintaining the credit risk exposure within acceptable parameters. This constitutes the Bank's core business and is managed within the Board approved Credit Risk Management Framework (CRMF). This Framework covers the macrostructures of Credit Risk Management, incorporating key excerpts from the Group Credit Policy including the Credit approval mandate levels and Credit Risk Monitoring and Governance structures. CRMF is a key component of the Group's Enterprise-wide Risk Management Framework (ERMF) and Capital Management and Risk Appetite Framework (CMRAF).

The Local Credit Committee (LCC) monitors the Bank’s credit portfolio, risk procedures, policies and credit standards.

The LLC, 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. It also champions the Basel III and IFRS 9 methodologies in the Bank to ensure consistency in the credit rating process.

The LLC calculates and consolidates Credit Regulatory and Economic Capital, implementing all regulatory Model updates.

The LLC calculates and consolidates the IFRS 9 Impairment values in the Bank, implementing all regulatory Model updates.

Notes to the Financial Statements continued

for the year ended 31 December 2024

29. RISK MANAGEMENT CONTINUED

29.1 CREDIT RISK MANAGEMENT CONTINUED

i. Credit quality analysis

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

	2024			
	STAGE 1 R'000	STAGE 2 R'000	STAGE 3 R'000	TOTAL R'000
CASH AND CASH EQUIVALENTS				
Grades 0: low to fair risk	2 015 461	–	–	2 015 461
Loss allowance	(686)	–	–	(686)
Carrying amount	2 014 775	–	–	2 014 775
LOANS AND ADVANCES AT AMORTISED COST				
Grade 0: Low to fair risk	2 556 296	–	–	2 556 296
Grade 1: Monitoring	–	34 177	–	34 177
Grade 2: Substandard	–	–	30 571	30 571
Grade 3: Doubtful	–	–	9 046	9 046
Grade 4 - 10: Loss	–	–	68 224	68 224
	2 556 296	34 177	107 841	2 698 314
Loss allowance	(7 043)	(256)	(40 587)	(47 886)
Carrying amount	2 549 253	33 921	67 254	2 650 428
INVESTMENT SECURITIES AT AMORTISED COST				
Grade 0: Low to fair risk	4 715 325	–	–	4 715 325
Loss allowance	(7071)	–	–	(7 071)
Carrying amount	4 708 254	–	–	4 708 254
FINANCIAL GUARANTEE CONTRACTS				
Grade 0: Low to fair risk	263 905	–	–	263 905
Grade 1: Monitoring	–	–	–	–
Grade 2: Substandard	–	–	–	–
Loss allowance	(178)	–	–	(178)
Carrying amount	263 727	–	–	263 727

Loan commitments and guarantees are on demand.

Notes to the Financial Statements continued

for the year ended 31 December 2024

29. RISK MANAGEMENT CONTINUED

29.1 CREDIT RISK MANAGEMENT CONTINUED

i. Credit quality analysis continued

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

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

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

	OVER-THE-COUNTER OTHER BILATERAL COLLATERALISED	
	NOTIONAL AMOUNT 2024 R'000	NOTIONAL AMOUNT 2023 R'000
Derivative assets	**358 853**	420 876
Derivative liabilities	**358 132**	420 157

Notes to the Financial Statements continued

for the year ended 31 December 2023

29. RISK MANAGEMENT CONTINUED

29.1 CREDIT RISK MANAGEMENT CONTINUED

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 2024, the gross amount of advances to customers in default amounted to R107.8 million (2023: R86.9 million) and the market value of identifiable collateral (mainly fixed properties) held for these advances amounted to R338 million (2023: R197 million).

The Bank receives collateral in the form of cash, marketable securities and properties (hereinafter know as securities), in respect of lending to customers. This collateral is subject to standard industry terms which means that securities received as collateral can be pledged or sold during the term of the lending and have to be returned on settlement of the lending.

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		
LOANS AND ADVANCES	31 DEC 2024	31 DEC 2023	PRINCIPAL TYPE OF COLLATERAL HELD
Overdrafts	100	100	Commercial Property / Residential Property / Cash / Investments / Guarantees
Staff loans	–	–	None
Commercial loans	100	100	Commercial Property / Residential Property / Cash / Investments / Guarantees
Trust receipts	100	100	Commercial Property / Residential Property / Cash / Guarantees
Bills receivable	–	–	

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.

Notes to the Financial Statements continued

for the year ended 31 December 2024

29. RISK MANAGEMENT CONTINUED

29.1 CREDIT RISK MANAGEMENT CONTINUED

ii. Collateral held and other credit enhancements continued

MORTGAGE LENDING

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

MORTGAGE LENDING	31 DEC 2024 R'000	31 DEC 2023 R'000
LTV ratio		
Less than 50%	202 036	207 829
51 - 70%	134 803	102 618
71 - 90%	–	9 916
91 - 100%	–	–
More than 100%	–	–
Total	336 839	320 363

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 quantitative and qualitative indicators for determining whether there has been a significant increase in credit risk.

CREDIT RISK GRADES APPLICABLE TO CORPORATE EXPOSURE

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

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

Notes to the Financial Statements continued

for the year ended 31 December 2024

29. RISK MANAGEMENT CONTINUED

29.1 CREDIT RISK MANAGEMENT CONTINUED

iii. Amounts arising from ECL continued

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

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

ECL for exposures in Stage 1 are calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL for Stage 2 and 3 are calculated by multiplying the lifetime PD by LGD and EAD.

The methodology for estimating PD is by reviewing the Macroeconomic Variables from Economy.com (Moody's Analytics) and then adjusting to make it forward looking. Recent observed default and recovery rates are taken into account together with the economic situation.

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	4.2%
Stage 2	Grades 1: Monitoring	28.2%
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 the previous recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower.

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

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

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

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

Notes to the Financial Statements continued

for the year ended 31 December 2024

29. RISK MANAGEMENT CONTINUED

29.1 CREDIT RISK MANAGEMENT CONTINUED

- The movement of an off balance sheet exposure to an on balance sheet exposure
- A change in the financial position / operational efficiency of the borrower, examples of which could include (but are not limited to) the following:
  - Declining profitability
  - Tightening liquidity or cash flow
  - Increasing leverage and / or weakening net worth
  - Changes in Key Management Positions
- Weakened marketability and / or value of collateral
- A change in the industry in which the borrower operates
- Stressed macro-economic conditions may impact the performance of the borrower and impact its ability to service the debt commitments in full

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

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 realising collateral (if held)
- The borrower is past due more than 90 days on any material credit obligation to the Bank. Overdrafts will be considered as being past due once the client has breached an advised limit or been advised of a limit smaller than current outstandings

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

INCORPORATION OF FORWARD-LOOKING INFORMATION

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

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

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

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

- Moody's Analytics

Notes to the Financial Statements continued

for the year ended 31 December 2024

29. RISK MANAGEMENT CONTINUED

29.1 CREDIT RISK MANAGEMENT CONTINUED

The economic scenarios used as at 31 December 2024 included the following key indicators for the years ending 31 December 2024 to 2029.

SCENARIO PROBABILITY	
Baseline	50.00%
Upturn	10.00%
Downturn	40.00%

PROBABILITY WEIGHTED MACROECONOMIC VARIABLE FORECASTS		
YEAR	NATIONAL ACCOUNTS: NOMINAL GROSS CAPITAL FORMATION USD BILLIONS	BALANCE OF PAYMENTS: CURRENT ACCOUNT BALANCE ZAR BILLIONS
2024	59.3	(15)
2025	70	(23.6)
2026	84.2	(37.9)
2027	97.5	(56.1)
2028	108.9	(69.2)
2029	119.6	(80.6)

SCENARIO PROBABILITY	
Baseline	20.00%
Upturn	5.00%
Downturn	75.00%

PROBABILITY WEIGHTED MACROECONOMIC VARIABLE FORECASTS		
YEAR	NATIONAL ACCOUNTS: NOMINAL GROSS CAPITAL FORMATION USD BILLIONS	BALANCE OF PAYMENTS: CURRENT ACCOUNT BALANCE ZAR BILLIONS
2022	60.00%	(13.00%)
2023	65.00%	(25.00%)
2024	76.00%	(34.00%)
2025	85.00%	(51.00%)
2026	90.00%	(67.00%)

The above tables reflect the economic forecast for each year, anticipating the foreign investment (USD) into the SA Economy and the funding (ZAR) put back into the economy (e.g. infrastructure, job creation, etc) which creates a wider Current Account deficit.

Predicted relationships between the key indicators and default rates on various portfolios of financial assets have been developed based on analysing historical data.

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

SENSITIVITY OF ECL TO FUTURE ECONOMIC CONDITIONS

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

Notes to the Financial Statements continued

for the year ended 31 December 2024

29. RISK MANAGEMENT CONTINUED

29.1 CREDIT RISK MANAGEMENT CONTINUED

2024

ECL (R)	UPTURN	BASELINE	DOWNTURN	PROBABILITY WEIGHTED ECL*
STAGE 1	7 895 570	9 999 628	22 974 868	14 979 314
STAGE 2	60 160	173 115	408 200	255 853
STAGE 3	12 913 900	12 913 900	12 913 900	12 913 900
TOTAL	20 869 630	23 086 643	36 296 968	28 149 067

*PROBABILITY WEIGHTED ECL IS CALCULATED WITH WEIGHTS AS:	
Upturn	10%
Baseline	50%
Downturn	40%
The above is excluding Interest in Suspense	

2023

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

*PROBABILITY WEIGHTED ECL IS CALCULATED WITH WEIGHTS AS:	
Upturn	50%
Baseline	10%
Downturn	40%

MODIFIED FINANCIAL ASSETS

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

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

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

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

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

IMPROVEMENT IN CREDIT RISK PROFILE:

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

Notes to the Financial Statements continued

for the year ended 31 December 2024

29. RISK MANAGEMENT CONTINUED

29.1 CREDIT RISK MANAGEMENT CONTINUED

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

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

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

MEASUREMENT OF ECL

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

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

ECL measurement will be undertaken by considering a range of macroeconomic scenarios (at least more than 2) for computation of unbiased ECL estimates. The general model for computation of ECL is based on the four components as follows:

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

For 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 undrawn Loan Commitments is the Effective Interest Rate that will be applied to the Financial Asset resulting from the loan commitment or an approximation thereof.

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

Notes to the Financial Statements continued

for the year ended 31 December 2024

29. RISK MANAGEMENT CONTINUED

29.1 CREDIT RISK MANAGEMENT CONTINUED

LOSS ALLOWANCE

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

	2024			
ECL ON LOANS AND ADVANCES	STAGE 1	STAGE 2	STAGE 3	TOTAL
	R'000	R'000	R'000	R'000
Balance as at 1 January	4 156	1 009	45 733	50 898
Transfer to stage 1	(508)	–	508	–
Transfer to stage 2	(166)	166	–	–
Transfer to stage 3	(57)	(2 907)	2 965	–
Movements for the year *	(872)	1 948	(5 060)	(3 984)
New financial assets originated or purchased	4 490	40	1 924	6 455
Financial assets that have derecognised	–	–	(2 887)	(2 877)
Interest in suspense movement	–	–	(2 596)	(2 596)
Balance as at 31 December	7 043	256	40 587	47 886

	2023			
ECL ON LOANS AND ADVANCES	STAGE 1	STAGE 2	STAGE 3	TOTAL
	R'000	R'000	R'000	R'000
Balance as at 1 January	5 093	251	38 600	43 944
Transfer to stage 1	947	–	(947)	–
Transfer to stage 2	(781)	781	–	–
Transfer to stage 3	–	(1 172)	1 172	–
Movements for the year *	(1 103)	1 149	(1 011)	(965)
New financial assets originated or purchased	–	–	–	–
Financial assets that have derecognised	–	–	–	–
Interest in suspense movement	–	–	7 919	7 919
Balance as at 31 December	4 156	1 009	45 733	50 898

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

	2024			
ECL ON OVERDRAFTS	STAGE 1	STAGE 2	STAGE 3	TOTAL
	R'000	R'000	R'000	R'000
Balance as at 1 January	313	32	23 276	23 621
Transfer to stage 1	–	–	–	–
Transfer to stage 2	(9)	9	–	–
Transfer to stage 3	(57)	(672)	730	–
Movements for the year *	126	641	(18 093)	(17 326)
New financial assets originated or purchased	76	–	880	957
Financial assets that have derecognised	–	–	–	–
Interest in suspense movement	–	–	202	202
Balance as at 31 December	449	10	6 994	7 453

Notes to the Financial Statements continued

for the year ended 31 December 2024

29. RISK MANAGEMENT CONTINUED

29.1 CREDIT RISK MANAGEMENT CONTINUED

	2023			
ECL ON OVERDRAFTS	STAGE 1 R'000	STAGE 2 R'000	STAGE 3 R'000	TOTAL R'000
Balance as at 1 January	211	9	18 237	18 457
Transfer to stage 1	102	(102)	–	–
Transfer to stage 2	–	125	(125)	–
Transfer to stage 3	–	–	–	–
Movements for the year *	–	–	(11 626)	(11 626)
New financial assets originated or purchased	–	–	–	–
Financial assets that have derecognised	–	–	–	–
Interest in suspense movement	–	–	16 790	16 790
Balance as at 31 December	313	32	23 276	23 621

	2024			
ECL ON STAFF LOANS	STAGE 1 R'000	STAGE 2 R'000	STAGE 3 R'000	TOTAL R'000
Balance as at 1 January	39	–	–	39
Transfer to stage 1	–	–	–	–
Transfer to stage 2	–	–	–	–
Transfer to stage 3	–	–	–	–
Movements for the year *	(29)	–	–	(29)
New financial assets originated or purchased	38	–	–	38
Financial assets that have derecognised	–	–	–	–
Interest in suspense movement	–	–	–	–
Balance as at 31 December	48	–	–	48

	2023			
ECL ON STAFF LOANS	STAGE 1 R'000	STAGE 2 R'000	STAGE 3 R'000	TOTAL R'000
Balance as at 1 January	50	–	–	50
Transfer to stage 1	–	–	–	–
Transfer to stage 2	–	–	–	–
Transfer to stage 3	–	–	–	–
Movements for the year *	(11)	–	–	(11)
New financial assets originated or purchased	–	–	–	–
Financial assets that have derecognised	–	–	–	–
Interest in suspense movement	–	–	–	–
Balance as at 31 December	39	–	–	39

	2024			
ECL ON COMMERCIAL LOANS	STAGE 1 R'000	STAGE 2 R'000	STAGE 3 R'000	TOTAL R'000
Balance as at 1 January	3 533	951	22 457	26 941
Transfer to stage 1	(508)	–	508	–
Transfer to stage 2	(155)	155	–	–
Transfer to stage 3	–	(2 235)	2 235	–
Movements for the year *	(726)	1 333	13 033	13 640
New financial assets originated or purchased	4 111	40	1 044	5 195
Financial assets that have derecognised	–	–	(2 887)	(2 877)
Interest in suspense movement	–	–	(2 797)	(2 797)
Balance as at 31 December	6 255	244	33 593	40 092

Notes to the Financial Statements continued

for the year ended 31 December 2024

29. RISK MANAGEMENT CONTINUED

29.1 CREDIT RISK MANAGEMENT CONTINUED

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

ECL ON TRADE RECEIPTS	2024			
	STAGE 1	STAGE 2	STAGE 3	TOTAL
	R'000	R'000	R'000	R'000
Balance as at 1 January	271	26	–	297
Transfer to stage 1	–	–	–	–
Transfer to stage 2	(2)	2	–	–
Transfer to stage 3	–	–	–	–
Movements for the year *	(243)	(26)	–	(269)
New financial assets originated or purchased	265	–	–	265
Financial assets that have derecognised	–	–	–	–
Interest in suspense movement	–	–	–	–
Balance as at 31 December	291	2	–	293

ECL ON TRADE RECEIPTS	2023			
	STAGE 1	STAGE 2	STAGE 3	TOTAL
	R'000	R'000	R'000	R'000
Balance as at 1 January	93	43	439	575
Transfer to stage 1	406	–	–	406
Transfer to stage 2	–	(17)	–	(17)
Transfer to stage 3	–	–	(389)	(389)
Movements for the year *	(228)	–	–	(228)
New financial assets originated or purchased	–	–	–	–
Financial assets that have derecognised	–	–	–	–
Interest in suspense movement	–	–	(50)	(50)
Balance as at 31 December	271	26	–	297

ECL ON BALANCES WITH OTHER BANKS	2024			
	STAGE 1	STAGE 2	STAGE 3	TOTAL
	R'000	R'000	R'000	R'000
Balance as at 1 January	1 726	–	–	1 726
Transfer to stage 1	–	–	–	–
Transfer to stage 2	–	–	–	–
Transfer to stage 3	–	–	–	–
Movements for the year *	(1 040)	–	–	(1 040)
New financial assets originated or purchased	–	–	–	–
Financial assets that have derecognised	–	–	–	–
Balance as at 31 December	686	–	–	686

Notes to the Financial Statements continued

for the year ended 31 December 2024

29. RISK MANAGEMENT CONTINUED

29.1 CREDIT RISK MANAGEMENT CONTINUED

	2023			
ECL ON BALANCES WITH OTHER BANKS	STAGE 1	STAGE 2	STAGE 3	TOTAL
	R'000	R'000	R'000	R'000
Balance as at 1 January	1 001	–	–	1 001
Transfer to stage 1	–	–	–	–
Transfer to stage 2	–	–	–	–
Transfer to stage 3	–	–	–	–
Movements for the year *	725	–	–	725
New financial assets originated or purchased	–	–	–	–
Financial assets that have derecognised	–	–	–	–
Balance as at 31 December	1 726	–	–	1 726

	2024			
ECL ON INVESTMENT SECURITIES	STAGE 1	STAGE 2	STAGE 3	TOTAL
	R'000	R'000	R'000	R'000
Balance as at 1 January	9 811	–	–	9 811
Transfer to stage 1	–	–	–	–
Transfer to stage 2	–	–	–	–
Transfer to stage 3	–	–	–	–
Impairment raised	2 740	–	–	2 740
	–	–	–	–
Balance as at 31 December	7 071	–	–	7 071

	2023			
ECL ON INVESTMENT SECURITIES	STAGE 1	STAGE 2	STAGE 3	TOTAL
	R'000	R'000	R'000	R'000
Balance as at 1 January	1 906	–	–	1 906
Transfer to stage 1	–	–	–	–
Transfer to stage 2	–	–	–	–
Transfer to stage 3	–	–	–	–
Impairment raised	7 905	–	–	7 905
	–	–	–	–
Balance as at 31 December	9 811	–	–	9 811

	2024			
ECL ON FINANCIAL GUARANTEE CONTRACTS	STAGE 1	STAGE 2	STAGE 3	TOTAL
	R'000	R'000	R'000	R'000
Balance as at 1 January	10	–	120	130
Transfer to stage 1	–	–	–	–
Transfer to stage 2	–	–	–	–
Transfer to stage 3	–	–	–	–
Movements for the year *	40	–	–	40
New financial assets originated or purchased	128	–	–	128
Financial assets that have derecognised	–	–	(120)	(120)
Balance as at 31 December	178	–	–	178

Notes to the Financial Statements continued

for the year ended 31 December 2024

29. RISK MANAGEMENT CONTINUED

29.1 CREDIT RISK MANAGEMENT CONTINUED

ECL ON FINANCIAL GUARANTEE CONTRACTS	2023 STAGE 1 R'000	2023 STAGE 2 R'000	2023 STAGE 3 R'000	2023 TOTAL R'000
Balance as at 1 January	190	2	–	192
Transfer to stage 1	2	(2)	–	–
Transfer to stage 2	–	–	–	–
Transfer to stage 3	(120)	–	120	–
Movements for the year *	(62)	–	–	(62)
New financial assets originated or purchased	–	–	–	–
Financial assets that have derecognised	–	–	–	–
Balance as at 31 December	10	–	120	130

The total loss allowances recognised in the 2024 financial year amounted to R64.3 million (2023: R62.6 million)

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

iv. Concentration of credit risk

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

CONCENTRATION BY LOCATION	LOANS AND ADVANCES TO CUSTOMERS 2024 R'000	LOANS AND ADVANCES TO CUSTOMERS 2023 R'000	CASH AND CASH EQUIVALENTS 2024 R'000	CASH AND CASH EQUIVALENTS 2023 R'000	INVESTMENT SECURITIES 2024 R'000	INVESTMENT SECURITIES 2023 R'000
America	–	–	114 733	169 973	–	–
Europe	–	–	40 113	100 914	–	–
Asia	–	–	3 456	2 893	–	–
South Africa	2 650 428	2 125 469	1 856 473	1 464 928	4 708 254	4 699 586
Other African countries		–	–	–	–	–
	2 650 428	2 125 469	2 014 775	1 738 708	4 708 254	4 699 586

CONCENTRATION BY INDUSTRY	2024 R'000	2023 R'000
Finance & insurance	77 941	2 552
Manufacturing	384 676	403 230
Transportation	99 038	98 800
Commercial real estate	1 069 642	799 889
Retailers & wholesalers	832 191	708 162
Other	234 826	163 734
	2 698 314	2 176 367

Notes to the Financial Statements continued

for the year ended 31 December 2024

29. RISK MANAGEMENT CONTINUED

29.2 LIQUIDITY RISK

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

LIQUIDITY RISK MANAGEMENT

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

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

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

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

Notes to the Financial Statements continued

for the year ended 31 December 2024

29. RISK MANAGEMENT CONTINUED

29.2 LIQUIDITY RISK CONTINUED

CONTRACTUAL NET LIQUIDITY GAP	ON DEMAND	1-6 MONTHS	6-12 MONTHS	> 12 MONTHS	TOTAL
	R'000	R'000	R'000	R'000	R'000
2024					
ASSETS					
Investment securities	99 122	265 783	2 637 593	1 705 756	4 708 254
Loans and advances	826 584	439 219	191 429	1 241 083	2 698 315
Other assets	21 089	–	–	–	21 089
Derivative assets held for risk management	7 558	11 326	–	–	18 884
Cash and cash equivalents	1 673 872	210 000	131 589	–	2 015 461
	2 628 225	926 328	2 960 611	2 946 839	9 462 003
LIABILITIES					
Deposits and borrowings	(6 612 762)	(966 271)	(1 080 003)	–	(8 659 037)
Other liabilities	(18 326)	–	–	–	(18 326)
Derivative liabilities held for risk management	(7 299)	(10 863)	–	–	(18 162)
Lease liabilities	(604)	(2 494)	(2 859)	(10 284)	(16 241)
Loan commitments and financial guarantees	(263 905)	–	–	–	(263 905)
	(6 902 896)	(979 628)	(1 082 862)	(10 284)	(8 975 671)
Net liquidity gap	(4 274 671)	(53 300)	1 877 749	2 936 555	486 333
2023	R'000	R'000	R'000	R'000	R'000
ASSETS					
Investment securities	–	921 160	4 078 840	–	5 000 000
Loans and advances	587 320	428 657	183 159	977 232	2 176 368
Other assets	21 591	–	–	–	21 591
Derivative assets held for risk management	2 603	3 333	–	–	5 936
Cash and cash equivalents	1 539 534	180 900	20 000	–	1 740 434
	2 151 048	1 534 050	4 281 999	977 232	8 944 329
LIABILITIES					
Deposits and borrowings	(6 358 008)	(761 885)	(721 734)	–	(7 841 627)
Other liabilities	(19 892)	–	–	–	(19 892)
Derivative liabilities held for risk management	(2 287)	(2 930)	–	–	(5 217)
Lease liabilities	(562)	(2 949)	(3 602)	(16 240)	(23 353)
Loan commitments and financial guarantees	(197 103)	–	–	–	(197 103)
	(6 577 852)	(767 764)	(725 336)	(16 240)	(8 087 192)
Net liquidity gap	(4 426 804)	766 286	3 556 663	960 992	857 137

Notes to the Financial Statements continued

for the year ended 31 December 2024

29. RISK MANAGEMENT CONTINUED

29.3 MARKET RISK

Interest rate risk management

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

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

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

	REPRICING GAP						
	SHORT-TERM	MEDIUM-TERM		LONG-TERM	GREATER THAN		
	0 - 31 DAYS	32 - 91 DAYS	92 - 181 DAYS	182 - 365 DAYS	365 DAYS	OTHER	TOTAL
2024	R'000	R'000	R'000	R'000		R'000	R'000
FIXED RATE ITEMS							
Assets	187 026	362 732	113 658	2 775 073	1 706 107	(7 071)	5 137 525
Liabilities	(1 034 862)	(505 088)	(441 579)	(1 017 789)	–	–	(2 999 318)
	(847 837)	(142 356)	(327 921)	1 757 284	1 706 107	(7 071)	2 138 207
VARIABLE ITEMS							
Assets	2 118 165	253 409	195 644	273 938	1 236 078	158 699	4 235 932
Liabilities	(5 574 991)	–	–	–	–	–	(5 574 991)
	(3 456 826)	253 409	195 644	273 938	1 236 078	158 699	(1 339 059)
Net repricing gap	2 608 989	(395 764)	(523 565)	1 483 346	470 029	(165 770)	3 477 265

2023							
FIXED RATE ITEMS	(R'000)	(R'000)	(R'000)	(R'000)	(R'000)	(R'000)	(R'000)
Assets	37 560	1 292 194	575 267	4 556 163	–	876 393	7 337 577
Liabilities	(1 357 004)	(413 222)	(215 016)	(400 336)	–	(1 295 436)	(3 681 014)
	(1 319 444)	878 972	360 251	4 155 827	–	(419 043)	3 656 563
VARIABLE ITEMS							
Assets	1 343 542	–	–	–	–	–	1 343 542
Liabilities	(5 000 105)	–	–	–	–	–	(5 000 105)
	(3 656 563)	–	–	–	–	–	(3 656 563)
Net repricing gap	(4 976 007)	878 972	360 251	4 155 827	–	(419 043)	–

Notes to the Financial Statements continued

for the year ended 31 December 2024

29. RISK MANAGEMENT CONTINUED

29.3 MARKET RISK CONTINUED

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 2024, a general increase of 1% in the interest rate would decrease the Bank's profit by R9 775 128 (2023: R3 653 000) and a general decrease of 1% in the interest rate would increase the Bank's profit by R9 775 128 (2023: R3 653 000). A general increase or decrease of 1% in the interest rate would increase or decrease the Bank's equity in line with that of the Banks' profit sensitivity analysis.

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

Foreign exchange risk management

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

It is estimated that as at 31 December 2024, a general increase of 10% in the foreign exchange rate would increase the US Dollar exposure by R11 878 744 (2023: R20 595 021) and the Euro exposure by R1 357 626 (2023: R2 309 419) which results in a decrease of R9 662 550 (2023: R16 720 241) in profit and loss after tax and equity. A general decrease of 10% in the foreign exchange rate would decrease the US Dollar exposure by R11 878 744 (2023: R20 595 021) and the Euro exposure by R1 357 626 (2023: R2 309 419) which results in an increase of R9 662 550 (2023: R16 720 241) in profit and loss after tax and equity.

DERIVATIVE INSTRUMENTS	2024 R'000	2023 R'000
Nominal value of forward exchange contracts sold to customers	346 917	402 942
Nominal value of forward exchange contracts sold to banks	11 936	17 934
	358 853	420 876
Nominal value of forward exchange contracts purchased from customers	11 919	17 930
Nominal value of forward exchange contracts purchased from banks	346 213	402 227
	358 132	420 157

Notes to the Financial Statements continued

for the year ended 31 December 2024

29. RISK MANAGEMENT CONTINUED

29.4 FINANCIAL ASSETS AND LIABILITIES

	FAIR VALUE THROUGH PROFIT AND LOSS	AMORTISED COST	TOTAL CARRYING AMOUNT
31 DECEMBER 2024	R'000	R'000	R'000
FINANCIAL ASSETS			
Cash and cash equivalents	–	2 014 775	2 014 775
Investment securities	–	4 708 254	4 708 254
Derivative assets held for risk management	18 884	–	18 884
Loans and advances	–	2 650 428	2 650 428
	18 884	9 373 457	9 392 341
FINANCIAL LIABILITIES			
Deposits and loans from banks	–	(180 241)	(180 241)
Deposits from customers	–	(8 394 068)	(8 394 068)
Derivative liabilities held for risk management	(18 161)	–	(18 161)
	(18 161)	(8 574 309)	(8 592 470)
31 DECEMBER 2023	R'000	R'000	R'000
FINANCIAL ASSETS			
Cash and cash equivalents	–	1 738 708	1 738 708
Investment securities	–	4 699 586	4 699 586
Derivative assets held for risk management	5 936	–	5 936
Loans and advances	–	2 125 469	2 125 469
	5 936	8 563 763	8 569 699
FINANCIAL LIABILITIES			
Deposits and loans from banks	–	(53 817)	(53 817)
Deposits from customers	–	(7 787 810)	(7 787 810)
Derivative liabilities held for risk management	(5 217)	–	(5 217)
	(5 217)	(7 841 627)	(7 846 844)

- The fair value of derivatives is classed as a level 2 financial instrument in terms of the hierarchy requirements per IFRS 13
- The fair value of investment securities is classed as a level 1 financial instrument in terms of the hierarchy requirements per IFRS 13
- The fair value of loans and advances, cash and cash equivalents and deposits approximates their carrying amounts
- The fair value of investment securities was calculated to be R4.72bn (2023: R4.71bn)
- Effective interest rates on investment securities vary between 7.68% and 10.50%

30. RETIREMENT BENEFIT COSTS

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

Notes to the Financial Statements continued

for the year ended 31 December 2024

31. RELATED PARTIES

31.1 IDENTITY OF RELATED PARTIES

- The holding company of HBZ Bank Limited – Habib Bank AG Zurich
- Fellow subsidiaries – Habib Bank Zurich Plc, Habib Bank AG Zurich (Kenya), Habib Bank AG Zurich (United Arab Emirates), 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 classified Directors, Prescribed Officers and Key Management Personnel as related parties.

31.2 MATERIAL RELATED PARTY TRANSACTIONS

	2024	2023
MATERIAL TRANSACTIONS WITH THE HOLDING COMPANY AND DIRECTORS	R'000	R'000
Dividends paid to the holding company - see note 25	135 000	60 000
Fees for services rendered	67 325	60 877
- HBZ Services FZ LLC	58 376	52 407
- Habib Bank AG Zurich	8 949	8 470
Directors' remuneration - see note 23	9 743	10 416
Loans to directors and prescribed officers (balance outstanding)	335	41
- F Anwar	335	41
Interest/profit earned on directors and prescribed officers loans	11	9
- F Anwar	11	9

The loans to directors/prescribed officers are fully secured, with fixed terms of repayment and are included as part of total advances in note 5.

Disclosure on key management personnel compensation is included in note 23.

MATERIAL BALANCES WITH THE HABIB GROUP	2024	2023
Receivables due from group companies:		
- Habib Bank AG Zurich	6 086	43 119
- Habib Bank Zurich Plc	34 027	57 795
- Habib Bank Zurich (Hong Kong) Ltd	9	9
- Habib Canadian Bank	1 413	1 099
- Habib Bank AG Zurich, United Arab Emirates	3 209	184
- Habib Metropolitan Bank Ltd	21	2 633
	44 765	104 839

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

Notes to the Financial Statements continued

for the year ended 31 December 2024

31. RELATED PARTIES CONTINUED

31.2 MATERIAL RELATED PARTY TRANSACTIONS CONTINUED

	2024 R'000	2023 R'000
Payables due to group companies:		
- Habib Bank AG Zurich	146 092	592
- Habib Bank Zurich Plc	25 613	29 043
- Habib Bank AG Zurich, Kenya	67	45
- Habib Bank AG Zurich, United Arab Emirates	4 131	23 166
- Habib Bank Zurich (Hong Kong) Ltd	122	718
	176 025	53 564

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

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

	2024 R'000	2023 R'000
INTEREST AND RELATED TRANSACTION CHARGES PAID TO GROUP COMPANIES:		
- Habib Bank Zurich Plc	3 086	3 356
- Habib Bank AG Zurich, United Arab Emirates*	–	898
- Habib Bank AG Zurich	788	–
	3 874	4 254

* Habib Bank AG Zurich, United Arab Emirates now makes use of a current account in 2024 which is non-interest-bearing.

Notes to the Financial Statements continued

for the year ended 31 December 2024

32. CAPITAL RISK

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

The Bank's statutory regulator is the Prudential Authority of the South African Reserve Bank and sets the capital requirements for the Bank.

CAPITAL RISK MANAGEMENT

As with liquidity and market risk, the ALCO is responsible for ensuring the effective management of capital risk throughout the Bank. Specific levels of authority and responsibility in relation to capital risk management has been assigned to the CARC.

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 capital which includes ordinary share capital, related share premium, general reserves, retained earnings, 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

	2024 R'000	2023 R'000
Credit risk exposure	2 743 260	2 374 673
Counterparty credit risk exposure	6 280	11 937
Operational risk exposure	847 095	684 821
Market risk exposure	15 774	8 454
Other risk exposure	91 697	100 334
Risk weighted exposure in relation to deferred tax assets	33 098	27 440
Aggregate risk weighted exposure	3 737 204	3 207 659
Regulatory capital requirement – 11.750% (2023: 11.750%)	439 121	376 900
QUALIFYING CAPITAL AND RESERVE FUNDS		
Tier I		
Ordinary share capital#	10 000	10 000
Share premium#	40 000	40 000
General reserve#	543 138	543 138
Less: Prescribed deductions against capital and reserve funds	(25)	(107)
Total Tier 1 Capital	593 113	593 031
Tier II		
General allowance for ECL	14 706	16 701
Total qualifying capital and reserve funds	607 819	609 732

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

Notes to the Financial Statements continued

for the year ended 31 December 2024

32. CAPITAL RISK CONTINUED

	2024 R'000	2023 R'000
CAPITAL ADEQUACY RATIO		
Qualifying capital and reserve funds as a percentage of aggregate risk weighted exposure	16.3%	19.0%

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. Furthermore, the Bank appropriates profits that were not issued as a dividend into the general reserve when necessary.

33. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

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

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

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

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

Notes to the Financial Statements continued

for the year ended 31 December 2024

34. GOING CONCERN

The Bank assessed the appropriateness of the going concern assumption in the preparation of these financial statements.

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

35. EVENTS AFTER THE REPORTING PERIOD

DIVIDEND

On 8 April 2025 the Board declared a dividend of R150 million (2023: R135 million), which includes dividends withholding tax of R7.50 million (2023: R6.75 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 2024 and the date of approval of these financial statements.

Hong Kong

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