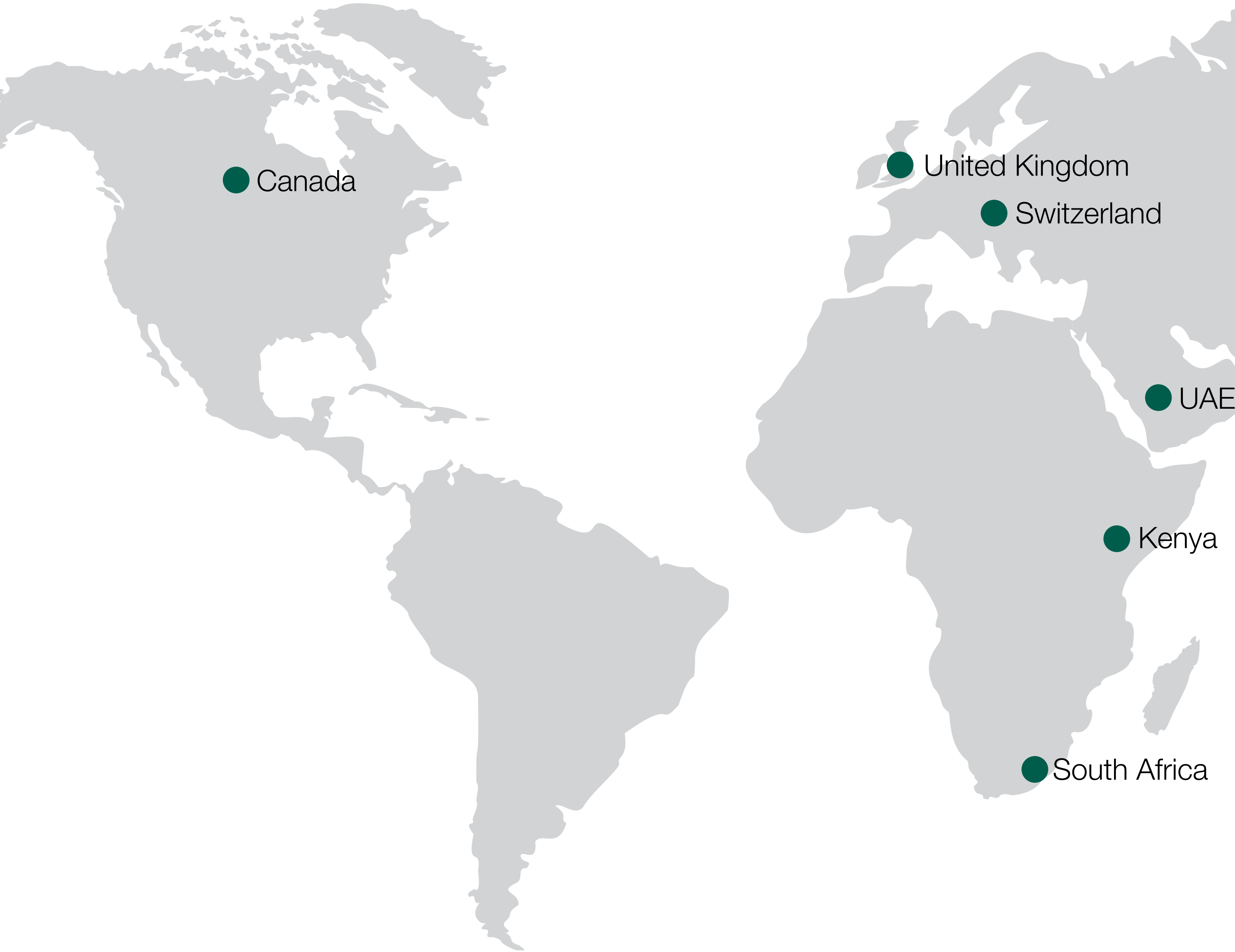
HBZ Bank Limited

(A subsidiary of Habib Bank AG Zurich)

South Africa

Annual Report
2019


Canada
United Kingdom
Switzerland
UAE
Kenya
South Africa

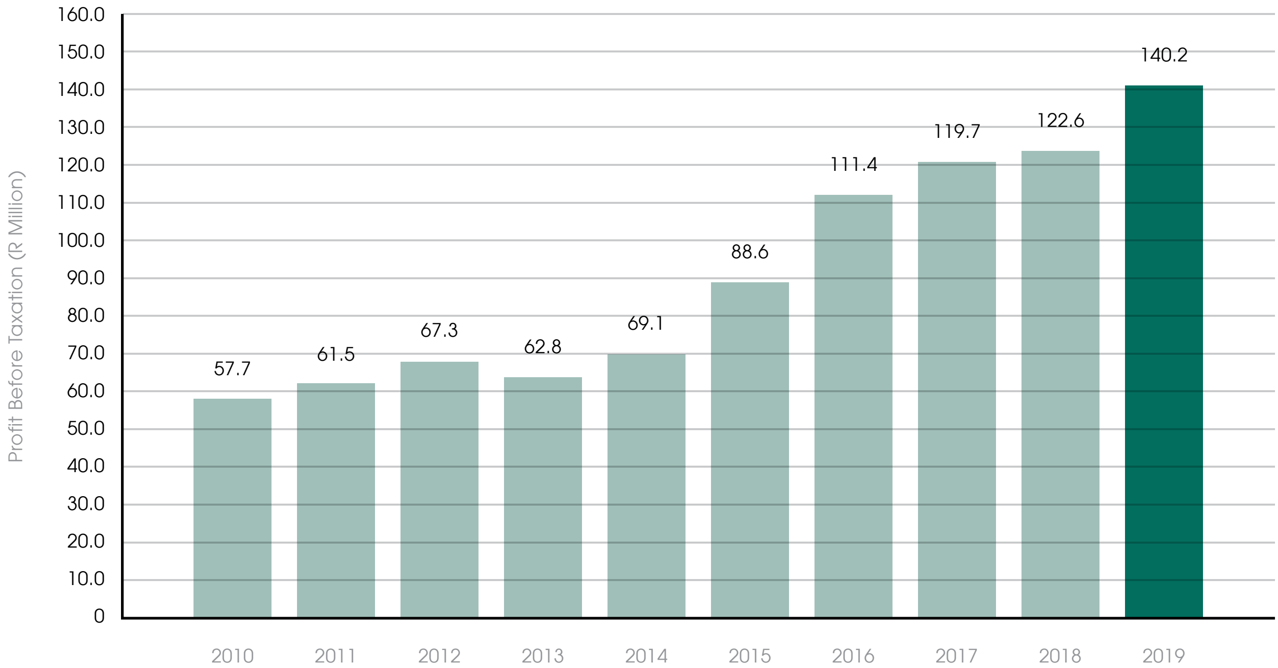
CONTENTS

TEN YEAR REVIEW

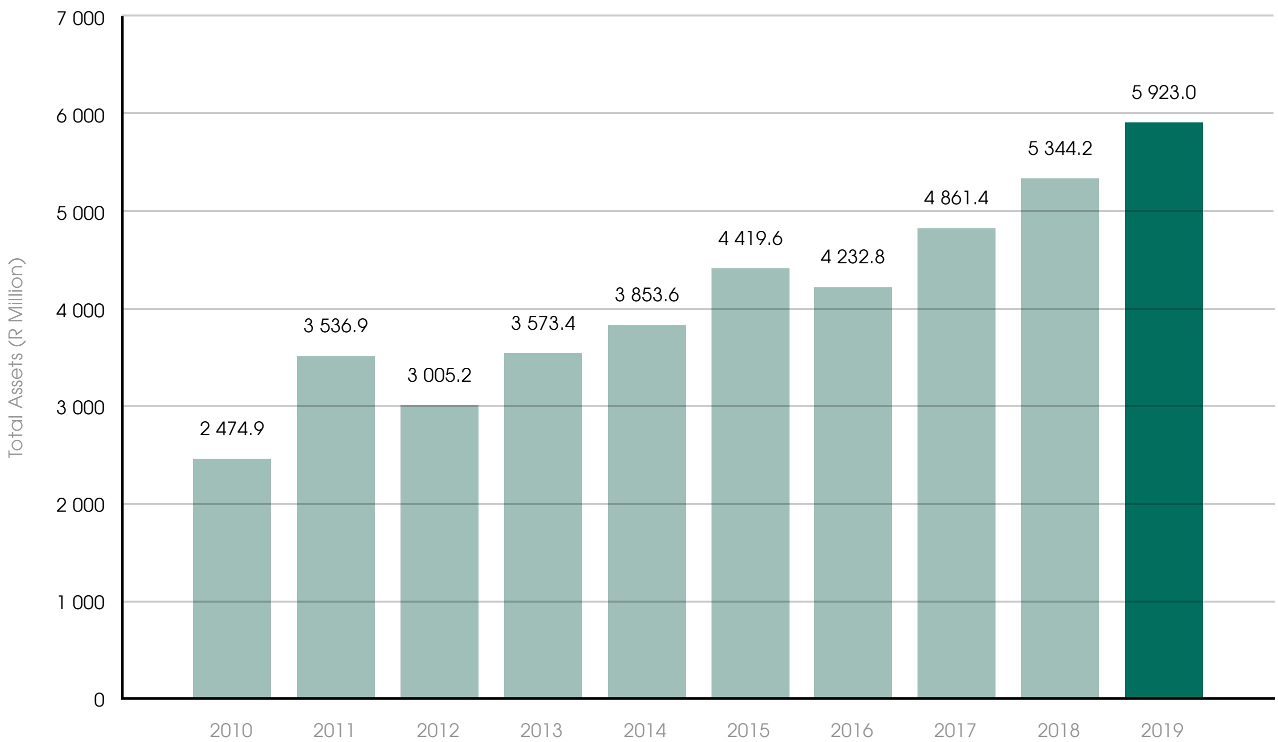
For the year ended 31 December 2019

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
PROFITS (R MILLION)										
Profit before taxation	57,7	61,5	67,3	62,8	69,1	88,6	111,4	119,7	122,6	140,2
BALANCE SHEET (R MILLION)										
Advances	851,4	1185,4	992,4	1170,0	1 347,8	1 619,0	1 537,9	1 468,1	1 714,3	1 918,1
Advances growth %	12,7%	39,2%	(16,3%)	17,9%	15,2%	20,1%	(5,0%)	(4,5%)	16,8%	11,9%
Deposits	2 236,7	3 304,1	2 739,8	3 255,2	3 514,2	4 049,4	3 820,5	4 369,7	4 856,2	5 330,2
Deposits growth %	28,1%	47,7%	(17,1%)	18,8%	8,0%	15,2%	(5,7%)	14,4%	11,1%	9,8%
Total assets	2 474,9	3 536,9	3 005,2	3 573,4	3 853,6	4 419,6	4 232,8	4 861,4	5 344,2	5 923,0
Total assets growth %	26,4%	42,9%	(15,0%)	18,9%	7,8%	14,7%	(4,2%)	14,9%	9,9%	10,8%
PERSONNEL										
Number of employees	111	113	125	128	141	136	141	133	146	141
Net contribution per employee (R `000)	520	544	538	491	490	651	790	900	840	994

PROFIT SUMMARY



TOTAL ASSETS



BOARD OF DIRECTORS AND BOARD COMMITTEES

NON EXECUTIVE DIRECTORS

Muhammad H Habib (60)# - Chairman
Bus. Admin (USA)
President, Habib Bank AG Zurich
Appointed to the Board in 1995

Oscar D Grobler (66) – Lead Independent Director
Executive MBA (UCT); Executive Master's Degree (France)
Chairman, Nouwens Carpets (Pty) Ltd and
Ex- Lead Executive –ABSA Group
Appointed to the Board in 2015

M Yakoob Chowdhury (77)^
Ex-Chief Executive Vice President, Habib Bank AG Zurich
Appointed to the Board in 1995
Retired from the Board on 30 April 2020

Hendrik F Leenstra (71)
Institute of Bankers SA C.A.I.B. (SA)
Ex-Regional Executive, Nedcor Group, KZN
Appointed to the Board in 2005
Deceased 7 April 2020

Dheven Dharmalingam (54)
B. Acc, Dip Acc, CA(SA)
Ex-CFO of Mutual & Federal Limited
Appointed to the Board in 2011

Yvette D Singh (67)
B.Com (Honours), MBL
Ex- Senior Deputy Registrar of Bank and Non-Executive director of FirstRand Insurance Holdings (Pty) Ltd
Appointed to the Board in 2019

EXECUTIVE DIRECTORS

Zafar A Khan (67) – CEO and
Chief Executive Vice President
B.A.
Appointed to the Board in 2005

Christopher dT Harvey (63)
Corporate Governance, Compliance and Executive Vice President
B.Com, Dip Acc, Dip Corp Gov
Appointed to the Board in 1998
Resigned from the Board 1 January 2020

Anjum Iqbal (67) ^
B.Com, MBA
General Management, Habib Bank AG Zurich
Appointed to the Board in 2016

AUDIT COMMITTEE

Dheven Dharmalingam – Chairman
Oscar D Grobler
Yvette D Singh

DIRECTORS AFFAIRS COMMITTEE

Muhammad H Habib – Chairman
Dheven Dharmalingam
Oscar D Grobler
Yvette D Singh

RISK COMMITTEE

Yvette D Singh- Chairman
Zafar A Khan
Dheven Dharmalingam
Oscar D Grobler
Anjum Iqbal

**Swiss** **^ British**

REMUNERATIONS COMMITTEE

Muhammad H Habib – Chairman

Dheven Dharmalingam

Oscar D Grobler

SOCIAL AND ETHICS COMMITTEE

Oscar D Grobler – Chairman

Zafar A Khan

Yvette D Singh

Anjum Iqbal

EXECUTIVE MANAGEMENT

Zafar A Khan (67)

Chief Executive Officer

Yusuf Dockrat (40)

Chief Financial Officer

Farooq Anwar (50)

Chief Operating Officer

Hassan Zia (67)

Head of Credit and Risk

Michelle Sewchuran (42)

Head of Compliance

CORPORATE

Christopher dT Harvey (63)

Head of Corporate Governance & Company Secretary

Zaakir Mitha (32)

Head of Internal Audit

REGISTERED OFFICE

135 Jan Hofmeyr Road

Westville

3629

REGISTRATION NUMBER

1995/006163/06

BRANCH NETWORK

KwaZulu-Natal:

Rohinton L Meherjina (56)

Senior Vice President, Manager -
Durban & Area Manager:

KwaZulu-Natal

Asad Bashir (53)

Manager - Pietermaritzburg

Zakariya Badat (33)

Manager - Westville

Gauteng:

M Ali Chaudhry (51)

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

Aasif Abba (38)

Senior Manager - Fordsburg

Farhaan Ballim (38)

Manager - Lenasia

M Raashid Faiyaz (44)

Senior Manager - Boksburg

Tshwane / Polokwane:

S Babur H Zaidi (59)

Senior Vice President, Manager -
Laudium & Area Manager: Tshwane / Polokwane

Ryan Morgan (33)

Senior Manager - Polokwane

CHAIRMAN'S REVIEW

I am pleased to present the 2019 annual report for HBZ Bank Limited. By the Grace of God, HBZ Bank delivered good results while maintaining a strong capital base and high liquidity.

ECONOMIC FACTORS

The 2019 year began with the South African economy gaining traction from 2018 but with the near-term outlook remaining muted. The 2019 general elections confirmed the African National Congress (ANC) as the majority party allowing President Ramaphosa to continue taking the necessary steps to reign in the country's debt, aggressively implement growth strategies and rehabilitate the key institutions of the state.

GDP growth of 0.6% was expected for 2019 with inflation remaining within the 3% - 6% target range. The stabilization of inflation allowed the South African Reserve Bank to cut its policy rate in July. However, persistently weak business sentiment, the concern that Moody's would downgrade South Africa to Junk status and ongoing load shedding constrained South Africa's growth prospects. As a result, real GDP growth for 2019 was down to 0.3%. Towards end of March 2020, Moody's downgraded the country's rating from Baa3 to Ba 1 whilst maintaining a negative outlook.

OPERATING PERFORMANCE

I am pleased to note that the Bank has achieved strong results. Profit before tax increased to R 140.2 million (2018: R 122.6 million) whilst total assets ended the year at R 5.9 billion (2018: R5.3 billion). Advances increased by 11.9% to end the year at R 1.9 billion whilst deposits increased by 9.8% to R 5.3 billion. The hard work of our committed team and the continued support of our clients contributed to these strong results.

During 2019, we focused on upgrading internal systems and processes to improve service delivery to clients. We strengthened our Centralised Transactional Banking Services unit enabling branch staff to increase relationship building with clients. We also improved how we run the Bank by simplifying processes and strengthening our cybersecurity and platform resiliency.

Furthermore, we welcomed Ms Yvette Singh to the Board. Ms Singh joined the Bank in August 2019 bringing with her significant banking knowledge spanning 28 years within the local Banking industry and 16 years at the South African Reserve Bank. I am confident that Ms Singh's appointment as an Independent Non-Executive Director will strengthen the Board and be an ideal complement to the diverse skills already present.

LOOKING FORWARD

In the first quarter of 2020 the COVID-19 Corona virus spread rapidly throughout the world. Government, Regulators and businesses struggled to implement processes to limit the transmission of this extremely contagious virus. The most suitable method of containing this virus implemented throughout the world has been for countries to limit movement of citizens, by closing borders, educational institutions, airports and encouraging people to practice social distancing. This will result in in a substantial contraction of the world economy. At present there is no cure for this virus making predictions on business growth almost impossible as businesses focus on the protection of human capital.

Our response has been to immediately implement our Business Continuity Plan (BCP) which focuses on our people, operations and business. Various best practice protocols have been implemented to safeguard our staff and customers whilst at the same time ensuring that we continue to serve our community. We are continually monitoring the situation as it unfolds and are ready to pivot our plans as required.

APPRECIATION

Our people are our valued asset and we are fortunate to have their commitment, loyalty and dedication. On behalf of the Board, I would like to express our appreciation towards their valuable contribution.

I am thankful to all our customers and well-wishers, without whom we would be unable to achieve our good results.

At the same time, I would like to thank my fellow Directors and the South African Reserve Bank for their guidance and look forward to their continued patronage.

Muhammad Habib

Chairman

RISK MANAGEMENT PHILOSOPHY

An effective and robust Risk Management Framework is a prerequisite to the success and stability of a bank. HBZ Bank recognises that effective risk management is fundamental to the ability of a business to generate sustainable profits, safeguard its reputation, create a competitive edge and achieve an optimal risk-reward profile.

The risk philosophy of the Bank is to manage risks through a clear policy of broad diversification in terms of geography and product mix, and by spreading the Bank's credit and trade financing activities over a wide range of customers, with the emphasis on secured, short-term, self-liquidating lending.

The Bank defines risk as any factor, which could cause the Bank not to achieve its desired business objectives or results in adverse outcomes, including reputational damage. In fact, all actions that the Bank takes have an element of risk. The Bank recognises that it is an unavoidable consequence of banking to take calculated business risks with the objective of creating attractive returns and thus the Bank does not seek to avoid risk, but to manage it in a controlled manner and in the context of the commensurate reward.

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

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

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

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

COMBINED ASSURANCE

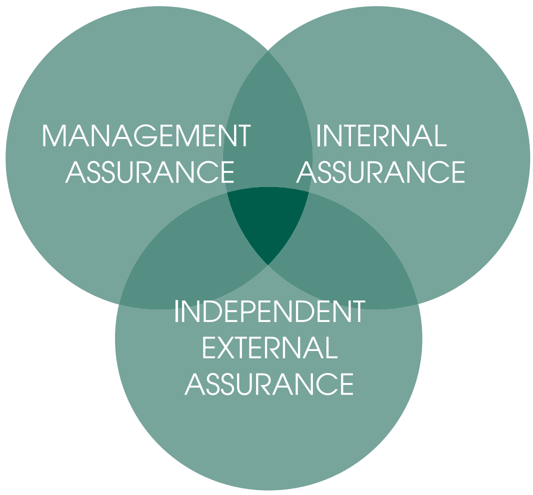
The "three lines of defence" model forms the basis of the combined assurance approach required under the King Code. It aims to provide a coordinated approach to all assurance activities. We continue to make significant progress with the integration and alignment of assurance processes to optimise governance oversight, risk management and control.

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

1. Management assurance - including strategy implementation, performance measurements, control self-assessments and continual monitoring mechanisms and systems.

2. Internal assurance - risk management, regulatory compliance, internal audit, and health and safety departments.

3. Independent external assurance - external audit and other assurance providers.



RISK MANAGEMENT FRAMEWORK

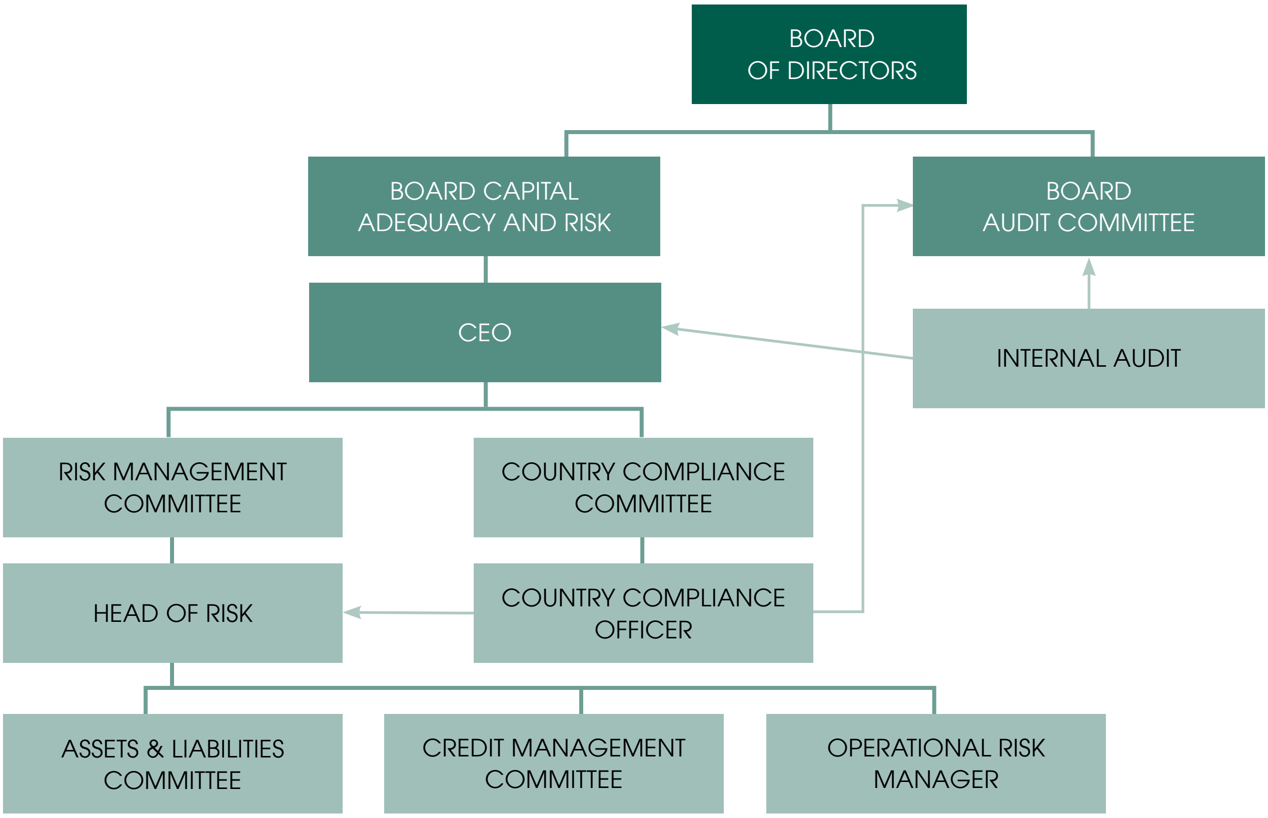
The Board is ultimately responsible for any financial loss or reduction in shareholder value suffered by the Bank. It is therefore responsible for the process of risk management, recognising all the risks to which the Bank is exposed and ensuring that the proper mandates, policies, authority levels,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

The Bank's risk framework includes direct Board and senior management involvement to determine quantitative and qualitative risk measurement, policies and procedures, control structures, and compliance with regulations. The executive and non-executive Directors are widely represented on the various risk management Committees and processes. At every Board meeting, the Capital Adequacy and Risk Committee reports on the effectiveness of the Bank's risk management and control framework.

In line with international best practice, various Board Committees oversee policy formulation and implementation, and monitor the risk management processes and exposures.

The main Board Committees are the Audit Committee and the Capital Adequacy and Risk Committee. The Risk Management Committee (RMC), the Assets and Liabilities Committee (ALCO) and various Credit Committees have been appointed by Management to enhance the risk framework.

RISK MANAGEMENT FRAMEWORK



RISK ASSESSMENT

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

COMMITTEES THAT MANAGE RISK

Board Capital Adequacy and Risk Committee

This Board Committee comprises at least five members with a minimum of three non-executive directors. The Chairman of the Committee is a non-executive director appointed by the Board. The Committee has the power to investigate any activity within the scope of its terms of reference. In the fulfilment of its responsibilities, the Committee may call upon the Chairmen of the other Board Committees, any of the executive directors, officers or bank secretary to provide it with information, subject to following a Board approved process.

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

The main responsibilities of the Capital Adequacy and Risk Committee are to:

- Annually evaluate the capital management strategy via the Internal Capital Adequacy Assessment Process (ICAAP).
- Manage the Bank's capital requirements to ensure capital is maintained to meet future growth taking into account stress-testing scenarios.
- Evaluate the adequacy and efficiency of the risk policies, procedures, practices and controls applied in the day-to-day management of its business;
- Manage the risk mitigation strategy to ensure the Bank manages the risks in an optimal manner;
- Ensure a formal risk assessment is undertaken at least annually;
- Identifying and regularly monitoring all key risks and key performance indicators to ensure that its decision-making capability and accuracy of its reporting is maintained at a high 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 serve to enhance the adequacy and efficiencies of the risk management policies, procedures, practices and controls applied within that Bank.

Four meetings were held during 2019 with attendance in accordance with requirements. Minutes were kept and filed as per the charter. The charter is reviewed on an annual basis.

Risk Management Committee

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

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

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

The RMC is chaired by the Head of Risk and is made up of the Chief Executive Officer (CEO), Chief Financial Officer (CFO), the Chief Operating Officer (COO) and Head of Compliance. The Heads of Corporate Governance, Internal Audit and the Operational Risk manager attend as observers. A Branch or Area Manager is invited to attend as and when decided by the Committee. During 2019 the RMC met as per the requirements.

Credit Management Committee

This management committee is chaired by the CEO and comprises the Head of Risk, an Area Manager and a senior Branch Manager. The Committee may request any other Senior Manager of the Bank to attend the meeting. The CMC is the credit decision making body within the Bank and approves all credit proposals and reviews and monitors all credit risks which fall within their Board approved competency.

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

Assets and Liabilities Committee (ALCO)

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

The main responsibilities of this Committee are to:

- Review the liquidity and interest rate risk process.
- Consider the maturity of assets on the statement of financial position
- Review and monitor capital risk and the capital adequacy process.
- Assess the various liquidity and interest-rate shock scenarios and their impact on earnings and capital.
- Allocate the assets and liabilities to reduce risk and increase profitability.
- Monitor the Bank's exposure to currency risk.

The Committee is chaired by the CFO and is made up of the CEO, COO, Country Compliance Head, Head of Risk, Financial Manager, Treasury Manager and Area Manager. During 2019 the ALCO met as per the requirements and minutes were kept and filed as per the charter.

Country Compliance Committee

This management Committee is chaired by the Country Compliance Head, and comprises the CEO, Senior Branch or Area Manager, CFO, Head of Risk and the COO. The Committee has a written charter noting that it is responsible for overseeing the compliance function in the Bank. The charter is reviewed on an annual basis.

It 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 SA Police Services),
- Review the account opening procedures to ensure they meet local regulatory requirements.
- Review a list of new Acts or Regulations promulgated since the last meeting, assess their impact on the Bank and ensure the Bank is in compliance with them if they do impact the Bank.

The Committee met as required in 2019 and minutes were kept and filed as per the charter.

RISKS DIRECTLY IMPACTING THE BANK AND THE MANAGEMENT THEREOF

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

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

STRATEGIC AND BUSINESS RISK

1. Strategic Risk

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

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

- Strategic risks are determined by Board decisions about the objectives and direction of the organisation;
- Board strategic planning and decision-making processes, is thorough;
- The Board has sufficient information about how the business is performing, and about relevant aspects of the economic, commercial, and technological environments.
- The Board is balanced in skills, knowledge, and experience to assess the variety of strategic risks the organisation faces;
- The Bank has the ability to respond to abrupt changes or fast-moving conditions;
- The Bank only accepts short-term strategic risks if it can reduce or eliminate those risks over a longer time-frame;
- Strategic risks are avoided or not accepted if the possible impacts are too great, or where the probability of success is so low that the returns offered are insufficient to warrant taking the risk.

2. Business Risk

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

The Bank mitigates this risk as follows:

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

3. Concentration Risk

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

- The fundamental principles that the Bank applies in the management of concentration risk include:
- Clearly defined rules for the grouping together of exposures;
- Clearly defined per party exposure limits;
- Continual monitoring of industry and geographic exposures at Board level;
- Retaining capital where the cumulative per party exposure is above 25% of the capital of the Bank not secured by cash deposited at the Bank or guarantees from Habib Bank AG Zurich;
- Reviewing concentration risk at each RMC meeting.

4. Capital Adequacy Risk

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

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

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

The Board has developed an Internal Capital Adequacy Assessment Process (ICAAP) and set capital targets that are commensurate with the Bank's risk profile and control environment, to ensure the Bank has adequate capital to support its risks beyond the core minimum requirements. During 2019 the Board reviewed the capital management and capital adequacy processes and confirmed that it achieved the objectives specified.

LIQUIDITY RISK

1. Liquidity Risk

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

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

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

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

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

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

MARKET RISK

1. Interest Rate Risk

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

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

- Ensuring that all assets and liabilities must match over time;
- Ensuring that the majority of the Bank's borrowings and lending activities are at variable rates allowing for relatively stable interest rate margins;
- The ALCO reviewing and monitoring the interest rate matching at every meeting;
- Matching rate-sensitive assets and liabilities over various time horizons and various economic and environmental scenarios at every ALCO meeting;
- Review the interest rate matching process at each Capital Adequacy and Risk Committee meeting.

The focused range of products offered by the Bank facilitates the management of interest rate risk.

CREDIT RISK

1. Credit Risk

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

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

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

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

- A clear definition and in-depth understanding of the Bank's client base;
- A centralised credit department to manage proposals, security and exposures;
- Appointment of a Head of Credit Risk;
- Detailed credit granting procedures including rigorous assessment of the creditworthiness of all parties;
- Detailed and documented account opening procedures, know-your-customer and due diligence requirements;
- An emphasis on diversification of the Bank's client base limiting single party exposure as well as exposures to certain industries;
- Formation of credit committees with clearly defined limits;
- Periodic and routine review of facilities against updated customer financial information;
- Detailed credit inspections, quality reviews and prompt follow-up by senior management;
- Executive and Non-Executive Directors involvement in decision making and review;
- Emphasis on security-based lending and conservative security values;
- Strict adherence to the regular revaluation of collateral held as security;
- Stress testing of exposures to ensure affordability under abnormal circumstances;
- Continual monitoring of all large exposures by the Board;
- Diversification of the inter-bank placements to manage concentration risk;
- Early detection of potentially non-performing loans through monthly Watch-list reports;
- Structured procedure for recovery of non-performing loans;
- A clear policy on the appropriate provisioning in respect of the estimated loss inherent in the advances book.

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

2. Counterparty Risk

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

The Bank pro-actively manages this risk by:

- Implementing limits for inter-bank placements and investments.
- Limiting purchase of Forward Exchange Contracts (FEC's) from Board approved banks.
- Dealing with banks and sovereigns situated in countries that have a well-regulated banking industry.

3. Settlement Risk

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

The Bank pro-actively manages this risk by:

- Prohibiting staff from foreign exchange speculation and having uncovered forward positions.
- Allowing only short-term open positions on nostro accounts within conservative limits stipulated by the Board for each currency.

- Monitoring on a daily basis the overbought and oversold positions to ensure all forward positions are covered.
- 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 counter-party exposure limits for trading and settlement.
- Implementing Board approved policies and procedures that are comprehensive, consistent with relevant laws, regulations and supervisory guidance and provide an effective system of internal controls.
- Signing a legally enforceable collateral arrangement (International Swaps and Derivatives Association (ISDA) credit support annexes) to mitigate its replacement cost risk.

OPERATIONAL RISK

1. Operational Risk (including IT Risk)

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

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

Management has appointed an Operational Risk Manager whose role is to develop and maintain the Operational Risk Management Policy of the Bank.

In line with the requirements of the SARB, the Bank uses the Basic Indicator Approach to calculate regulatory operational risk capital as stipulated in the Basel II Accord.

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

- Instilling in employees a sound culture, work ethic and values ethos;
- Providing a healthy, safe and secure operating environment for staff, data and information;
- Regularly rotating, ensuring annual leave is taken timeously and motivating staff;
- The preparation and continual upgrading of clear procedure manuals;
- Correct and meaningful staff training;
- Maintaining adequate and effective internal controls;
- Ensuring timeous and accurate processing of transactions and monitoring unauthorised ones;
- Ensuring appropriate investment in computer technology to support operations;
- Ensuring an adequate business continuity and disaster management process in the event of disruption;
- Monitoring of Key Risk Indicators (KRIs);
- Conducting risk event management, issue management and action tracking;
- Conducting risk self-assessments (RSA) and change risk assessments (CRA) for existing and new products and processes respectively;
- Monitoring exposure to critical and material outsourced services providers;
- Controlling of IT and third-party software application systems users;
- Internal and external independent audit checks and internal control reviews;
- Ensuring as an additional counter to potential operational risk that the Bank has extensive insurance cover for any material losses.

The Bank has an internal operational risk loss reporting mechanism to identify and quantify operational losses. Significant loss events and incidences are reported to the Board immediately when they occur.

2. Cyber Risk

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

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

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

The Bank actively manages this risk through the following measures:

- Systems designed and engineered to the best levels of security
- Staff awareness and training on cyber risk related matters
- Communication with customers to validate critical transactions
- Regular updates on external events at other institutions and organisations such as scams, hacking of email, e-banking breaches, etc.
- In depth assessment of incidents affecting the Bank, reporting of events to senior management to minimize financial and reputational damage
- Wherever possible insurance cover for financial losses caused by cyber risks
- Responsibility for managing cyber risk is clearly defined
- Policies and procedure manual covering information security and access control

- Implementation of cyber security activity plans and controls
- Assessing risks, implement mitigation measures and test controls
- Identifying weak points that can lead to cyber-attacks
- Monitoring and review of cyber risk at the periodic Risk Management Committee meeting

3. Fraud Risk

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

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

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

4. Physical Security Risk

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

To manage this risk the Bank has ensured that:

- Branches have adequate fire and smoke alarms and access alarms linked directly to a response company;
- Each branch has an effective CCTV monitoring system with functioning back up and these systems are tested regularly;
- Each department or branch has a Health and Safety Officer appointed who performs monthly inspections and produces reports to branch management and head office;
- There is extensive insurance cover for any material losses;
- There is adequate medical aid, life and disability cover for staff.

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

LEGAL, COMPLIANCE AND TAX RISKS

1. Legal Risk

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

Legal risk sub types include:

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

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

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

2. Compliance & Regulatory Risk

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

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

The Bank has a Compliance department appointed to oversee the management of Compliance Risk. To make certain this department is effective in managing this risk the Bank has ensured that:

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

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

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

3. 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:

- Consultation with external tax experts on complex tax matters;
- Audit of tax compliance by the Bank's external auditors

REPUTATIONAL RISK

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

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

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

SYSTEMIC RISK

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

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

The fundamental principles of managing systemic risk are:

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

ETHICAL RESPONSIBILITY

Conducting our business with high standard of ethics and integrity is essential to building on our reputation and reinforcing our values keeping up a long tradition established by the Habib Group. This goes beyond compliance with applicable laws and regulations and requires a high regard for principles of morality, humility, humanity, good behaviour and justice.

The Board has appointed a Social and Ethics Committee to manage its social and ethical responsibilities.

ENVIRONMENTAL PLAN

The plan approved by the Board requires that:

- All operations of the Bank be in full compliance with the environmental legislation or accepted Codes of Conduct that impact it,
- Management report at each Social and Ethics Committee meeting on specific actions taken to improve the Bank's Environmental bottom line,
- All internal business practices be conducted in an environmentally friendly manner,
- The Bank's suppliers, where applicable, have their own environmental activities,
- The Banks advances process considers whether clients adhere to environmental legislation that impacts them.

HEALTH AND SAFETY

To ensure a healthy office environment for staff and clients the Bank has implemented a Health and Safety Plan that includes:

- A detailed policy,
- The appointment of a health and safety representative and two first aiders at each branch,
- Approval of a training plan and budget,
- Detailed procedures for monthly inspections and reporting.

INTERNAL SOCIAL INVESTMENT

It is paramount to the success of any business that internal empowerment programmes for staff are in place. The Bank is conscious of this fact and has implemented internal employment equity, training and skills development initiatives. These initiatives focus on providing all employees with an environment that is free from any form of discrimination while ensuring opportunities exist to obtain the necessary skills for career.

SKILLS DEVELOPMENT

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

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

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

All staff have access to this plan and are entitled to benefit from it. During 2019 all the goals and objectives of the plan were achieved.

EMPLOYMENT EQUITY

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

EXTERNAL CORPORATE SOCIAL INVESTMENT

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

The Bank's CSI funding in South Africa, managed by the Corporate Social Investment Committee, focuses primarily in the following areas:

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

The Corporate Governance framework and Corporate Governance plan are both reviewed by the Board annually. It ensures the strategic guidance of the Bank, the effective monitoring of management by the Board, and the Board's accountability to our shareholder.

In recognition of the need to conduct the affairs of the Bank according to the highest standards of Corporate Governance and in the interest of stakeholders' protection, the Board endorses the Code of Corporate Practices and Conduct recommended in the King Reports on Corporate Governance. The Directors are of the opinion that the Bank has, in all material aspects, observed and applied these Codes, where they are applicable to the Bank, during the year under review.

The salient features of the Bank's Corporate Governance policy are built on the characteristics of:

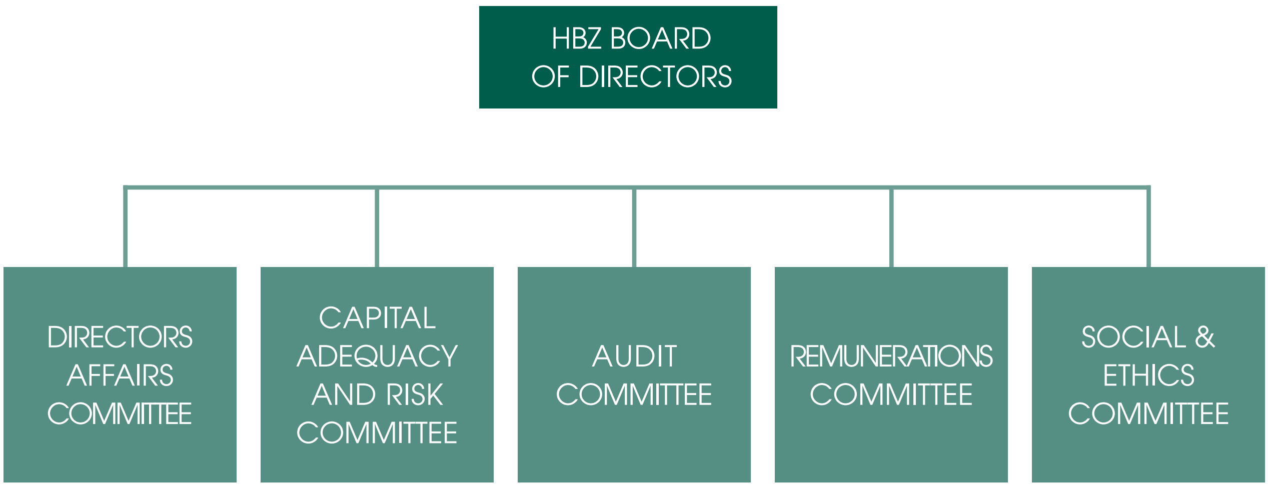
- Building and sustaining an ethical corporate culture in the Bank
- Enabling discipline, independence, and transparency and social integrity
- Enabling effectiveness, efficiency, responsibility and accountability
- Identifying and mitigating significant risks, including capital risk
- Promoting informed, fair and sound decision making
- Facilitating legal and regulatory compliance
- Ensuring sustainable business practices, including social and environmental activities
- Disclosing timely and accurate information to enable all stakeholders to make a meaningful analysis of the Banks performance, financial position, and governance.

BOARD OF DIRECTORS

Charter

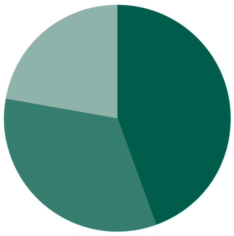
The Board has a Charter that includes the directors' code of conduct. The Board is fully committed to infusing the standards of integrity, accountability and transparency required to achieve effective corporate governance. The Charter confirms the Board's accountability, fiduciary duties, conflict of interest process, appointments and tenure. The Charter is reviewed by the Board on an annual basis.

Board of Directors governance framework:



Structure and Composition

During 2019, the Board comprised of nine Directors, seven non-executive Directors and two executive Directors. Non-executive Directors comprise persons of high caliber with diverse international and local backgrounds and expertise that enable them to bring objectivity and independent judgement to the Board deliberations and decisions. Both the Chairman and Vice Chairman are non-executive members. The roles of the Chairman and the Chief Executive Officer (CEO) are separate with responsibilities clearly defined. Details of the Directorate are listed on page 4 of this annual report.



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

The independent non-executive directors of the Bank:

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

Meetings and Attendance

The Board met four times during 2019 with Director's attendance in accordance with requirements. No additional Board meetings, apart from those planned, were convened during the year under review. Where Directors are unable to attend a meeting personally, teleconferencing is made available to include them in the proceedings and allow them to participate in the decisions and conclusions reached. The Board is supplied with full and timely information with a typical Board agenda including:

- A report from the CEO.
- A Report on the performance and developments of the Bank.
- Reports from the various sub-committees
- Report from the Compliance Officer
- A strategic review
- Report on large exposures.
- Report on IT issues.
- Report on significant regulatory issues.

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

Appointments and Retirements

On 1 August 2019 Ms YD Singh was appointed to the Board as an Independent Non-Executive Director. Ms Singh brings a wealth of banking and regulatory experience that will enhance the existing skills of the Board. One-third of Directors retire by rotation annually. The Board does not believe that the length of service of any Director materially interferes with the Director's ability to act in the best interests of the Bank. All Directors are regarded as fit and proper.

Board Evaluations

During the year the Board performed an annual self-assessment evaluation. The self-assessments were collated by the Chairman and the results tabled at a meeting. The self-assessments displayed no weakness in the Board structure, member's attendance at meetings or the expertise, knowledge and valued input of individual directors. The Board agreed that there would be a continued focus on monitoring progress against the strategic plan.

Committees

The Board is supported by various internal committees and functions in executing its responsibilities. These are elaborated on below while the details of the committee members are listed on page 4 and 5 of this annual report.

AUDIT COMMITTEE

The Audit Committee, established by the Board has a written charter that clearly sets out its responsibility, authority and functions. The charter is reviewed annually by the Committee. The majority of the Committee consists of independent non-executive Directors. The Chairman is elected by the Board and is present at the Annual General Meeting. The Bank's Audit Committee members are suitably skilled and experienced non-executive directors.

The Compliance Officer, internal and external auditors and the Prudential Authority of the South African Reserve

Bank have full access to this Committee. In addition, the Chairman may call in any other employee who is able to assist the Committee on an ad hoc basis. Four meetings were held during 2019 with the Chief Executive Officer (CEO), Chief Financial Officer (CFO), Compliance Officer, internal and external auditors invited to attend when necessary.

The Committee's primary responsibilities for 2019 are detailed in the Audit Committee report.

CAPITAL ADEQUACY AND RISK COMMITTEE

The Board established the Capital Adequacy and Risk Committee with a written charter that clearly sets out its responsibility, authority and functions. The charter is reviewed annually by the Committee. The Board appointed the Chairman of the Committee. The Committee is made up of both Non-Executive and Executive Directors with the Chairman a Non-Executive Director. Four meetings were held during 2019 with attendance in accordance with requirements.

A comprehensive risk management framework is in place that formalises the management of risk. This framework, including the role of the Assets and Liabilities Committee and Risk Management Committee and the application and reporting on risk, are detailed in the risk management section.

DIRECTORS' AFFAIRS COMMITTEE

The Directors' Affairs Committee, established by the Board has a written charter that clearly sets out its responsibility, authority and functions. The charter is reviewed annually. The Board appointed the Chairman of the Committee. The Committee consists of Non-Executive Directors. In terms of the charter two meetings were held during 2019, with the CEO and CFO invited to attend. Attendance at these meetings was in accordance with requirements.

The Committee's primary responsibilities are:

- To assist the Board in its determination and evaluation of the adequacy, efficiency and appropriateness of the Corporate Governance structure and practices of the Bank;
- To establish and maintain a Board Directorship continuity programme including planning for succession, regularly reviewing the skills and experience of the Board, and an annual self-assessment of the Board as a whole and of the contribution of each individual Director;
- To assist the Board in the nomination of successors to key management positions and ensure that a management succession plan is in place;
- To assist the Board in determining whether the services of any Director should be terminated; and
- Assist the Board in ensuring that the Bank is at all times in compliance with all applicable laws, regulation and codes of conduct and practices.

SOCIAL AND ETHICS COMMITTEE

The Board of Directors established the Social and Ethics Committee with a written charter that clearly sets out its responsibility, authority and functions. The charter is reviewed annually. The Board appointed the Chairman of the Committee who is an independent non-executive Director. The Committee is made up of Directors and management. In terms of the charter two meetings were held during 2019 with attendance in accordance with requirements.

The responsibilities and duties of the Social and Ethics Committee include the following:

- To monitor the Bank's activities, regarding relevant legislation, other legal requirements or prevailing codes of best practice, with regard to matters relating to:
  - social and economic development;
  - good corporate citizenship, including
  - the environment, health and public safety, including the impact of the Bank's activities;
  - consumer relationships, including the Bank's public relations and compliance with consumer protection laws; and
  - labour and employment;
- To monitor the Bank's activities with regard to ensuring the Banks ethics code is implemented effectively. This will include monitoring that:
  - the Bank's management demonstrates support for ethics;
  - ethical standards are articulated in a code of conduct;
  - structures, systems and processes are in place to ensure the Board and employees are familiar with and adhere to the Bank's ethical standards;
  - ethics are embedded in the corporate culture of the Bank.
- To draw matters within its mandate to the attention of the Board; and
- To report to the shareholders at the Bank's AGM on the matters within its mandate.

The Bank has a strong culture of entrenched values that commit it to the highest standards of integrity, behavior and ethics in dealing with all its stakeholders. These values apply to all personnel at the Bank, with personnel expected at all times to observe their ethical obligation in such a way as to carry on business through fair commercial competitive practices.

REMUNERATION COMMITTEE

The Board of Directors established this Committee with a written Charter that sets out its responsibility, authority and functions. The Charter is reviewed annually. The Board appointed the Chairman of the Committee. The Bank's Remuneration Committee comprises of non-executive Directors. The Committee met once during 2019 to determine salary structures and staff policies that ensure the Directors, executive management and staff are rewarded fairly for their individual contributions to the Bank's overall performance.

The main responsibilities of the Remunerations Committee are:

- Overseeing the setting and administering of remuneration at all levels in the Bank;
- Overseeing the establishment of a remuneration policy;
- Exercising competent and independent judgment on compensation policies, processes and practices created for managing risk, capital and liquidity;
- Ensuring that an annual compensation review is conducted independently of management;
- Ensuring that all benefits, including retirement benefits and other financial arrangements, are fair and justified;
- Ensuring that the remuneration of employees in the risk control and compliance functions is determined independently of all relevant business areas, and is adequate to attract qualified and experienced staff;
- Determining the remuneration of the CEO and other executive staff;
- Advising on the remuneration of non-executive Directors;
- Overseeing the preparation for submission to the Board of the remuneration report.

Remuneration is normally reviewed annually, in November, and market data is used to benchmark competitive pay levels. The Bank does not have an incentive scheme based on performance, nor does it offer share options or deferred bonus schemes.

COMPANY SECRETARY

The Company Secretary, Mr. Christopher d T Harvey, is suitably qualified and experienced and was appointed by the Board in 1996. The Company Secretary is responsible for the duties as stipulated in Section 88(2)(e) of the Companies Act 71 of 2008 as amended. The Board recognises the pivotal role the Secretary plays in the Corporate Governance process and is thus empowered by them to ensure these duties are properly fulfilled.

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

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

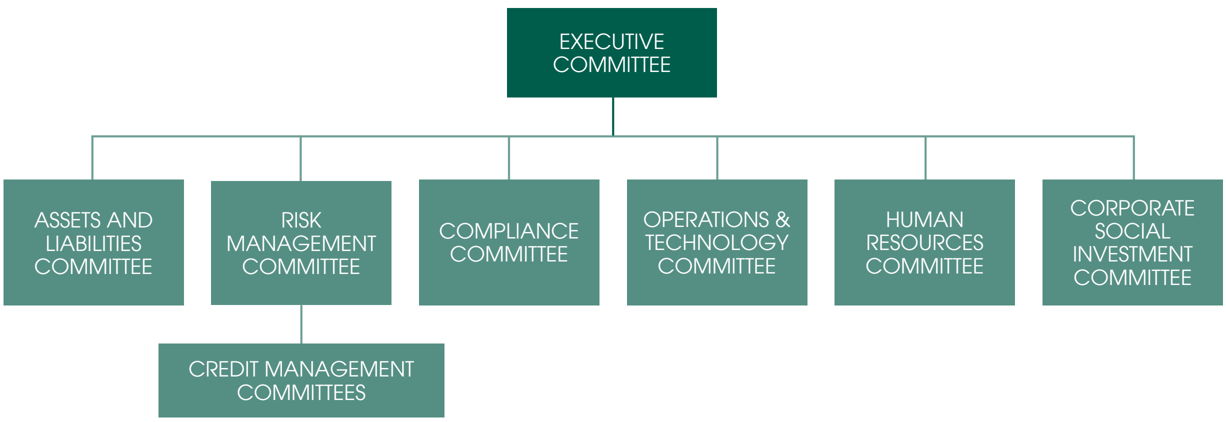
All Directors have access to the advice and services of the Company Secretary whose appointment is a matter for the Board as a whole. The contact details of the Company Secretary are provided in the Director's report.

CREDIT MANAGEMENT COMMITTEES

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

EXECUTIVE COMMITTEES

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



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

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

COMPLIANCE

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

INTERNAL CONTROL

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

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

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

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

INTERNAL AUDIT

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

Internal audit operates independently from Executive Management and has unrestricted access to the Chairman of the Audit Committee, all other staff and information needed by them in the execution of their duties.

REGULATION AND SUPERVISION

The Bank is subject to external regulation and supervision by various statutory bodies and regulators. The Bank strives to achieve open and active communication with these bodies, specifically the Supervision and Exchange Control Departments of the South African Reserve Bank, the National Credit Regulator, the Payments Association of South Africa and the Financial Intelligence Centre.

Where appropriate the Bank participates in discussion groups with the various regulators to ensure that knowledge and insight is gained to maintain sound internal controls to operate within the regulatory framework.

PUBLIC DISCLOSURE OBLIGATIONS

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

EMPLOYEE PARTICIPATION AND SKILLS

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

This report is provided by the Audit Committee, in respect of the 2019 financial year of HBZ Bank Limited, in compliance with section 94(7)(f) of the Companies Act 71 of 2008 ,section 64 of the Banks Act 94 of 1990 and King Report on Corporate Governance.

Details on the composition of the Audit Committee are detailed on page 4 of this annual report, while the Corporate Governance report on pages 19 to 23 provides further information on the workings of the Committee.

EXECUTION OF FUNCTIONS

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

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

1. In respect of the Integrated Assurance Model:
   - further progress was made in embedding an integrated assurance model to provide a coordinated approach to all assurance activities.
   - the journey of an integrated assurance will continuously evolve as the process matures, with the ultimate objective of ensuring an effective control environment along with supporting the integrity of information for internal decision making.
2. In respect of the external auditors and the external audit:
   - recommended the reappointment of KPMG as external auditors for the year ended 31 December 2019;
   - in consultation with executive management approved the external auditor's terms of engagement, audit plan and fees;
   - held meetings with the external auditors;
   - reviewed the audit plan and evaluated the effectiveness of the audit;
   - reviewed significant issues raised in the external audit report and the adequacy of management's corrective action in response to such findings;
   - obtained assurance from the auditors that their quality standards and independence were not impaired as set out by IRBA as well as other regulatory authorities, including their internal processes;
   - confirmed that no non-audit services had been provided by the external auditors during the year under review;
   - obtained assurances from KPMG that adequate accounting records were maintained;
   - considered the external audit report section on the Bank's systems of internal control;
   - confirmed that no reportable irregularities were identified and reported by the external auditors in terms of the Auditing Professions Act 26 of 2005.
3. In respect of internal controls and internal audit:
   - ensured that the Bank's internal audit function is independent and had the necessary resources and authority to enable it to discharge its duties;
   - reviewed and approved the internal audit charter, local internal audit plan, and evaluated the effectiveness of the audit
   - held meetings with the Group internal auditors and reviewed the audit plan for the Company;
   - considered reports of the internal auditors on the Bank's systems of internal control;
   - reviewed significant issues raised by internal audit and the adequacy of management's corrective action in response to such findings;
   - noted that there were no significant differences of opinion between the internal audit function and management;
   - assessed the adequacy of the performance of the internal audit function and adequacy of the available internal audit resources and found them to be satisfactory; and
   - received assurance that proper and adequate accounting records were maintained and that the systems safeguarded the assets against unauthorised use or disposal thereof.

Based on the above, the Committee is of the opinion that at the date of this report there was no material breakdown in internal control that resulted in a material loss to the Bank.

4. In respect of the financial statements:
   - confirmed the going concern principle as the basis of preparation of the annual financial statements;
   - received assurance from the finance function that the internal financial controls are effective;
   - reviewed and recommended the annual financial statements to the ae Board for approval;
   - reviewed reports on the adequacy of the portfolio and specific bad debt impairments;
   - ensured that the annual financial statements fairly present the financial position of the Bank as at the end of the financial year;

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

5. In respect of legal and regulatory requirements to the extent that they may have an impact on the financial statements:
   - reviewed with management matters that could have a material impact on the Bank;
   - monitored compliance with the Companies Act, Banks Act, all other applicable legislation and governance codes;
6. In respect of risk management and IT:
   - considered and reviewed reports from management on risk management, including IT risks as they pertain to financial reporting and the going-concern assessment;
   - the Chairman is a member of and attended the Risk and Capital Adequacy Committee and attended all meetings held during the year under review.
7. In respect of the finance function:
   - considered the expertise, resources, experience and succession plan of the members of the finance function and concluded that these were appropriate;
   - considered the appropriateness of the experience and expertise of the Chief Financial Officer and concluded that these were appropriate.
8. In respect of the compliance function:
   - reviewed and recommended the Compliance Charter and annual Compliance and Monitoring plan;
   - reviewed the findings by the Prudential Authority and ensured management action was appropriate;
   - evaluated the effectiveness and performance of the compliance function and concluded that these were appropriate.

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

On behalf of the Audit Committee

Dheven Dharmalingam
Chairman
29 June 2020

DIRECTORS' APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

RESPONSIBILITY FOR THE ANNUAL FINANCIAL STATEMENTS

The Directors are responsible for the preparation and fair presentation of the annual financial statements of HBZ Bank Limited, comprising the statement of financial position at 31 December 2019, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the 2019 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 the Directors 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 as well as the preparation of the supplementary schedules included in these financial statements.

The Directors are of the opinion that:

- Appropriate accounting policies have been consistently applied;
- Adequate accounting records have been maintained;
- Internal control systems are adequate to the extent that no material breakdown in the operation of these systems occurred during the year under review; and
- The financial statements fairly present the financial position of HBZ Bank Limited at 31 December 2019 and its financial performance and cash flows for the year then ended.
- The auditor is responsible for reporting on whether the annual financial statements are fairly presented in accordance with the applicable financial reporting framework.

GOING CONCERN

The Directors have made an assessment of the Bank's ability to continue as a going concern and have no reason to believe the business will not be a going concern in the year ahead. Refer to note 34 for further details on the going concern assessment.

FINANCIAL STATEMENTS

The annual financial statements of HBZ Bank Limited and the Directors' report appearing on pages 29 to 71 were approved by the Board of Directors on 29 June 2020 and are signed on its behalf by:

Muhammad H. Habib
Chairman

Oscar D Grobler
Vice-chairman

COMPANY SECRETARY'S CERTIFICATE

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

Christopher Du Toit Harvey

Company Secretary
Durban
29 June 2020

NOTICE IN TERMS OF SECTION 29 OF THE COMPANIES ACT

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

GENERAL INFORMATION

Country of incorporation and domicile	South Africa	
Directors	MH Habib	(Chairman)
	O D Grobler	(Lead Independent Director)
	D Dharmalingham	
	A Iqbal	(British)
	MY Chowdhury	(British - retired 30 April 2020)
	HF Leenstra	(deceased 7 April 2020)
	Y D Singh	(appointed 1 August 2019)
	ZA Khan	
	C dT Harvey	(resigned 1 January 2020)
Registered office	135 Jan Hofmeyr Road Westville Durban KwaZulu-Natal 3630	
Holding company	Habib Bank AG Zurich incorporated in Switzerland	
Auditors	KPMG Inc. Chartered Accountants (SA) Registered Auditors	
Secretary	C dT Harvey	
Company registration number	1995/006163/06	
Level of assurance	These annual financial statements have been audited in compliance with the applicable requirements of the Companies Act of South Africa.	
Preparer	In terms of section 29(1)(e)(ii) of the Companies Act No. 71 of 2008 as amended, we confirm that the following financial statements were prepared by Kaamil Motala CA(SA); C.Sb(SA); PB(SA), under the supervision of Yusuf Dockrat CA(SA) who is the Chief Financial Officer of HBZ Bank Limited.	

To the Shareholders of HBZ Bank Limited

Opinion

We have audited the financial statements of HBZ Bank Limited (the company) set out on pages 30 to 71, which comprise the statement of financial position as at 31 December 2019, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of HBZ Bank Limited as at 31 December 2019, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors’ Code of Professional Conduct for Registered Auditors (Revised January 2018), parts 1 and 3 of the Independent Regulatory Board for Auditors’ Code of Professional Conduct for Registered Auditors (Revised November 2018) (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants and the International Ethics Standards Board for Accountants’ International Code of Ethics for Professional Accountants (including International Independence Standards) respectively. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the document titled “HBZ Bank Limited Annual Report 2019”, 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, as well as the additional information not covered by the independent auditors report contained in the annual report. The other information does not include the financial statements and our auditor’s report thereon.

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

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

Responsibilities of the Directors for the Financial Statements

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

In preparing the financial statements, the directors are responsible for assessing the company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate 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.

Report on Other Legal and Regulatory Requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that KPMG Inc. has been the auditor of HBZ Bank Limited for 25 years.

Per Jay Datadin

Chartered Accountant (SA)
Registered Auditor
Director
29 June 2020

KPMG Inc.
6 Nokwe Avenue
Umhlanga Ridge
Durban
4319
KPMG Inc.
Registered Auditor

REPORT OF THE DIRECTORS

The Board of Directors takes pleasure in presenting the Annual Financial Statements for the year ended 31 December 2019.

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

During the year, the Bank's authorised share capital was increased by 10 million ordinary shares of no par value.

FINANCIAL RESULTS

The results of the Bank are set out in the accompanying financial statements and notes. Profit for the year after tax is R101 063 118 (2018: R87 688 565).

DIVIDENDS AND GENERAL RESERVE

The following appropriations were made during the year:

	2019	2018
GENERAL RESERVE		
Transfer made	-	R 64,500,000
DIVIDEND		
Dividend distributed	R 40,000,000	R 50,000,000

DIRECTORS AND SECRETARY

Details of the directors are reflected on page 4 of this report. During the first quarter of 2020 Mr C Harvey resigned from the Board while Messrs MY Chowdhury retired and H Leenstra passed away. The Secretary of the Bank is Mr C Harvey whose business and postal address is 135 Jan Hofmeyr Road, Westville, 3630, P O Box 1536, Wandsbeck, 3631.

DIRECTORS' AND PRESCRIBED OFFICERS REMUNERATION

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

Muhammad H. Habib
Chairman

Oscar D. Grobler
Vice-chairman

STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Notes	2019	2018
		R	R
ASSETS			
Cash and cash equivalents	1	1 971 426 417	2 314 825 769
Investment securities	2	1 945 431 969	1 272 301 299
Other assets	3	8 077 018	9 913 854
Derivative assets held for risk management	4	20 056 699	7 787 157
Advances	5	1 918 064 741	1 714 259 158
Property and equipment	7	18 489 567	20 730 414
Investment property	8	8 482 934	-
Right-of-use assets	9	27 252 799	-
Deferred taxation	11	5 718 246	4 400 475
TOTAL ASSETS		5 923 000 390	5 344 218 126
EQUITY AND LIABILITIES			
Capital and reserves		521 540 059	460 476 941
Ordinary share capital	12	10 000 000	10 000 000
Share premium	12	40 000 000	40 000 000
General reserve	13	366 616 957	366 616 957
Retained earnings		104 923 102	43 859 984
LIABILITIES		5 401 460 331	4 883 741 185
Deposits and borrowings	14	5 330 236 964	4 856 191 744
Provisions	15	8 631 227	7 618 246
Other liabilities	16	14 015 055	12 613 421
Derivative liabilities held for risk management	17	19 357 525	7 317 774
Lease liabilities	10	29 219 560	-
TOTAL EQUITY AND LIABILITIES		5 923 000 390	5 344 218 126

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	2019 R	2018 R
Interest income calculated using the effective interest method	18	444 963 578	389 295 099
Interest expense	19	(183 536 191)	(153 131 605)
Net interest income		261 427 387	236 163 494
Commissions and fees		48 698 311	46 622 780
Other operating income	20	21 029 017	17 588 230
Net interest and non-interest income		331 154 715	300 374 504
Impairment losses on financial instruments	6	(7 182 220)	(4 002 056)
		323 972 495	296 372 448
Operating expenses	21	(183 749 005)	(173 799 630)
Profit before taxation		140 223 490	122 572 818
Taxation	23.1	(39 160 372)	(34 884 253)
Profit for the year		101 063 118	87 688 565
Other comprehensive income		-	-
Total comprehensive income for the year		101 063 118	87 688 565
Dividends per share (cents)	24	400	500
Basic earnings per share (cents)	25	1 011	877
Diluted earnings per share (cents)	25	1 011	877

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Notes	Ordinary share capital	Share premium	Regulatory reserve	General reserve	Retained earnings	Total
		R	R	R	R	R	R
Balance at 31 December 2017		10 000 000	40 000 000	5 614 807	302 300 000	70 671 419	428 586 226
Adjustment on initial application of IFRS 9, net of tax		-	-	-	(5 797 850)	-	(5 797 850)
Restated balance at 1 January 2018		10 000 000	40 000 000	5 614 807	296 502 150	70 671 419	422 788 376
Total comprehensive income for the year		-	-	-	-	87 688 565	87 688 565
Decrease in regulatory reserve		-	-	(5 614 807)	5 614 807	-	-
Ordinary dividends	24	-	-	-	-	(50 000 000)	(50 000 000)
Transfer to general reserve		-	-	-	64 500 000	(64 500 000)	-
Balance at 31 December 2018		10 000 000	40 000 000	-	366 616 957	43 859 984	460 476 941
Total profit and comprehensive income for the year		-	-	-	-	101 063 118	101 063 118
Ordinary dividends	24	-	-	-	-	(40 000 000)	(40 000 000)
Balance at 31 December 2019		10 000 000	40 000 000	-	366 616 957	104 923 102	521 540 059

STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Notes	2019 R	2018 R
Cash flows from operating activities			
Cash receipts from customers	26.1	516 094 389	444 411 424
Cash paid to customers, employees and suppliers	26.2	(355 938 255)	(329 487 953)
Cash available from operations	26.3	160 156 134	114 923 471
Increase in advances		(206 461 478)	(252 980 810)
Increase in deposits and borrowings		474 045 220	486 484 000
Taxation paid	26.4	(39 777 645)	(36 160 343)
Decrease/(increase) in sundry debtors		1 172 369	(2 993 527)
(Increase)/decrease in derivatives held for risk management	26.5	(229 790)	431 155
Dividends paid	24	(40 000 000)	(50 000 000)
Net cash inflow from operating activities		348 904 810	259 703 946
Cash flow from financing activities			
Lease repayment		(7 442 734)	-
Net decrease in financing activities		(7 442 734)	-
Cash flows from investing activities			
(Increase)/decrease in investment securities		(673 623 120)	39 551 389
Capital expenditure on property and equipment		(3 502 928)	(3 512 068)
Capital expenditure on investment property		(8 485 895)	-
Proceeds on disposal of property and equipment		2 153 998	3 699 155
Cash (utilised)/generated in investing activities		(683 457 945)	39 738 476
(Decrease)/increase in cash and cash equivalents		(341 995 869)	299 442 422
Cash and cash equivalents at the beginning of year		2 314 825 769	2 006 288 662
Effect of exchange rate fluctuations on cash and cash equivalents held		(1 403 483)	9 094 685
Cash and cash equivalents at end of year		1 971 426 417	2 314 825 769

*Please refer to note 26.6 for details on the 2018 reclassification of cash flows.

ACCOUNTING POLICIES

For the year ended 31 December 2019

1. REPORTING ENTITY

HBZ Bank Limited (the bank) is a company domiciled in the Republic of South Africa, registered office address 135 Jan Hofmeyr Road; Westville; 3630, and is wholly-owned by Habib Bank AG Zurich. The financial statements were authorised for issue by the Directors on 29 June 2020.

2. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB), and the requirements of the Companies Act of South Africa of 2008.

This is the first set of the Bank's annual financial statements in which IFRS 16 Leases has been adopted. Adoption of new and revised Standards are described in point 3 per the accounting policies.

(b) Use of estimates and judgements

The preparation of financial statements, in conformity with IFRS, requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. Actual results may differ from these estimates.

The estimates and underlying judgements are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

Judgements:

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

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

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

Assumptions and estimation uncertainties:

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2019 is included in the following notes.

Note 29: Impairment of financial instruments: determining inputs into the ECL measurement model, including incorporation of forward-looking information

These estimates and assumptions are explained in the notes below.

(c) Basis of measurement

The financial statements have been prepared on the going concern principle under the historical cost basis except for certain financial instruments, which are measured at fair value or amortised cost. The amounts disclosed are rounded to the nearest Rand, with the exception of the disclosure of compliance with the South African Reserve Bank (SARB) regulatory ratios which are disclosed to the nearest Rand Thousands (note 32).

(d) New and revised IFRS Standards in issue but not yet effective

Amendments to IAS 1 and IAS 8 Definition of material

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition.

The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'.

The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term 'material' to ensure consistency.

The amendments are applied prospectively for annual periods beginning on or after 1 January 2020, with earlier application permitted.

Amendments to References to the Conceptual Framework in IFRS Standards

Together with the revised Conceptual Framework, which became effective upon publication on 29 March 2018, the IASB has also issued Amendments to References to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32.

Not all amendments, however, update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the Framework they are referencing to (the IASC Framework adopted by the IASB in 2001, the IASB Framework of 2010, or the new revised Framework of 2018) or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised Conceptual Framework.

The amendments, where they actually are updates, are effective for annual periods beginning on or after 1 January 2020, with early application permitted and are not expected to have a significant impact on the financial statements.

3. ADOPTION OF NEW AND REVISED STANDARDS

Impact of initial application of IFRS 16 Leases

In the current year, the Bank has applied IFRS 16 Leases (as issued by the IASB in January 2016) that is effective for annual periods that begin on or after 1 January 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets when such recognition exemptions are adopted. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in point 3 per the accounting policies. The impact of the adoption of IFRS 16 on Bank's financial statements is described below.

The date of initial application of IFRS 16 for the Bank is 1 January 2019.

The Bank has applied IFRS 16 using the modified retrospective approach which:

- Requires the Bank to recognise the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained earnings at the date of initial application.
- Does not permit restatement of comparatives, which continue to be presented under IAS 17 and IFRIC 4.

(a) Impact of the new definition of a lease

The Bank has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those leases entered or changed before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4.

The Bank applies the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or changed on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of IFRS 16, the Bank has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not significantly change the scope of contracts that meet the definition of a lease for the Bank.

(b) Impact on Lessee Accounting

(i) Former operating leases

IFRS 16 changes how the Bank accounts for leases previously classified as operating leases under IAS 17, which were off balance sheet. Applying IFRS 16, for all leases (except as noted below), the Bank:

- Recognises right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments, with the right-of-use asset adjusted by the amount of any prepaid or accrued lease payments in accordance with IFRS 16:C8(b)(ii)
- Recognises depreciation of right-of-use assets and interest on lease liabilities in the statement of profit or loss and other comprehensive income;
- Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within financing activities) in the statement of cash flows.

Lease incentives (e.g. rent free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses on a straight line basis.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (which includes tablets, printers and personal computers, small items of office furniture and telephones), the Bank has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within 'operating expenses' in profit or loss.

The Bank has used the following practical expedients when applying the modified retrospective approach to leases previously classified as operating leases applying IAS 17.

For the year ended 31 December 2019

- The Bank has applied a single discount rate to a portfolio of leases with reasonably similar characteristics.
- The Bank has elected not to recognise right-of-use assets and lease liabilities to leases for which the lease term ends within 12 months of the date of initial application.
- The Bank has excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- The Bank has used hindsight when determining the lease term when the contract contains options to extend or terminate the lease.

(c) Financial impact of initial application of IFRS 16

The weighted average lessees incremental borrowing rate applied to lease liabilities recognised in the statement of financial position on 1 January 2019 is 6.95 %.

The Bank has recognised R 30 784 730 of right-of-use assets and R 30 784 730 of lease liabilities upon transition to IFRS 16. As there is no difference between the right-of-use asset and lease liability there is no impact on retained earnings.

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements except for the matters referred in 3 above.

(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. Exchange gains/losses on translation of these instruments are recognised in profit or loss.

(b) Interest

Interest received and paid is recognised in the statement of profit or loss and other comprehensive income using the effective interest rate method. The effective interest rate is the rate that discounts the estimated future cash receipts and payments through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability.

The calculation of the effective interest rate includes all fees paid or received, transaction costs and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or 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 rate 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.

Presentation

Interest received and paid, presented in the statement of profit or loss and other comprehensive income includes interest on financial assets and liabilities at amortised cost on an effective interest rate basis. Included in interest received is the profit received on Islamic Banking advances. Interest paid includes profit payable on Islamic Banking deposits.

(c) Other income

Other income comprises net fee and commission income, which is recognised as the related services are performed.

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

(d) Financial assets and liabilities

(i) Initial recognition and measurement

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

A financial asset or financial liability is measured initially at fair value plus transaction costs(for items not at fair value through profit and loss). Subsequent to initial recognition, financial liabilities (deposits and borrowings) are measured at their amortised cost using the effective interest method except where the Bank designates liabilities at fair value through profit or loss.

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

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

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

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

(ii) Classification

Financial assets

The Bank classifies its financial assets in the following categories: amortised cost; financial assets at fair value through profit or loss (FVTPL) and financial assets at fair value through other comprehensive income (FVOCI). Management determines the classification of its investments at initial recognition.

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

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

Advances, investments and placements with banks are classified as held at amortised costs.

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

Business model assessment

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

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

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

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

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

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

Reclassifications

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

Financial liabilities

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVTPL.

(iii) Derecognition

The Bank derecognises a financial asset when:

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

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

(iv) Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, then the Bank evaluates whether the cash flows of the modified asset are substantially different.

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

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

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

Financial liabilities

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

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

(v) Offsetting

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

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

(vi) Fair value measurement

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

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

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

(vii) Impairment

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

- Placements with other banks;
- Investment in sovereign debt;
- Advances and
- Off balance sheet items (financial guarantees and commitments)

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

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

Measurement of ECL

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

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

Restructured financial assets

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

- 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 and financial assets carried at FVOCI, 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; or
- The disappearance of an active market for a financial asset because of financial difficulties.

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

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

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

Presentation of allowance for ECL in the statement of financial position

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

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- Off balance sheet items: generally, as a provision;

Write-off

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

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

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

For the year ended 31 December 2019

(viii) Other receivables

Other receivables are measured at their cost less impairment losses.

(ix) Other payables

Other payables are measured at cost.

(x) Derivative financial instruments

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

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

(xi) Share capital

Ordinary shares

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

(e) Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and placements with other banks.

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

(f) Advances

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

Advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest rate method. Included in advances are Islamic Advances in terms of Murabaha and Musharakah arrangements.

(g) Investment securities

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

(h) Property and equipment

(i) Recognition and measurement

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

(ii) Subsequent costs

The Bank recognises, in the carrying amount of an item of property and equipment, the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied in the item will flow to the Bank and the cost of the item can be measured reliably. All other costs are recognised in the statement of profit or loss and other comprehensive income as an expense as incurred. Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Bank. Ongoing repairs and maintenance are expensed as incurred.

(iii) Depreciation

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

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

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

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

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

(i) Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation (including property under construction for such purposes), is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is measured at cost. 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.

(j) Impairment of property and equipment

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

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

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

Reversals of impairment

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

(k) Leases

The Bank has applied IFRS 16 using the modified retrospective approach and therefore comparative information has not been restated and is presented under IAS 17. The details of accounting policies under both IAS 17 and IFRS 16 are presented separately below.

Policies applicable from 1 January 2019

The Bank as a lessee

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

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

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

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

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

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

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

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option; extension or termination option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease

payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).

- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

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

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

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

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

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

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

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

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in 'Operating expenses' in profit or loss (see Note 21).

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

The Bank as lessor

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

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

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

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

Policies applicable prior to 1 January 2019

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Bank as a lessee

The Bank classifies leases as operating leases where the lessor retains the risks and rewards of ownership. Payments made under operating leases are recognised in the statement of profit or loss and other comprehensive income on a straight-line basis over the term of the lease. Lease incentives received are recognised in the statement of profit or loss and other comprehensive income as an integral part of the total lease expense.

(l) Deposits and borrowings

Deposits and borrowings are the Bank's sources of debt funding. Deposits and borrowings are measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest rate method. Included in deposits are Islamic deposits in terms of Mudaraba agreements.

(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 and leave pay provisions.

(n) 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.

Financial guarantee liabilities are initially recognised off-balance sheet at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable).

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

(o) Employee benefits

(i) Defined contribution plans

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

(ii) Short-term benefits

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

(p) Income tax

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

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

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

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

In determining the amount of current and deferred tax, the Bank takes into account the impact of uncertain tax positions and whether additional tax and interest may be due. This assessment relies on estimates and assumptions and may involve series of judgements about future events. New information may become available that causes the bank to change its judgement regarding the adequacy of existing liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

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

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

(q) Earnings per share

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

(r) 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.

(s) Related party transactions

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

For the year ended 31 December 2019

		2019	2018
		R	R
1.	CASH AND CASH EQUIVALENTS		
	Balances with central bank other than the mandatory reserve deposits	14 373 926	-
	Cash on hand	5 459 975	4 695 459
	Mandatory reserves with central banks	89 436 000	63 485 000
	Balances with other banks	1 870 287 912	2 250 434 499
	Less: ECL on performing cash and cash equivalents (Stage 1)	(8 131 396)	(3 789 189)
	Cash and cash equivalents after ECL	1 971 426 417	2 314 825 769
	Maturity analysis		
	On demand to one month	807 426 417	1 017 730 769
	One month to six months	648 250 000	923 500 000
	Six months to one year	515 750 000	373 595 000
	Greater than one year	-	-
		1 971 426 417	2 314 825 769
2.	INVESTMENT SECURITIES		
	Treasury bills	1 946 879 919	1 273 256 799
	Less: ECL on performing investment securities (Stage 1)	(1 447 950)	(955 500)
		1 945 431 969	1 272 301 299
	Maturity analysis		
	On demand to one month	296 247 969	191 627 214
	One month to six months	940 649 000	985 352 044
	Six months to one year	708 535 000	95 322 041
	Greater than one year	-	-
		1 945 431 969	1 272 301 299
3.	OTHER ASSETS		
	Prepayments	1 977 848	1 941 817
	Sundry debtors	4 550 191	5 722 560
	Income tax receivable	1 548 979	2 249 477
		8 077 018	9 913 854
4.	DERIVATIVE ASSETS HELD FOR RISK MANAGEMENT		
	Forward exchange contracts	20 056 699	7 787 157
		20 056 699	7 787 157

	2019	2018
	R	R
5. ADVANCES		
Overdrafts	419 947 597	355 152 265
Loans	1 514 289 804	1 375 163 864
Staff loans	4 289 876	3 724 235
Commercial loans	1 408 672 573	1 257 863 823
Trust receipts	101 327 355	113 575 806
Bills receivable	2 990 206	450 000
	1 937 227 607	1 730 766 129
Stage 3 Expected Credit Losses	(11 739 975)	(9 467 759)
Stage 2 Expected Credit Losses	(2 322 504)	(949 278)
Stage 1 Expected Credit Losses	(5 100 387)	(6 089 934)
	1 918 064 741	1 714 259 158
Maturity analysis		
On demand to one month	507 242 741	402 516 169
One month to six months	302 182 000	337 007 050
Six months to one year	167 383 000	161 277 000
Greater than one year	941 257 000	813 458 939
	1 918 064 741	1 714 259 158

Interest rates charged on clients advances range between 6% and 15.25% during 2019.
Islamic Banking advances are included in advances.

	2019	2018
6. STATEMENT OF PROFIT OR LOSS ECL CHARGE		
Net impairments raised during the year		
- Stage 3	2 176 946	419 095
- Stage 2	1 375 723	-
- Stage 1	3 570 574	3 817 623
	7 123 243	4 236 718
Write-offs during the year	58 977	1 252 060
Recoveries	-	(1 486 722)
	7 182 220	4 002 056

For the year ended 31 December 2019

7. PROPERTY AND EQUIPMENT

2019	Cost	Accumulated depreciation	Closing carrying value
	R	R	R
Land and buildings	7 115 206	-	7 115 206
Furniture & fittings	4 787 338	(3 287 666)	1 499 672
Leasehold improvements	15 682 800	(11 530 893)	4 151 907
Office equipment	6 872 795	(6 164 011)	708 784
Motor vehicles	5 913 508	(3 964 489)	1 949 019
Computers	14 852 852	(11 787 873)	3 064 979
	55 224 499	(36 734 932)	18 489 567

2018	Cost	Accumulated depreciation	Closing carrying value
	R	R	R
Land and buildings	7 447 989	-	7 447 989
Furniture & fittings	4 674 817	(2 987 080)	1 687 737
Leasehold improvements	14 540 796	(9 471 406)	5 069 390
Office equipment	6 674 105	(5 733 294)	940 811
Motor vehicles	4 718 099	(3 270 306)	1 447 793
Computers	14 103 562	(9 966 868)	4 136 694
	52 159 368	(31 428 954)	20 730 414

2019 movements	Opening carrying value	Additions	Disposals	Depreciation	Closing carrying value
	R	R	R	R	R
Land and buildings	7 447 989	-	(332 783)	-	7 115 206
Furniture & fittings	1 687 716	182 784	-	(370 828)	1 499 672
Leasehold improvements	5 069 390	1 142 004	-	(2 059 487)	4 151 907
Office equipment	940 810	203 906	-	(435 932)	708 784
Motor vehicles	1 447 791	1 195 411	-	(694 183)	1 949 019
Computers	4 136 718	778 823	-	(1 850 562)	3 064 979
	20 730 414	3 502 928	(332 783)	(5 410 992)	18 489 567

2018 movements	Opening carrying value	Additions	Disposals	Depreciation	Closing carrying value
	R	R	R	R	R
Land and buildings	9 682 091	42 097	(2 276 199)	-	7 447 989
Furniture & fittings	1 090 295	1 066 425	(166 314)	(302 669)	1 687 737
Leasehold improvements	6 343 329	519 139	-	(1 793 078)	5 069 390
Office equipment	1 263 004	214 878	(3 642)	(533 430)	940 810
Motor vehicles	2 074 818	-	-	(627 027)	1 447 791
Computers	4 045 249	1 669 529	-	(1 578 060)	4 136 718
	24 498 786	3 512 068	(2 446 155)	(4 834 264)	20 730 414

Land and buildings comprise the following:	**Acquisition date:**
1. Erf no. 1246, Jan Hofmeyr Road, Westville.	13 December 2004
2. Section numbers 15 and 28, Cedar Ridge, Jan Hofmeyr Road, Westville.	16 January 1996

8. INVESTMENT PROPERTY

The company holds Unit 8 Zimbali Coastal Estate primarily for the collection of rental income. As such the building has been classified as Income Producing Real Estate (IPRE) and has been recognized under the Cost Model.

	2019 R	2018 R
Carrying value as at 1 January	-	-
Additions	8 485 895	-
Disposals	-	-
Transfers from/(to) Property and equipment	-	-
Depreciation	(2 961)	-
Carrying value as at 31 December	8 482 934	-

9. RIGHT-OF-USE ASSETS

The Bank leases several buildings. The average lease term is 4 years. These leases were previously classified as operating leases.

	2019 R	2018 R
Opening balance as at 1 January 2019	30 784 730	-
Additions	3 688 142	-
Depreciation expense for the year ended	(7 220 073)	-
Net carrying amount	27 252 799	-

The Laudium Plaza lease expired in February 2019 and was replaced by a new lease for a period of 4 years with an option to extend for a further 3 years. The new lease was negotiated at a more favourable rate and resulted in an additional right-of-use asset of R3 688 142 in 2019.

Amounts recognized in profit or loss	
Depreciation expense on right-of-use asset	7 220 073
Interest expense on lease liability	2 189 422
Expense relating to short-term leases	-
Expense relating to leases of low value assets	827 903
Income from sub-leasing right-of-use assets	-

At 31 December 2019 the Bank is not committed to any short term leases.

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

The total cash outflow for the property leases amount to R 7.4 million (2018: R 6.8 million).

For the year ended 31 December 2019

	2019	2018
	R	R
10. LEASE LIABILITIES		
Opening balance as at 1 January 2019	30 784 730	-
Additions	3 688 142	-
Interest incurred on lease liability	2 189 422	-
Lease repayments	(7 442 734)	-
Net carrying amount	29 219 560	-
Amounts due for settlement within 12 months	6 128 635	-
Amounts due for settlement after 12 months	23 090 926	-
	29 219 560	-
Maturity analysis		
Not later than 1 year	7 970 139	-
Later than 1 year and not later than 5 years	21 484 012	-
Later than 5 years	5 601 698	-
Less future finance charges	(5 836 289)	-
Present value of lease obligations	29 219 560	-

Lease commitments increased from 31 December 2018 to 1 January 2019 due to the adoption of IFRS 16 Leases from 1 January 2019. This change incorporates the renewal option on leases as well as the impact of the incremental borrowing rate applied to leases.

For the year ended 31 December 2019, the average effective borrowing rate was linked to JIBAR at 6.95%. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. All lease obligations are denominated in local currency. The fair value of the Bank's lease obligations as at 31 December 2019 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.

		2019	2018
		R	R
11.	DEFERRED TAXATION		
	Tax effect of timing differences between tax and book values of		
	- provisions for doubtful advances	4 111 056	3 039 237
	- other accruals and provisions	1 891 874	953 515
	- fixed asset allowances	(835 377)	407 723
	- right-of-use asset	(7 630 784)	-
	- lease liability	8 181 477	-
	Deferred taxation asset	5 718 246	4 400 475
	Deferred taxation reconciliation		
	Balance at beginning of year	4 400 475	1 279 115
	Initial application of IFRS 9	-	4 094 747
	Current year temporary differences	1 317 771	(973 387)
	- provision for doubtful advances	1 071 819	1 237 902
	- other accruals and provisions	938 359	(2 320 197)
	- fixed asset allowances	(1 243 100)	108 908
	- right-of-use asset	(7 630 784)	-
	- lease liability	8 181 477	-
	Balance at the end of the year	5 718 246	4 400 475
12.	ORDINARY SHARE CAPITAL		
	Authorised		
	10 000 000 Ordinary shares of R1 each	10 000 000	10 000 000
	10 000 000 Ordinary shares at no par value	10 000 000	-
	Issued		
	10 000 000 Ordinary shares at a par value of R1 each issued at R5 each		
	10 000 000 Ordinary shares of R1 each	10 000 000	10 000 000
	Share premium on 10 000 000 Ordinary shares	40 000 000	40 000 000

For the year ended 31 December 2019

		2019 R	2018 R
13.	NON-DISTRIBUTABLE RESERVES		
	General reserve	366 616 957	366 616 957
	The reserve has been created specifically for the retention of capital.		
14.	DEPOSITS AND BORROWINGS		
	Deposits and loans from banks	106 316 661	86 994 547
	Demand deposits	2 088 269 549	1 894 146 993
	Savings deposits	345 051 374	310 940 298
	Fixed deposits	2 071 924 214	1 718 440 732
	Notice deposits	718 675 166	845 669 174
		5 330 236 964	4 856 191 744
	Maturity analysis		
	On demand to one month	3 801 151 964	3 674 276 693
	One month to six months	894 881 000	821 620 596
	Six months to one year	632 852 000	360 294 455
	Greater than one year	1 352 000	-
		5 330 236 964	4 856 191 744
	Islamic Banking deposits are included in deposits and other borrowings.		
15.	PROVISIONS		
	Provision for leave pay		
	Balance at beginning of year	6 557 073	6 033 072
	Provisions made during the period	1 380 289	524 001
	Balance at end of year	7 937 362	6 557 073
	ECL on Off balance sheet items		
	Balance at beginning of year	1 061 173	-
	Stage 1 net movement	(274 536)	783 731
	Stage 2 net movement	2 497	305 000
	Stage 3 net movement	(95 269)	95 269
	Recoveries	-	(122 827)
	Balance at end of year	693 865	1 061 173
	Total provisions on statement of financial position	8 631 227	7 618 246
16.	OTHER LIABILITIES		
	Creditors	1 574 431	2 692 577
	Other payables	12 440 624	9 920 844
		14 015 055	12 613 421

		2019	2018
		R	R
17.	DERIVATIVE LIABILITIES HELD FOR RISK MANAGEMENT		
	Forward exchange contracts	19 357 525	7 317 774

18.	INTEREST INCOME CALCULATED USING THE EFFECTIVE INTEREST METHOD		
	Balances with other banks	140 889 505	149 933 617
	Advances	187 871 418	159 436 363
	Investment securities	116 202 655	79 925 119
		444 963 578	389 295 099

19.	INTEREST EXPENSE		
	Deposits from banks	7 485 929	2 279 166
	Deposits from customers	176 050 262	150 852 439
		183 536 191	153 131 605

20.	OTHER OPERATING INCOME		
	Foreign exchange income	19 207 802	16 335 194
	Profit on disposal of fixed assets	1 821 215	1 253 036
		21 029 017	17 588 230

21.	OPERATING EXPENSES		
	Operating expenses include :		
	Directors' remuneration (see note 22)	7 018 941	6 315 763
	Auditor's remuneration	1 500 000	2 201 804
	Statutory audits	1 500 000	1 404 000
	Regulatory audit	-	797 804
	Depreciation	5 413 953	4 834 264
	Services rendered by group companies	39 881 413	42 328 639
	Retirement benefit costs	4 318 068	4 056 671
	- key management personnel	547 849	303 751
	- other personnel	3 770 219	3 752 920
	Property rentals	-	6 847 607
	Equipment lease	827 903	790 962
	Staff costs	55 710 214	51 020 233

The total amount of services rendered by group companies is paid to Habib Bank AG Zurich, the Bank's holding company.

For the year ended 31 December 2019

			2019 R	2018 R
22. DIRECTORS' REMUNERATION				
For services as a director and other services				
Non-executive directors			1 523 333	1 170 000
- O Grobler			360 000	290 000
- MY Chowdhury			360 000	310 000
- HF Leenstra			330 000	280 000
- D Dharmalingam			340 000	290 000
- Y D Singh			133 333	-
- MH Habib*			-	-
- A Iqbal*			-	-
	Salary	**Retirement Benefits**	**Total Remuneration**	
Executive directors	5 252 000	243 608	5 495 608	5 150 840
- ZA Khan - Chief Executive Officer	3 685 271	-	3 685 271	3 412 104
- C dT Harvey - Head of Corporate Governance	1 566 729	243 608	1 810 337	1 738 736
Total Directors' remuneration			7 018 941	6 315 763
Prescribed Officers	4 248 205	304 241	4 552 446	3 938 337
- Y Dockrat - Chief Financial Officer	1 974 492	255 222	2 229 714	2 103 516
- H Zia - Chief Risk Officer	1 836 236	-	1 836 236	1 834 821
- F Anwar- Chief Operating Officer (appointed 26 August 2019)	437 477	49 019	486 496	-

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

The prescribed officers of the Bank as approved by the Board, are the Chief Financial Officer, Chief Operating Officer and Chief Risk Officer.

In terms of the Articles of Association the appointment of a director is for a period of three years where-after each director is expected to retire on rotation. Directors are however eligible to offer themselves for reappointment and the Board will consider reappointing them. depending on current circumstances.

If there are circumstances necessitating the termination of the contract before the three year period has expired then each party will have the right to terminate the contract by giving the other party three months written notice of termination.

		2019	2018
		R	R
23.	TAXATION		
23.1	South African normal taxation		
	- current	40 478 143	33 910 866
	- deferred	(1 317 771)	973 387
	Total taxation	39 160 372	34 884 253
23.2	Reconciliation of tax charge		
	SA Normal taxation	28,00%	28,00%
	Standard rate affected by:		
	- permanent difference	(0,07%)	0,46%
	Effective rate - total taxation	27,93%	28,46%
24.	DIVIDENDS PER SHARE		
	Final dividend of 400 cents per share (2018: 500 cents per share)	40 000 000	50 000 000

25. BASIC EARNINGS AND DILUTED EARNINGS PER SHARE

The calculation of earnings per ordinary share is based on net income attributable to ordinary shareholders of R101 063 118 (2018: R87 688 565) and a weighted average of 10 000 000 (2018: 10 000 000) ordinary shares issued.

The calculation of diluted earnings per ordinary share is based on net income attributable to ordinary shareholders R101 063 118 (2018: R87 688 565) and a weighted average of 10 000 000 (2018: 10 000 000) ordinary shares.

		2019	2018
26.	CASH FLOW INFORMATION		
26.1	Cash receipts from customers		
	Interest income	444 963 578	389 295 099
	Other income	71 130 811	55 116 325
		516 094 389	444 411 424
26.2	Cash paid to customers, employees and suppliers		
	Interest expenses	(183 536 191)	(153 131 605)
	Other payments	(172 402 064)	(176 356 348)
		(355 938 255)	(329 487 953)
26.3	Cash available from operations		
	Profit before tax	140 223 490	122 572 818
	Adjusted for:		
	- Depreciation	5 413 953	4 834 264
	- Depreciation on right-of-use asset	7 220 073	-
	- Effect of exchange rate fluctuations on cash and cash equivalents held	1 403 483	(9 094 685)
	- Impairment losses/(recoveries)	2 781 036	(1 039 193)
	- Interest incurred on lease liabilities	2 189 422	-
	- Profit on disposal of property and equipment	(1 821 215)	(1 253 036)
	- Increase in prepayments	(36 031)	(617 673)
	- Increase/(decrease) in creditors and other payables	1 401 634	(1 003 025)
	- Increase in provisions	1 380 289	524 001
		160 156 134	114 923 471

For the year ended 31 December 2019

		2019	2018
		R	R
26.4	Taxation paid		
	Amount receivable at beginning of year	2 249 477	-
	Charge to profit or loss	(40 478 143)	(33 910 866)
	Less: Amount receivable at end of year	(1 548 979)	(2 249 477)
		(39 777 645)	(36 160 343)
26.5	(Increase)/decrease in derivatives held for risk management		
	(Increase)/decrease in derivative assets	(12 269 541)	36 575 961
	Increase/(decrease) in derivative liabilities	12 039 751	(36 144 806)
		(229 790)	431 155

26.6 Reclassification of cash flows

During the current year the Bank reclassified prior year cash flow movements to better reflect the substance of these movements. There is no impact on the statement of financial position or statement of profit or loss and other comprehensive income, for the year ended 31 December 2018. The reclassification of cash flows for the year ended 31 December 2018 is disclosed below:

	Amount as previously reported	Reclassification	Reclassified amount
	R	R	R
Cash flows from financing activities			
Income earning funds and other assets	72 516 150	(72 516 150)	-
Other liabilities	(36 623 830)	36 623 830	-
Cash flows from investing activities			
Investment securities	-	39 551 389	39 551 389
Cash flow from operating activities			
Cash receipts from customers	453 506 109	(9 094 685)	444 411 424
Cash paid to customers, employees and suppliers	(328 391 256)	(1 096 697)	(329 487 953)
Derivatives held for risk management purposes	-	431 155	431 155
Sundry debtors	-	(2 993 527)	(2 993 527)
Effect of exchange rate fluctuations on cash and cash equivalents held	-	9 094 685	9 094 685
	161 007 173	-	161 007 173

		2019	2018
27.	LETTERS OF CREDIT AND GUARANTEE		
	Letters of credit	70 009 025	38 105 201
	Guarantees issued on behalf of customers	165 372 118	189 974 445
	Guarantee issued on behalf of the Bank	35 740 751	42 895 751
		271 121 894	270 975 397

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

The Guarantee issued on behalf of the Bank relates to a guarantee that was issued for the purchase of properties that are still in the development phase.

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

		2019	2018
28.	PRINCIPAL FOREIGN CURRENCY CONVERSION RATES		
	One South African Rand equals		
	- Swiss Franc	0,069	0,068
	- United States Dollar	0,071	0,070
	- Pound Sterling	0,054	0,055

29. RISK MANAGEMENT

29.1 Credit risk management

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.

	2019				2018
	Stage 1	Stage 2	Stage 3	Total	Total
Balance with other banks at amortised cost	R	R	R	R	R
Grade 0: low to fair risk	1 979 557 813	-	-	1 979 557 813	2 250 434 499
Loss allowance	(8 131 396)	-	-	(8 131 396)	(3 789 189)
Carrying amount	1 971 426 417	-	-	1 971 426 417	2 246 645 310
Advances at amortised cost					
Grade 0: Low to fair risk	1 601 491 919	-	-	1 601 491 919	1 511 145 955
Grade 1: Monitoring	-	282 283 463	-	282 283 463	187 605 442
Grade 2: Substandard	-	-	11 554 837	11 554 837	4 779 856
Grade 3: Doubtful	-	-	5 069 421	5 069 421	6 260 890
Grade 4 - 10: Loss	-	-	36 827 966	36 827 966	20 973 986
	1 601 491 919	282 283 463	53 452 224	1 937 227 606	1 730 766 129
Loss allowance	(5 100 387)	(2 322 504)	(11 739 973)	(19 162 865)	(16 506 971)
Carrying amount	1 596 391 532	279 960 959	41 712 251	1 918 064 741	1 714 259 158
Investment Securities at amortised cost					
Grade 0: Low to fair risk	1 946 879 919	-	-	1 946 879 919	1 273 256 799
Loss allowance	(1 447 950)	-	-	(1 447 950)	(955 500)
Carrying amount	1 945 431 969	-	-	1 945 431 969	1 272 301 299
Financial Guarantee Contracts					
Grade 0: Low to fair risk	268 289 415	-	-	268 289 415	260 764 906
Grade 1: Monitoring	-	2 832 479	-	2 832 479	9 310 491
Grade 2: Substandard	-	-	-	-	900 000
Loss allowance	(678 165)	(15 700)	-	(693 865)	(1 061 173)
Carrying amount	267 611 250	2 816 779	-	270 428 029	269 914 224

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

For the year ended 31 December 2019

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

	Over-the-counter Other bilateral collateralised	
	Notional amount	Fair value
2019		
Derivative assets	523 776 819	524 782 849
Derivative liabilities	523 071 982	522 088 583
2018		
Derivative assets	283 247 507	302 941 821
Derivative liabilities	282 778 124	288 085 067

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 2019, the net carrying amount of advances to customers in default amounted to R53.5 million (2018: R 32 million) and the market value of identifiable collateral (mainly fixed properties) held against those loans and advances amounted to R 122.5 million (2018: R 82.6 million).

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

Type of credit exposure

	Percentage of exposure that is subject to collateral requirements		
Advances	31 Dec 2019	31 Dec 2018	Principal type of collateral held
Mortgage lending	100	100	Commercial/Residential Property/Cash
Commercial lending	96	96	Commercial/Residential Property/Cash/Investments
*Auto loans	-	100	Motor vehicles
Staff loans	-	-	None

* Due to the low volume of auto loans disbursed, the credit policy was changed during the 2019 financial year to include auto loans in commercial lending

MORTGAGE LENDING

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

Mortgage lending

	31 December 2018	31 December 2018
LTV ratio		
Less than 50%	56 475 205	35 172 430
51 - 70%	8 472 895	7 547 795
71 - 90%	1 076 261	2 048 665
91 - 100%	-	-
More than 100%	-	-
Total	66 024 361	44 768 890

iii. Amounts arising from ECL

INPUTS, ASSUMPTIONS AND TECHNIQUES USED FOR ESTIMATING IMPAIRMENT

See accounting policy.

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 both quantitative and qualitative 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 by comparing:
- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure

The Bank uses two criteria for determining whether there has been a significant increase in credit risk:
- quantitative test based on movement in PD;
- qualitative indicators

CREDIT RISK GRADES

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

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

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 SARB communication.
- Payment record - this includes reporting exposures on days past due.

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

Inputs, assumptions and techniques used for estimating impairment

Grading	12- month weighted average PD
Grade 0: Low risk	9,034
Grades 1: Monitoring	30,956
Grades 2-10: Substandard, doubtful, loss	100

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GENERATING THE TERM STRUCTURE OF PD

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

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

DETERMINING WHETHER CREDIT RISK HAS INCREASED SIGNIFICANTLY

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

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

- Days Past Due (DPD);
- Inability of the customer to service the contractual agreement may result in covenant waivers / amendments (Restructuring);
- Significant increase in the credit risk of other financial instruments of the same customer (cross-product / facility);
- Transition (Downgrade) in the (internal / external) credit rating of the obligor;
- Tagging of exposures as 'Watch' – Internal or External; and
- Tagging of exposures as 'For Adjustment Purpose' (FAP), which corresponds to non- performing.

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

Significant changes in the terms of an existing financial instrument as on the reporting date compared to its terms at origination;

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

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

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

- Credit exposures on which the contractual payments are more than or equal to 30 days past due will be regarded as having significantly increased in credit risk.
- Whereas for Investments and placement with Banks on which the contractual payments are more than or equal to 15 days past due will be regarded as having significantly increased in credit risk.
- Additionally, for overdraft exposures, any excess over limit or forced debit will be treated similar to days past due i.e., an overdraft account showing excess over limit for 30 days will become a stage 2 exposure.
- Credit exposures, which are marked as watch (internal or external) by the Bank will warrant a movement to stage 2. This must be based on a credit decision documented in line with the pro- visions outlined in the staging criteria framework of the Bank.
- The rating score of the borrower at the time of loan origination will be compared to the rating (current) of the borrower as of the reporting date to determine significant increase in credit risk.

DEFINITION OF DEFAULT

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

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

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

INCORPORATION OF FORWARD-LOOKING INFORMATION

The Bank incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

As mentioned in the above notes, a single macroeconomic impact was determined for all the portfolios of the Bank because macroeconomic conditions in the country are expected to influence all portfolios to the same extent considering the Bank's customer base.

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. 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: Real Gross Domestic Product Growth (Real GDP Growth), Unemployment Rate, Debt to Gross Domestic Product (Debt to GDP), Inflation, Current Account Balance and Government Expenditures, Benchmark interest rates and new vehicle sales.

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

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

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

The economic scenarios used as at 31 December 2019 included the following key indicators for the years ending 31 December 2020 to 2023.

Scenario Probability	
Baseline	67,00%
Upturn	17,10%
Downturn	15,90%

Probability Weighted Macroeconomic Variable Forecasts

Year	Real GDP Growth	Debt to GDP	Current Account Balance
2020	0,85%	0,57	-13,06
2021	1,42%	0,59	-11,24
2022	1,96%	0,63	-12,33
2023	1,96%	0,66	-13,97

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

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

MODIFIED FINANCIAL ASSETS

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

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

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

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

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

IMPROVEMENT IN CREDIT RISK PROFILE:

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

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

Stage 2 to 1: An exposure in stage 2 is subject to a cooling period of 3 months / 3 instalments (whichever is longer) given that credit risk has improved sufficiently such that the transfer criterion which resulted in the exposure being transferred to stage 2 is no longer present at the reporting date.

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

MEASUREMENT OF ECL

ECL is measured as a probability-weighted estimate of the present value of cash shortfalls (i.e., the weighted average of credit losses, with the respective risks of a default occurring in a given time period used as the weights). When measuring ECL, the following would be taken into account:
- The probability-weighted outcome;
- The time value of money so that ECLs are discounted to the reporting date; and
- Reasonable and supportable information (especially forward looking information) that is available without undue cost or effort.

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.
- 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.

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

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

LOSS ALLOWANCE

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

For the year ended 31 December 2019

	2019				2018
	Stage 1	Stage 2	Stage 3	Total	Total
ECL on advances					
Balance as at 1 January	6 089 934	949 278	9 467 758	16 506 971	10 890 941
Transfer to stage 1	339 422	(339 422)	-	-	2 001 490
Transfer to stage 2	(345 336)	1 093 455	(748 119)	-	(1 181 722)
Transfer to stage 3	(20 754)	(305 789)	326 543	-	(1 355 830)
Movements for the year*	(898 271)	854 329	2 986 197	2 942 255	-
New financial assets originated or purchased	697 324	121 325	-	818 649	-
Financial assets that have derecognised	(761 932)	(50 672)	(961 102)	(1 773 706)	-
Interest in suspense movement	-	-	668 696	668 696	6 152 091
Balance as at 31 December	5 100 387	2 322 504	11 739 973	19 162 865	16 506 971
ECL on balance with other banks					
Balance as at 1 January	3 789 189	-	-	3 789 189	2 649 000
Transfer to stage 1	-	-	-	-	1 140 189
Transfer to stage 2	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-
Impairment raised	4 342 207	-	-	4 342 207	-
Balance as at 31 December	8 131 396	-	-	8 131 396	3 789 189
ECL on Investment Securities					
Balance as at 1 January	955 500	-	-	955 500	311 792
Transfer to stage 1	-	-	-	-	643 708
Transfer to stage 2	-	-	-	-	-
Transfer to stage 3	-	-	-	-	-
Impairment raised	492 450	-	-	492 450	-
Balance as at 31 December	1 447 950	-	-	1 447 950	955 500
Financial Guarantee Contracts					
Balance as at 1 January	952 701	13 203	95 269	1 061 173	1 184 000
Transfer to stage 1	104 856	(9 587)	(95 269)	-	73 701
Transfer to stage 2	(2 293)	2 293	-	-	(291 797)
Transfer to stage 3	-	-	-	-	95 269
Movements for the year*	(566 368)	3 655	-	(562 713)	-
New financial assets originated or purchased	422 874	8 480	-	431 354	-
Financial assets that have derecognised	(233 605)	(2 344)	-	(235 949)	-
Balance as at 31 December	678 165	15 700	-	693 865	1 061 173

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

iv. Concentration of credit risk

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

	Advances to customers		Balances with banks		Investment securities	
	2019	2018	2019	2018	2019	2018
	R	R	R	R	R	R
Concentration by location						
America	-	-	87 190 464	50 997 118	-	-
Europe	-	-	24 048 599	9 965 840	-	-
Asia	-	-	445 911	629 208	-	-
South Africa	1 918 064 741	1 714 259 158	1 859 741 443	2 253 233 603	1 945 431 969	1 272 301 299
Other African countries	-	-	-	-	-	-
	1 918 064 741	1 714 259 158	1 971 426 417	2 314 825 769	1 945 431 969	1 272 301 299

	Advances - Gross	
	2019	2018
	R	R
Concentration by industry		
Finance & insurance	125 548 493	15 255 048
Manufacturing	126 267 798	323 972 321
Transportation	83 183 972	66 270 044
Commercial real estate	632 719 226	606 542 651
Retailers & wholesalers	887 990 176	568 858 686
Other	81 517 942	149 867 379
	1 937 227 607	1 730 766 129

29.2 Derivative instruments

	2019	2018
	R	R
Nominal value of forward exchange contracts sold to customers	521 880 535	263 506 614
Nominal value of forward exchange contracts sold to banks	1 896 284	19 740 893
	523 776 819	283 247 507
Nominal value of forward exchange contracts purchased from customers	1 899 115	19 729 951
Nominal value of forward exchange contracts purchased from banks	521 172 867	263 048 173
	523 071 982	282 778 124

For the year ended 31 December 2019

29.3 Liquidity risk

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

Liquidity risk management

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

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

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

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

Contractual net liquidity gap	On demand	1-6 months	6-12 months	> 12 months	Total
2019	R	R	R	R	R
Assets					
Investment securities	296 247 969	940 649 000	708 535 000	-	1 945 431 969
Advances	507 242 741	302 182 000	167 383 000	941 257 000	1 918 064 741
Other assets (incl. derivatives and deferred taxation)	7 808 264	20 056 699	-	5 987 000	33 851 963
Cash and short term funds	807 426 417	648 250 000	515 750 000	-	1 971 426 417
	1 618 725 391	1 911 137 699	1 391 668 000	947 244 000	5 868 775 090
Liabilities					
Deposits and other accounts	(3 801 151 964)	(894 881 000)	(632 852 000)	(1 352 000)	(5 330 236 964)
Other liabilities (incl. derivatives)	(14 015 055)	(19 357 525)	-	-	(33 372 580)
Provisions	-	(8 631 227)	-	-	(8 631 227)
	(3 815 167 019)	(922 869 752)	(632 852 000)	(1 352 000)	(5 372 240 771)
Net liquidity gap	(2 196 441 628)	988 267 947	758 816 000	945 892 000	496 534 319
2018	R	R	R	R	R
Assets					
Investment securities	191 627 214	985 352 044	95 322 041	-	1 272 301 299
Advances	402 516 169	337 007 050	161 277 000	813 458 939	1 714 259 158
Other assets (incl. derivatives and deferred taxation)	14 314 329	7 787 157	-	-	22 101 486
Cash and short term funds	1 017 730 769	923 500 000	373 595 000	-	2 314 825 769
	1 626 188 481	2 253 646 251	630 194 041	813 458 939	5 323 487 712
Liabilities					
Deposits and other accounts	(3 674 276 693)	(821 620 596)	(360 294 455)	-	(4 856 191 744)
Other liabilities (incl. derivatives)	(12 613 421)	(7 317 773)	-	-	19 931 194
Provisions	-	(7 618 246)	-	-	(7 618 246)
	(3 686 890 114)	(836 556 615)	(360 294 455)	-	(4 883 741 184)
Net liquidity gap	(2 060 701 633)	1 417 089 636	269 899 586	813 458 939	439 746 528

29.4 Interest rate risk management

The Bank is exposed to interest rate cash flow risk on its cash and short-term funds, investment securities, advances and deposits and other accounts. The Bank is exposed to floating and fixed rates as follows:

Repricing gap						
	Short-term	Medium-term		Long-term		
	0 - 31 days	32 - 91 days	92 - 181 days	182 - 365 days	Other	Total
	R'000	R'000	R'000	R'000	R'000	R'000
2019						
Fixed rate items						
Assets	409 862	559 880	1 223 933	1 388 620	274 695	3 856 990
Liabilities	(1 282 006)	(256 667)	(361 536)	(280 294)	(587 236)	(2 767 739)
	(872 144)	303 213	862 397	1 108 326	(312 541)	1 089 251
Variable items						
Assets	2 060 453	-	-	-	-	2 060 453
Liabilities	(3 149 704)	-	-	-	-	(3 149 704)
	(1 089 251)	-	-	-	-	(1 089 251)
Net repricing gap	(1 961 395)	303 213	862 397	1 108 326	(312 541)	-
2018						
Fixed rate items						
Assets	774 695	688 702	1 347 116	627 628	-	3 438 141
Liabilities	(1 052 515)	(195 649)	(412 661)	(146 210)	-	(1 807 035)
	(277 820)	493 053	934 455	481 418	-	1 631 106
Variable items						
Assets	1 750 238	-	-	-	-	1 750 238
Liabilities	(844 069)	-	-	-	-	(844 069)
	906 169	-	-	-	-	906 169
Net repricing gap	628 349	493 053	934 455	481 418	-	2 537 275

29.5 Sensitivity analysis

In managing interest rate risk, the Bank aims to reduce the impact of short-term fluctuations on it's earnings. Over the longer term however, permanent changes in interest rates would have an impact on earnings. It is estimated that as at 31 December 2019, a general increase of 1% in the interest rate would increase the Bank's monthly profit by R2 288 000 (2018: R2 114 000) and a general decrease of 1% in the interest rate would decrease the Bank's monthly profit by R2 288 000 (2018: R2 114 000). The sensitivity analysis assumes that all variables including capital amounts remain constant.

For the year ended 31 December 2019

29.6 Currency risk management

The Bank did not have any significant foreign currency exposure at 31 December 2019.

29.7 Financial assets and liabilities

	Fair Value through Profit and Loss	Amortised Costs	Total carrying amount
31 December 2019	R	R	R
Financial assets			
Cash and short-term funds	-	1 971 426 417	1 971 426 417
Investment securities	-	1 945 431 969	1 945 431 969
Derivative assets held for risk management	20 056 699	-	20 056 699
Advances	-	1 918 064 741	1 918 064 741
	20 056 699	5 834 923 127	5 854 979 826
Financial liabilities			
Deposits and loans from banks	-	(106 316 661)	(106 316 661)
Deposits from customers	-	(5 223 920 303)	(5 223 920 303)
Derivative liabilities held for risk management	(19 357 525)	-	(19 357 525)
	(19 357 525)	(5 330 236 964)	(5 349 594 489)

	Fair Value through Profit and Loss	Amortised Costs	Total carrying amount
31 December 2018	R	R	R
Financial assets			
Cash and short-term funds	-	2 314 825 769	2 314 825 769
Investment securities	-	1 272 301 299	1 272 301 299
Derivative assets held for risk management	7 787 157	-	7 787 157
Advances	-	1 714 259 158	1 714 259 158
	7 787 157	5 301 386 226	5 309 173 383
Financial liabilities			
Deposits and loans from banks	-	(86 994 547)	(86 994 547)
Deposits from customers	-	(4 769 197 197)	(4 769 197 197)
Derivative liabilities held for risk management	(7 317 774)	-	(7 317 774)
	(7 317 774)	(4 856 191 744)	(4 863 509 518)

- The fair value of non-trading derivatives is classed as a level 2 financial instrument in terms of the hierarchy requirements per IFRS 13.
- The fair value of advances and deposits cannot be reliably measured as they are unquoted.
- Effective interest rates on investment securities vary between 6.69% and 7.60%.

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 the fund has been compulsory since the incorporation of the Bank in November 1995.

31. RELATED PARTIES

31.1 Identity of related parties

- The holding company of HBZ Bank Limited - Habib Bank AG Zurich
- Fellow subsidiaries - Habib Bank Zurich Plc, Habib Metropolitan Bank Ltd, Habib Canadian Bank, HBZ Services FZ LLC and Habib Bank Zurich (Hong Kong) Ltd.
- The directors are listed in note 22.
- Key Management Personnel include every person that exercises general executive control over and management of the whole, or a significant portion, of the business and activities of the Bank; or regularly participates to a material degree in the exercise of general executive control over and management of the whole, or a significant portion, of the business and activities of the Bank.
- The bank has not identified any Key Management Personnel who are not Prescribed Officers or Directors.

	2019 R	2018 R
31.2 Material related party transactions		
Material transactions with the holding company and Directors		
Dividends paid to the holding company - see note 24	40 000 000	50 000 000
Fees for services rendered	39 881 413	42 328 639
Directors' remuneration - see note 22	7 018 941	6 315 763
Loans to directors and prescribed officers (balance outstanding)	526 996	450 561
- C dt Harvey	78 056	225 100
- H Zia	-	119 554
- Y Dockrat	-	105 907
- F Anwar	448 940	-
Interest earned on directors and prescribed officers loans	14 215	26 803
- C dt Harvey	9 315	17 852
- H Zia	-	14 982
- Y Dockrat	-	11 821
- F Anwar	4 900	-

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

Material transactions with the Habib group

	2019 R	2018 R
Receivables due from group companies:		
- Habib Bank AG Zurich, Zurich	116 500 311	4 425 881
- Habib Bank AG Zurich, United Kingdom	6 088 716	5 539 959
- Habib Bank Zurich (Hong Kong) Ltd., Hong Kong	4 672	4 669
- Habib Canadian Bank, Canada	20 375	14 706
- Habib Metropolitan Bank, Pakistan	374 703	524 111
	122 988 777	10 509 326

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

For the year ended 31 December 2019

	2019 R	2018 R
Payables due to group companies:		
- Habib Bank AG Zurich, Zurich	626 923	201 046
- Habib Bank Zurich Plc, United Kingdom	92 725 106	61 340 529
- Habib Bank AG Zurich, Nairobi (branch)	52 138	40 222
- Habib Bank AG Zurich, Deira Dubai (branch)	12 518 751	17 218 658
	105 922 918	78 800 455

These balances relate to short-term payables with no fixed terms of repayment and are included as part of total deposits and other accounts in note 14. The time accounts attract an interest charge linked to the overnight libor rate and the nostro accounts attract an interest charge based on the daily call rate.

	2019 R	2018 R
The highest outstanding balance for these payables during the financial year were:		
- Habib Bank AG Zurich, Zurich	20 162 282	94 591 724
- Habib Bank Zurich Plc, United Kingdom	61 300 000	61 191 499
- Habib Bank AG Zurich, Nairobi (branch)	300 000	535 750
- Habib Bank AG Zurich, Deira Dubai (branch)	44 000 000	54 600 201

	2019 R	2018 R
Interest and related transaction charges paid to group companies:		
- Habib Bank AG Zurich, Zurich	-	83 873
- Habib Bank Zurich Plc, United Kingdom	5 366 839	2 442
- Habib Bank AG Zurich, Deira Dubai (branch)	745 657	592 829
	6 112 496	679 144

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 risks ALCO is responsible for ensuring the effective management of capital risk throughout the Bank. Specific levels of authority and responsibility in relation to capital risk management has been assigned to the appropriate committees.

Capital risk is measured and monitored using limits set in relation to capital (Common Equity Tier 1 (CET1); Tier 1; and Total Capital) and leverage, all of which are calculated in accordance with relevant regulatory requirements.

The Bank's regulatory capital consists of the sum of the following elements:
- Common Equity Tier 1 (CET1) capital which includes ordinary share capital, related share premium, retained earnings, reserves, intangible assets and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier 2 capital, which includes stage i and stage ii ECLs.

	2019	2018
	R '000	R '000
Credit risk exposure	2 483 634	2 475 051
Counterparty credit risk exposure	28 875	8 904
Operational risk exposure	484 465	441 436
Market risk exposure	7 674	4 765
Other risk exposure	57 936	26 713
Risk weighted exposure in relation to deferred tax assets	14 295	11 003
Aggregate risk weighted exposure	3 076 879	2 967 872
Regulatory capital requirement - 11.750% (2018: 11.375%)	361 533	337 595
Qualifying capital and reserve funds		
Tier I		
Ordinary share capital	10 000	10 000
Share premium	40 000	40 000
General reserve	366 617	366 617
Less: Prescribed deductions against capital and reserve funds	(1 137)	(1 681)
Total Tier 1 Capital	415 480	414 936
Tier II		
General allowance for ECL	17 696	12 751
Total qualifying capital and reserve funds	433 176	427 687
Capital Adequacy Ratio		
Qualifying capital and reserve funds as a percentage of aggregate risk weighted exposure	14,1%	14,4%

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.

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.

For the year ended 31 December 2019

- 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 discounted cash flow models, comparison with similar instruments for which observable market prices exist, and other valuation models. These valuation techniques use as their basis independently sourced market parameters, such as interest rate yield curves, and 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.

The Bank holds complex financial instruments, such as structured OTC derivatives, not quoted in active markets . The fair value of these instruments is determined using internally generated valuation models, which are developed from generally accepted valuation models. The majority of the significant inputs into these models may not be observable in the market, and may be derived from market prices or rates or estimated based on assumptions. The selection of the appropriate valuation model, as well as the determination of key inputs used such as the expected future cash flows on the financial instrument, the probability of counterparty default and the appropriate discount rate to be used, require management judgement and estimation.

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

34. GOING CONCERN

The existence of Coronavirus (COVID-19) in South Africa was confirmed in early March 2020 followed by the President's announcement that this is a national disaster, causing disruption to economic activity.

Considering the above, the Bank re-assessed the appropriateness of the going concern assumption in the preparation of these financial statements. This assessment included the impact of the risks resulting from this pandemic as well as the financial forecasts for the year ahead.

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

35. EVENTS AFTER THE REPORTING PERIOD

Dividend and capital appropriation

On 26 March 2020 the board declared a dividend of R45 million and approved an appropriation to primary capital and reserve funds of R82 million.

Covid-19 pandemic

Subsequent to year end, the Coronavirus pandemic has had a significant negative impact on the South African and global economies. The Bank initiated and implemented extensive crisis management, along with business continuity plans that leverage several components. Some of which include, communication plans, employee wellness initiatives and telecommuting. The Bank considers this pandemic to be a non-adjusting event after the reporting date and continues to monitor its impact on the business.

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 2019 and the date of authorisation of these financial statements.

INTERNATIONAL NETWORK SUMMARY

1. UNITED ARAB EMIRATES	Habib Bank AG Zurich	**8 Branches**
2. UNITED KINGDOM	Habib Bank AG Zurich	**8 Branches**
3. KENYA	Habib Bank AG Zurich	**4 Branches**
4. SWITZERLAND	Habib Bank AG Zurich	**1 Branch**
5. UNITED ARAB EMIRATES	HBZ Services FZ LLC	**1 Branch**
6. PAKISTAN	Habib Metropolitan Bank	**398 Branches**
7. SOUTH AFRICA	HBZ Bank Ltd	**10 Branches**
8. CANADA	Habib Canadian Bank	**3 Branches**
9. HONG KONG	HBZ Finance Ltd	**5 Branches**
10. BANGLADESH	Habib Bank AG Zurich	**Representative Office**

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