HBZ Bank Limited

HBZ Bank Limited

(A subsidiary of Habib Bank AG Zurich)

South Africa

Bi-Annual Public Disclosure
June 2023

in terms of Banks Act, Regulation 43

HBZ Bank Limited

1 BASIS OF COMPILATION

The following information is compiled in terms of Regulation 43 relating to banks, issued under Section 90 of the Banks Act, No 94 of 1990 (as amended) ("the Regulations"), which incorporates the Basel Pillar III requirements on market discipline.

All disclosures presented below are consistent with those disclosed in terms of International Financial Reporting Standards ("IFRS"), unless otherwise stated. In the main, differences between IFRS and information disclosed in terms of the Regulations relate to the definition of capital and the calculation and measurement thereof.

These disclosures have been prepared in compliance with the Bank's disclosure policy.

2 SCOPE OF REPORTING

This report covers the bi-annual results of HBZ Bank Limited for the perod ended 30 June 2023.

HBZ Bank Limited is a registered bank that specialises in commercial banking and trade finance and is a wholly owned subsidiary of Habib Bank AG Zurich, which is incorporated in Switzerland. HBZ Bank Limited does not have any subsidiaries or a bank-controlling company in South Africa.

3 KEY PRUDENTIAL INFORMATION

3.1 Overview of risk management, key prudential metrics

The Bank's key prudential metrics relating to regulatory capital, leverage ratio, liquidity ratios and risk weighted assets as at 30 June 2023 are disclosed below.

LINE NO.	AVAILABLE CAPITAL (AMOUNTS) R'000	30 Jun 23	31 Mar 23	31 Dec 22	30 Sep 22	30 Jun 22
1	Common Equity Tier 1 (CET1)	592 961	534 230	534 190	534 447	534 447
1a	Fully loaded ECL accounting model	592 961	534 230	534 190	534 447	534 447
2	Tier 1	592 961	534 230	534 190	534 122	534 044
2a	Fully loaded accounting model Tier 1	592 961	534 230	534 190	534 122	534 044
3	Total capital	598 870	541 774	542 442	551 789	548 324
3a	Fully loaded ECL accounting model total capital	598 870	541 774	542 442	551 789	548 324
	RISK-WEIGHTED ASSETS (AMOUNTS) R'000					
4	Total risk-weighted assets (RWA)	3 524 308	3 656 868	3 487 356	3 580 091	3 413 565
4	Total risk-weighted assets (pre-floor)	3 524 308	3 656 868	3 487 356	3 580 091	3 413 565
	RISK-BASED CAPITAL RATIOS AS A PERCENTAGE OF RWA					
5	CET1 ratio (%)	16,82%	14,61%	15,32%	14,93%	15,66%
5a	Fully loaded ECL accounting model CET1 (%)	16,82%	14,61%	15,32%	14,93%	15,66%
5b	CET1 ration (%)(pre-floor)	16,82%	14,61%	15,32%	14,93%	15,66%
6	Tier 1 ratio (%)	16,82%	14,61%	15,32%	14,92%	15,64%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	16,82%	14,61%	15,32%	14,92%	15,64%
6b	Tier 1 ratio (%)(pre-floor)	16,82%	14,61%	15,32%	14,92%	15,64%
7	Total capital ratio (%)	16,99%	14,82%	15,55%	15,41%	16,06%
7a	Fully loaded ECL accounting model total capital ratio (%)	16,99%	14,82%	15,55%	15,41%	16,06%
7b	Tier capital ratio (%)(pre-floor)	16,99%	14,82%	15,55%	15,41%	16,06%

3.1 Overview of risk management, key prudential metrics (continued)

		30 Jun 23	31 Mar 23	31 Dec 22	30 Sep 22	30 Jun 22
	ADDITIONAL CET1 BUFFER REQUIREMENTS AS A PERCENTAGE OF RWA					
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2,50%	2,50%	2,50%	2,50%	2,50%
9	Countercyclical buffer requirement (%)	-	-	-	-	-
10	Bank G-Sib and/orD-SIB additional requirements (%)	-	-	-	-	-
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9+ row 10)	2,50%	2,50%	2,50%	2,50%	2,50%
12	CET1 available after meeting the bank's minimum capital requirements (%)	12,32%	10,11%	10,82%	9,93%	10,66%
	BASEL III LEVERAGE RATIO					
13	Total Basel III leverage ratio measure	8 401 900	8 580 627	8 563 429	8 185 298	7 749 019
14	Basel III leverage ratio (%) (including the impact of any applicable temporary exemption of central bank reserves)	7%	6%	6%	7%	7%
14a	Fully loaded ECL accounting model Basel III leverage ratio (including the impact of any applicable temporary exemption of central bank reserves) (%)	7%	6%	6%	7%	7%
14b	Basel III leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	7%	6%	6%	7%	7%
14c	Basel III leverage ratio (%) (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values for SFT assets	7%	6%	6%	7%	7%
14d	Basel III leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values for SFT assets	7%	6%	6%	7%	7%
	LIQUIDITY COVERAGE RATIO					
15	Total High Quality Liquid Assets (HQLA)	4 555 882	4 065 779	3 868 219	3 484 407	3 569 868
16	Total net cash outflow	401 607	343 713	342 691	332 801	283 136
17	LCR ratio (%)	1 134%	1 183%	1 129%	1 047%	1 261%
	NET STABLE FUNDING RATIO					
18	Total available stable funding	5 641 554	5 844 870	5 942 061	5 726 112	5 533 369
19	Total required stable funding	2 086 786	2 070 206	2 280 800	2 256 204	2 028 003
20	NSFR ratio (%)	270%	282%	261%	254%	273%

HBZ Bank Limited did not apply a transitional arrangement for expected credit losses and thus the fully loaded ECL accounting model will not differ from regulatory capital.

3.2 Overview of Risk Management Approach and Risk Weighted Assets (RWA)

HBZ Bank Limited views an effective and robust Risk Management Framework as a prerequisite to its success and stability. The Bank considers effective risk management as fundamental to its ability to generate sustainable profits, safeguard its reputation, create a competitive edge and achieve an optimal risk-reward profile.

The Bank has a sound risk culture that is aligned to its strategy and risk appetite and is supported by an enabling Enterprise-wide Risk Management Framework that is robust and flexible to respond to the dynamic external operating environmental challenges.

Risk Assessment

The board of directors is ultimately accountable for the management of risk and 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 Bank's Risk Control Function. 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 internal controls.

For a more detailed overview of Risk Management, please refer to the Risk Management section included in the annual financial statements available at www.hbzbank.co.za

The following table provides an overview of the risk weighted asset requirements at the respective reporting date.

Overview of Risk Management Approach and Risk Weighted Assets (RWA)

		RWA		Minimum capital requirements
		Jun 23 R'000	Mar 23 R'000	Jun 23 R'000
1	Credit risk (excluding counterparty credit risk)	2 713 278	2 860 397	318 810
2	Of which: standardised approach (SA)	2 713 278	2 860 397	318 810
3	Of which: foundation internal-ratings based (F-IRB) approach	-	-	-
4	Of which: supervisory slotting approach	-	-	-
5	Of which: advanced internal-ratings based (A-IRB) approach	-	-	-
6	Counterparty credit risk (CCR)	4 852	5 657	570
7	Of which: standardised approach for counterparty credit risk	4 852	5 657	570
8	Of which: IMM	-	-	-
9	Of which: other CCR	-	-	-
10	Credit Valuation Adjustment (CVA)	3 123	5 477	367
11	Equity positions under the simple risk weight approach and the internal model method during the five-year linear phase - in period	-	-	-
12	Equity investments in funds - look through approach	-	-	-
13	Equity investments in funds - mandate based approach	-	-	-
14	Equity investments in funds - full back approach	-	-	-
15	Settlement risk	-	-	-
16	Securitisation exposures in the banking book	-	-	-
17	Of which: securitisation IRB approach (SEC-IRBA)	-	-	-
18	Of which: securitisation external - ratings based approach (SEC-ERBA), including internal assessment approach (IAA)	-	-	-
19	Of which: securitisation standardised approach (SEC-SA)	-	-	-
20	Market risk	9 158	6 804	1 076
21	Of which: standardised approach (SA)	9 158	6 804	1 076
22	Of which: internal model approach (IMA)	-	-	-
23	Capital Charge for switch between trading book and banking book	-	-	-
24	Operational risk	571 179	544 054	67 114
25	Amounts below the thresholds for deduction (subject to 250% risk weight)	222 718	234 479	26 169

3.2 Overview of Risk Management Approach and Risk Weighted Assets (RWA) (continued)

Overview of Risk Management Approach and Risk Weighted Assets (RWA) (continued)

		RWA		Minimum capital requirements
		Jun 23 R'000	Mar 23 R'000	Jun 23 R'000
26	Aggregate capital floor applied			
27	Floor adjustment (before application of transitional cap)			
28	Floor adjustment (after application of transitional cap)			
29	**Total (1+6+10+11+12+13+14+15+16+20+23+24+25+28)**	**3 524 308**	**3 656 868**	**414 106**

4 CREDIT RISK

This section outlines the regulatory view of the risk associated with advances which are reflected on the Statement of Financial Position of HBZ Bank Limited. The Bank primarily advances funds to customers in the form of corporate loans, mortgage loans, overdraft facilities and trade finance loans.

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 have in place board approved committees that ensures both executive and non-executive oversight to approve, monitor and manage credit risk.

For an overview of credit risk management as well as related qualitative information, please refer to the Risk Management section as well as note 29 of the annual financial statements, available at www.hbzbank.co.za.

The Bank has adopted the standardised approach to determine the capital requirement for credit risk on all portfolios.

Qualitative disclosure requirements related to credit risk mitigation techniques

Credit risk mitigation (CRM) relates to the reduction of a bank's credit risk exposure by obtaining, for example, eligible collateral or guarantees or entering into a netting agreement with a client that maintains both debit and credit balances with the bank.

HBZ Bank applies the allowed CRM techniques as a result of the eligible collateral and guarantees that are held as security over certain exposures.

4.1 Credit quality of assets

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 off-balance sheet exposures, the amounts in the table represent the amounts committed or guaranteed.

	a	b	c	d
	Gross carrying values of:			
	Defaulted Exposures	Non-defaulted Exposures	Allowances/ Impairments	Net values (a + b - c)
Advances	93 677	2 095 836	(42 680)	2 146 833
Investment Securities	-	4 295 996	(1 993)	4 294 003
Cash and Cash Equivalents	-	1 777 682	(725)	1 776 957
Off-balance sheet exposures	-	445 969	(100)	445 869
Total	**93 677**	**8 615 483**	**(45 498)**	**8 663 662**

Refer to the Risk Management Review as well as notes 5, 6 and 29 of the annual financial statements for additional disclosure on the credit quality of assets.

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 have 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 outstanding's.

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

4.2 Changes in stock of defaulted advances

Defaulted advances at end of the previous reporting period	**108 713**
Movements during the current year	(15 036)
Defaulted advances at end of the reporting period	**93 677**

4.3 Breakdown of gross credit exposure by geographic areas

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

Concentration by location	Gross credit exposures
America	146 274
Europe	58 852
Asia	363
South Africa	7 911 142
Other African countries	-
Total	**8 116 631**

4.4 Breakdown of gross customer advances by industry sector

Concentration by industry	Gross credit exposures
Finance & insurance	73 377
Manufacturing	423 980
Transportation	94 543
Commercial real estate	698 238
Retailers & wholesalers	752 055
Other	158 452
Total	**2 200 645**

4.5 Impaired and past due advances by geographical area

	South Africa Gross amount	Other Gross amount
Individually impaired advances	93 677	-
Impairments for credit losses		
Expected credit loss (Stage 1)	3 096	-
Expected credit loss (Stage 2)	194	-
Expected credit loss (Stage 3)	13 975	-
Total	110 942	-

4.6 Credit risk mitigation techniques

	a	b	c	d	e
	Exposures Unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
Advances	80 733	2 029 370	1 932 135	97 235	
Investment securities	4 295 996	-	-	-	
Cash and cash equivalents	1 777 682	-	-	-	
Total	6 154 411	2 029 370	1 932 135	97 235	-
Of which defaulted	-	-	93 677	-	-

4.7 Aggregate credit exposure after set off but before and after credit mitigation techniques

	Exposures before CCF and CRM		Exposures post CRM		RWA and RWA density	
Asset classes	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
Sovereign and their central banks	4 294 003	-	4 613 615	-	-	-
Non-central government public sector entities	-	-	-	-	-	-
Multilateral development banks	-	-	-	-	-	-
Banks	1 176 699	-	1 280 411	-	1 102 370	86%
Securities firms	-	-	-	-	-	-
Corporates	1 573 597	445 423	1 601 612		1 072 967	67%
Retail portfolios	527 316	-	527 316	-	449 116	85%
Equity	-	-	-	-	-	-
Past-due loans	93 677	-	93 677	-	93 677	100%
Higher-risk categories	-	-	-	-	-	-
Other assets	-	-	-	-	-	-
Total	**7 665 292**	**445 423**	**8 116 361**	**-**	**2 718 130**	

Policies and processes for collateral valuation and management

The Bank holds collateral and other credit enhancements against 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 30 June 2023, the net carrying amount of advances to customers in default amounted to R93.7 million (2022: R 119.7 million) and the market value of identifiable collateral (mainly fixed properties) held against those loans and advances amounted to R516.4 million (2022: R 519.7 million).

Further disclosure on the collateral valuation and management is included in Note 29 of the annual financial statements that are available on the Banks website (www.hbzbank.co.za).

4.8 Exposures by asset class and risk weights

Asset classes by Risk weights	0% - 5%	15% - 20%	50% - 75%	100%	150%	Total credit exposures amount (post CCF and post-CRM)
Sovereign and their central banks	4 613 615	-	-	-	-	4 613 615
Non-central government public sector entities	-	-	-	-	-	-
Multilateral development banks	-	-	-	-	-	-
Banks	-	426 770	853 641	-	-	1 280 411
Securities firms	-	-	-	-	-	-
Corporates	-	-	-	1 601 612	-	1 601 612
Retail portfolios	-	-	40 428	486 888	-	527 316
Equity	-	-	-	-	-	-
Past-due loans	-	-	-	85 879	7 798	93 677
Higher-risk categories	-	-	-	-	-	-
Other assets	-	-	-	-	-	-
Total	4 613 615	426 770	894 069	2 174 379	7 798	8 116 631

4.9 Credit risk under standardised approach

The Bank has consistently utilised ratings issued only by Moody's. During the reporting period, Moody's has upgraded the outlook in South Africa from 'negative' to 'stable' with no export credit agencies being utilised. Interbank placements are the only asset class for which Moody's ratings are utilised. The Bank obtains the latest bank credit ratings as issued by Moody's and applies the provisions of Regulation 23 table 8 to arrive at risk weightings. Regulation 23, table 8 is utilised to arrive at the mapping of the alphanumeric scale to the risk weightings.

5 LIQUIDITY RISK

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

The Bank controls liquidity at source, ensuring a wide deposit base, simplifying the product range and centralising the Treasury function. The Bank directly matches all major deposits with inter-bank placements and keeps a large proportion of the funds short-term to buffer against unexpected cash flow requirements. This is enhanced through an Asset and Liability Committee (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 on a daily basis.

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 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.

In terms of Regulation 43(1)(e)(iii)(F) of the Regulations relating to Banks, minimum disclosure on the Liquidity Coverage Ratio of the Bank is required on a quarterly basis. This announcement meets the on-going reporting requirement for quarterly disclosure in terms of Pillar 3 of the Basel III capital accord.

5.1 Liquidity Coverage Ratio

LINE NO.		Total unweighted value	Total weighted value
	HIGH-QUALITY LIQUID ASSETS		
1	Total HQLA	4 555 882	4 555 882
	CASH OUTFLOWS		
2	**Retail deposits and deposits from small business customers, of which:**	1 860 020	186 002
3	Stable deposits	-	-
4	Less stable deposits	1 860 020	186 002
5	**Unsecured wholesale funding, of which:**	4 252 058	1 275 002
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-
7	Non-operational deposits (all counterparties)	4 252 058	1 275 002
8	Unsecured debt	-	-
9	Secured wholesale funding	-	-
10	**Additional requirements, of which:**	445 423	30 693
11	Outflows related to derivative exposures and other collateral requirements	-	-
12	Outflows related to loss of funding on debt products	-	-
13	Credit and liquidity facilities	445 423	30 693
14	Other contractual funding obligations	-	-
15	Other contingent funding obligations	-	-
16	TOTAL CASH OUTFLOWS	6 557 501	1 491 697
	CASH INFLOWS		
17	Secured lending (e.g. reverse repos)	-	-
18	Inflows from fully performing exposures	1 460 381	1 090 090
19	Other cash inflows	-	-
20	TOTAL CASH INFLOWS	1 460 381	1 090 090

		Total adjusted value
21	**Total HQLA**	**4 555 882**
22	**Total net cash outflows**	**401 607**
23	**Liquidity Coverage Ratio (%)**	**1 134%**

5.2 Net Stable Funding Ratio (NSFR)

		Unweighted value by residual maturity				Weighted value
		No maturity	< 6 months	6 months to < 1 year	≥ 1 year	
LINE NO.	AVAILABLE STABLE FUNDING (ASF) ITEM					
1	Capital:	593 138	-	-	-	593 138
2	Regulatory capital	593 138	-	-	-	593 138
3	Other capital instruments	-	-	-	-	-
4	Retail deposits and deposits from small business customers:	-	3 323 030	-	-	2 990 727
5	Stable deposits	-	-	-	-	-
6	Less stable deposits	-	3 323 030	-	-	2 990 727
7	Wholesale funding:	-	3 548 560	566 615	101	2 057 689
8	Operational deposits	-	-	-	-	-
9	Non-operational deposits and funding - Corporates	-	3 548 560	566 615	101	2 057 689
10	Liabilities with matching interdependent assets	-	-	-	-	-
11	Other liabilities:	-	291 526	-	8 037	-
12	Funding from other legal entities	-	127 466	-	-	-
13	NSFR derivative liabilities	-	-	-	8 037	-
14	All other liabilities and equity not included in the above categories	-	164 060	-	-	-
15	**Total ASF**	**593 138**	**7 163 116**	**566 615**	**8 138**	**5 641 554**
	REQUIRED STABLE FUNDING (RSF) ITEM					
16	Total NSFR high-quality liquid assets (HQLA)		600 983			8 093
17	Deposits held at other financial institutions for operational purposes	-	834 399	342 300	-	296 310
18	**Performing loans and securities:**	**-**	**4 364 831**	**1 034 057**	**945 453**	**767 143**
19	Performing loans to financial institutions secured by Level 1 HQLA	-	-	-	-	-
20	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	-	3 419 944	874 059	-	214 700
21	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	-	944 887	159 998	-	552 443
22	With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk	-	-	-	-	-
23	Performing residential mortgages, of which:	-	-	-	-	-
24	With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk	-	-	-	945 453	803 635
25	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	-	-	-
26	Assets with matching interdependent liabilities	-	-	-	-	-

27	**Other assets:**	**-**	**23 224**	**-**	**185 760**	**189 335**
28	Physical traded commodities, including gold	-	23 224	-	-	11 612
29	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs	-	-	-	-	-
30	NSFR derivative assets	-	-	-	8 528	491
31	NSFR derivative liabilities before deduction of variation margin posted	-	-	-	-	-
32	All other assets not included in the above categories	-	-	-	177 232	177 232
33	Off-balance sheet items	-	-	-	445 969	22 271
34	**Total RSF**					**2 086 786**
35	**Net Stable Funding Ratio (%)**					**270%**

6 CREDIT VALUE ADJUSTMENT (CVA) DISCLOSURE

Risk Management objectives and policies

The Bank has policies in place to detail its processes relating to risk management. The goal is to maximise the Bank's risk-adjusted return by maintaining risk exposures within acceptable parameters.

Major objectives of credit risk management are to put in place sound credit approval processes for informed risk-taking and procedures for effective risk identification, monitoring and measurement.

Derivative financial instruments

Derivatives are classified as financial assets when their fair value is positive, or as financial liabilities when their fair value is negative.

Measurement

There are two bases of measurement, namely amortised cost and fair value.

- Initial recognition and measurement
  Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual terms of the instrument.
- Amortised cost and effective interest rate
  The amortised cost of a financial instrument is the amount at which the financial instrument is measured on initial recognition.

Collateral

The Bank may require collateral in respect of the credit risk present in derivative transactions. The amount of credit risk is principally the positive fair value of the contract. Collateral may be in the form of cash or in the form of a lien over a client's assets, entitling the Bank to make a claim for current and future liabilities.

Commitments under derivative instruments

The Bank enters into forward exchange contracts in the normal course of business.

Management of interest rate risk

Derivative financial instruments are modelled and reported based on their contractual repricing or maturity characteristics.

Management of market risk

Market risk is governed by board-approved policies that cover management, identification, measurement and monitoring.

Market risk limits, including value at risk and stress trigger limits, are approved at board level and reviewed periodically, but at least annually.

Management/Governance Structures

The Bank has governance structures in place that support risk-based decision making and oversight. The Board has delegated the oversight of risk management to its Board Committees (Capital Adequacy & Risk Committee and Audit Committee).

Management governance structures are in place (Executive committee and Risk management committee) reporting to the Board Committees on a quarterly basis. The lines of responsibilities are clearly defined and supported by the combined assurance model that defines the roles, responsibilities and accountability for the combined assurance process.

Standardized Approach to CVA

HBZ only executes the plain vanilla FX Forward transactions with the market counterparties for the purpose of covering the open exposure against client deals and to manage the excess liquidity. Considering the nature of transactions, the Bank has chosen the prescribed Standardized Approach to calculate the capital charge against CVA.

Calculation Criteria for SA-CVA

- Over the counter (OTC) Derivatives are executed under the International Swaps and Derivatives Association (ISDA) Agreement with the counterparties
- There is no margin call below the agreed minimum transfer amount (MTA) as per Credit Approved Annexure (CSA) being part of ISDA Agreement with counterparties
- No Collateral to be held below the agreed MTA
- No netting agreement is in place with the counterparties
- No Contracts are executed more than 1 year of maturity
- HBZ do not hedge the risk due to low materiality of exposure and higher hedging cost.

6.1 The standardised approach for CVA (SA-CVA)

		SA-CVA RWA	Number of counterparties
1	Interest rate risk		
2	Foreign exchange risk		
3	Reference credit spread risk		
4	Equity risk		
5	Commodity risk		
6	Counterparty credit spread risk	3 123	
7	Total (sum of rows 1 to 6)	3 123	

6.2 RWA flow statements of CVA risk exposures under SA-CVA

1	Total RWA for CVA at previous quarter end	5 477
2	Total RWA for CVA at end of reporting period	3 123

7 COUNTERPARTY CREDIT RISK (CCR)

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

The Bank pro-actively manages this risk by:

- Ensuring Board approved limits are in place for interbank 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.

7.1 Analysis of counterparty credit risk (CCR) exposure by approach

	Replacement cost	Potential future exposure	EEPE	Alpha used for computing regulatory EAD	EAD post-CRM	RWA
SA-CCR (for derivatives)	2 221	5 916			-	7 975
Internal Model Method (for derivatives and SFTs)			-	-	-	-
Simple Approach for credit risk mitigation (for SFTs)					-	-
Comprehensive Approach for credit risk mitigation (for SFTs)					-	-
VaR for SFTs					-	-
Total						**7 975**

7.2 Credit valuation adjustment (CVA) charge

Credit valuation adjustment is the difference between the risk-free portfolio value and the true portfolio value considering the possibility of counterparty default. CVA is the market value of counterparty credit risk. The RWA of the CVA is added to the risk-weighted amount for counterparty credit exposure.

	EAD post-CRM	RWA
Total portfolios subject to the Advanced CVA capital charge	-	-
(i) VaR component (including the 3 x multiplier)	-	-
(ii) Stressed VaR component (including the 3 x multiplier)	-	-
All portfolios subject to the Standardised CVA capital charge	-	7 975
Total subject to the CVA capital charge	**-**	**7 975**

7.3 CCR exposures by regulatory portfolios and risk weights

Regulatory portfolios by Risk weights	0% - 5%	15% -20%	50% - 75%	100%	150%	Total credit exposures amount
Sovereigns	-	-	-	-	-	-
Non-central government public sector entities (PSEs)	-	-	-	-	-	-
Multilateral development banks (MDBs)	-	-	-	-	-	-
Banks	-	-	1 635	3 217	-	4 852
Securities firms	-	-	-	-	-	-
Corporates	-	-	-	-	-	-
Regulatory retail portfolios	-	-	-	-	-	-
Other assets	-	-	-	-	-	-
Total	**-**	**-**	**1 635**	**3 217**	**-**	**4 852**

HBZ Bank Limited

8 CAPITAL MANAGEMENT

In line with the requirements of the Bank Supervision Department of the South African Reserve Bank, and effective from 1 January 2019, the Bank has implemented a countercyclical buffer of 0% and a capital conservation buffer of 2.5%.

The Bank has documented its Internal Capital Adequacy Assessment Process ("ICAAP"), which was reviewed by the Board of Directors. Evaluations were made of the various direct, indirect and associated risks faced by the Bank and the related mitigating controls that are in place.

The disclosures of the composition of capital and main capital features for the Bank, required per Directive 3 of 2015, issued in terms of section 6(6) of the Banks Act of 1990, are set out in CC1 and CC2, respectively.

8.1 Composition of Capital Disclosure Template

Basel III common disclosure template to be used during transition of regulatory adjustments .

LINE NO.	COMMON EQUITY TIER 1 CAPITAL: INSTRUMENTS AND RESERVES		AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	50 000	
2	Retained earnings	-	
3	Accumulated other comprehensive income (and other reserves)	543 138	
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	-	
	Public sector capital injections grandfathered until 1 January 2018	-	
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-	-
6	**Common Equity Tier 1 capital before regulatory adjustments**	**593 138**	
	COMMON EQUITY TIER 1 CAPITAL: REGULATORY ADJUSTMENTS		
7	Prudential valuation adjustments	-	-
8	Goodwill (net of related tax liabilty)	-	-
9	Other intangibles other than mortgage-servicing rights (net of related tax liability)	(177)	-
10	Deferred tax assets that rely on future profitabilty excluding those arising from temporary differences (net of related tax liability)	-	-
11	Cash flow hedge reserve	-	-
12	Shortfall of provisions to expected losses	-	-
13	Securitisation gain on sale	-	-
14	Gains and losses due to changes in own credit risk on fair valued liabilities	-	-
15	Defined-benefit pension find net assets	-	-
16	Investments in own shares (if not already netted off in paid-in capital on reported balance sheet)	-	-
17	Reciprocal cross-holdings in common equity	-	-
18	Investments in capital of banking, financail and insurance entities that are outside of the scope of regulatory consolidation, net of eligible short positions, where bank does not own more than 10% of the issued share capital (amount aove 10% threshold)	-	-
19	Significant investments in common stock of banking, finacila and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-	-
20	Mortgage servicing rights (amount above 10% threshold)	-	-

LINE NO.	ADDITIONAL TIER 1 CAPITAL: REGULATORY ADJUSTMENTS (CONTINUED)		AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability	-	-
22	Amount exceeding the 15% threshold	-	-
23	of which: significant investments in the common stock of financials	-	-
24	of which: mortgage servicing rights	-	-
25	of which: deferred tax assets arising from temporary differences	-	-
26	National specific regulatory adjustments	-	-
	REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	-	
	OF WHICH:	-	
	OF WHICH:	-	
27	Regulatory adjustments applied to common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	
28	**Total regulatory adjustments to common equity Tier 1**	**(177)**	
29	**Common Equity Tier 1 capital (CET1)**	**592 961**	
	ADDITIONAL TIER 1 CAPITAL : INSTRUMENTS		
30	Directly issued quilifying Additional Tier 1 instruments plus related stock surplus	-	
31	of which: classified as equity under applicable accounting standards	-	
32	of which: classified as liabilities under applicable accounting standards	-	
33	Directly issued capital instruments subject to phase out from Additional Tier 1	-	
34	Additional Teir 1 instruments (and CET1 instruments not included in line 5) issued by susbsidiaries and held by third parties (amount allowed in group AT1)	-	
35	of which: instruments issued by sybsidiaries subject to phase out	-	
36	**Additonal Tier 1 capital before regulatory adjusments**	-	
	ADDITIONAL TIER 1 CAPITAL : INSTRUMENTS		
37	Investment in own Additional Tier a instruments	-	-
38	Reciprocal cross-holdings in Additional Tier 1 instruments	-	-
39	Investment in capital of banking, financail and insurance entities that are outside the scope of the regulatory consolidation net of eligible short positions, where the bank does not own moree than 10% of the issued common share capital of the entity (amount above 10% threshold)	-	-
40	Significant investments in the capital of banking, financail and insurance entiteis that are outside of the scope of regulatroy consolidation (net of eligible short positions)	-	-
41	National specific regulatory adjustments	-	-
	REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 1 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	-	
	OF WHICH:	-	
	OF WHICH:	-	
42	Regulatory adjustments applied to Additional Tier 1 due to insufficient Tier 2 to cover deductions	-	
43	**Total regulatory adjustments to Additional Tier 1 capital**	**-**	
44	**Additional Tier 1 (AT1)**	**-**	
45	**Tier 1 (T1 = CET1 + AT1)**	**592 961**	

LINE NO.	TIER 2 CAPITAL AND PROVISONS		AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	-	
47	Directly issued capital instruments subject to phase out from Tier 2	-	
48	Tier 2 instruments (and CET1 and AT1 instruements not included in lines 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-	
49	of which: instruments issued by subsidiaries subject to phase out	-	
50	Provisions	5 909	
51	**Tier 2 capital before regulatory adjustments**	**5 909**	
	TIER 2 CAPITAL : REGULATORY ADJUSTMENTS		
52	Investments in own Tier 2 instruments	-	-
53	Reciprocal cross-holdings in Tier 2 instruments	-	-
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of the regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-	-
55	Significant investments in the capital banking, financail and insurance entities that are outside the scope pf regulatory consolidation (net of eligibe short positions)	-	-
56	National specific reulatory adjustments	-	-
	REGULATORY ADJUSTMENTS APPLIED TO COMMON EQUITY TIER 2 IN RESPECT OF AMOUNTS SUBJECT TO PRE-BASEL III TREATMENT	-	-
	OF WHICH:	-	
	OF WHICH:	-	
57	**Total regulatory adjustments to Tier 2 capital**	**-**	
58	**Tier 2 capital (T2)**	**5 909**	
59	**Total capital (TC = T1 + T2)**	**598 870**	
	RISK WEIGHTED ASSETS IN RESPECT OF AMOUNTS SUBJECT TO PRE BASEL III TREATMENT	-	
	OF WHICH:	-	
	OF WHICH:	-	
60	**Total risk weighted assets**	**3 524 308**	

LINE NO.	CAPITAL RATIOS	
61	Common Equity Tier 1 (as a percentage of risk weighted assets)	16,82%
62	Tier 1 (as a percentage of risk weighted assets)	16,82%
63	Total capital (as a percentage of risk weighted assets)	16,99%
64	Institution specific buffer requirement (minimum CET 1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB buffer requirement, expressed as a percentage of risk weighted assets)	-
65	of which: capital conservation buffer requirement	2,50%
66	of which: bank specific countercyclical buffer requirement	-
67	of which: G-SIB buffer requirement	-
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	12,32%
	NATIONAL MINIMA (IF DIFFERENT FROM BASEL 3)	
69	National Common Equity Tier 1 minimum ratio (if different from Basel 3 minimum)	5,00%
70	National Tier 1 minimum ratio	6,75%
71	National total capital minimum ratio	9,00%
	AMOUNTS BELOW THE THRESHOLD FOR DEDUCTIONS (BEFORE RISK WEIGHTING)	
72	Non-significant investments in the capital of other financials	-
73	Significant investments in the common stock of financials	-
74	Mortgage servicing rights (net of related tax liability)	-
75	Deferred tax assets arising from temporary differences (net of related tax liability)	-
	APPLICABLE CAPS ON THE INCLUSION OF PROVISIONS IN TIER 2	
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	5 909
77	Cap on inclusion of provisions in Tier 2 under standardised approach	-
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	-
	CAPITAL INSTRUMENTS SUBJECT TO PHASE-OUT ARRANGEMENTS (ONLY APPLICABLE BETWEEN 1 JAN 2018 AND 1 JAN 2022)	
80	Current cap on CET1 instruments subjects to phase out arrangements	-
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-
82	Current cap on AT1 instruments subject to phase out arrangements	-
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-
84	Current cap on T2 instruments subject to phase out arrangements	-
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-

8.2 CC2 - Reconciliation of regulatory capital to balance sheet

	a	b
	Balance sheet as in published financial statements	Under regulatory scope of consolidation
	As at period-end 31 Dec 22	As at period-end 31 Dec 22
	R'000	R'000
Assets		
Cash and cash equivalents	2 194 982	2 194 982
Investment securities	4 010 493	4 010 493
Other assets	19 709	19 709
Derivative assets held for risk management	9 123	9 123
Loans and advances	2 127 368	2 127 368
Property and equipment	61 731	61 731
Investment property	8 314	8 314
Right-of-use assets	19 468	19 468
Deferred tax assets	7 889	7 889
Total assets	**8 459 077**	**8 459 077**
Liabilities		
Deposits and borrowings	7 746 543	7 746 543
Provisions	6 828	6 828
Other liabilities	21 724	21 724
Derivative liabilities held for risk management	8 454	8 454
Lease liabilities	22 441	22 441
Total liabilities	**7 805 990**	**7 805 990**
Shareholders' equity		
Ordinary share capital	10 000	10 000
Share premium	40 000	40 000
General reserve	484 447	484 447
Retained earnings	118 640	118 640
Total shareholders' equity	**653 087**	**653 087**

As HBZ Bank Limited publishes their financial reports annually, the 31 December 2022 have been included in the 30 June 2023 Bi-annual disclosure.

8.3 CCA - Main features of regulatory capital instruments and of other TLAC eligible instruments

LINE NO.	DISCLOSURE TEMPLATE FOR MAIN FEATURES OF REGULATORY CAPITAL INSTRUMENTS	
1	Issuer	HBZ Bank Limited
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	N/A
3	Governing law(s) of the instrument	N/A
	REGULATORY TREATMENT	
4	Transitional Basel III rules	N/A
5	Post-transitional Basel III rules	N/A
6	Eligible at solo/group/group & solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Share Capital
8	Amount recognised in regulatory capital (Currency in mil, as of most recent reporting date)	R 50 million
9	Par value of instrument	R1 par value issued at R5 each
10	Accounting classification	Ordinary Share Capital and Share Premium
11	Original date of issuance	Thursday, 29 June 1995
12	Perpetual or dated	Perpetual
13	Original maturity date	N/A
14	Issuer call subject to prior supervisory approval	N/A
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	COUPONS / DIVIDENDS	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	No
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	N/A
22	Noncumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down feature	N/A
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	N/A
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A

9 LEVERAGE RATIO

In terms of Regulation 43(1)(e)(iii)(G), the Bank is required to provide a summarised comparison of the accounting assets and the regulatory leverage ratio differences, as well as the Leverage Ratio positions of the Bank, as at 30 June 2023. These are set out below:

9.1 Summarised comparison of accounting assets and leverage ratio exposure measure

		30 Jun 23	31 Mar 23
1	Total consolidated assets as per published financial statements	8 776 976	8 952 973
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-	-
3	Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference	-	-
4	Adjustments for temporary exemption of central bank reserves (if applicable)	-	-
5	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-	-
6	Adjustments for regular-way purchases and sales of financial assets subject to trade date accounting	-	-
7	Adjustments for eligible cash pooling transactions	-	-
8	Adjustments for derivative financial instruments	(8 528)	(7 727)
9	Adjustment for securities financing transactions (ie repurchase agreements and similar secured lending)	-	-
10	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off- balance sheet exposures)	(330 705)	(333 795)
11	Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital	-	-
12	Other adjustments	(41 759)	(40 298)
13	Leverage ratio exposure measure	8 395 984	8 571 153

9.2 Leverage ratio

On-balance sheet exposures		30 Jun 23	31 Mar 23
1	On-balance sheet exposures(excluding derivatives and securities financing transactions (SFTs), but including collateral)	8 322 479	8 420 986
2	Gross-up for derivatives collateral provided where deducted from balance sheet assets pursuant to the operative accounting framework	-	-
3	(Deductions of receivable assets for cash variation margin provided in derivatives transactions)	-	-
4	(Adjustment for securities received under securities financing transactions that are recognised as an asset)	-	-
5	(Specific and general provisions associated with on-balance sheet exposures that are deducted from Tier 1 capital)	-	-
6	(Asset amounts deducted in determining Basel III Tier 1 capital)	(41 759)	(20 928)
7	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 to 6)**	**8 280 720**	**8 380 688**
Derivative exposures		**30 Jun 23**	**31 Mar 23**
8	Replacement cost associated with all derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	2 221	2 887
9	Add-on amounts for potential future exposure associated with all derivatives transactions	3 695	6 586
10	(Exempted central counterparty (CCP) leg of client-cleared trade exposures)	-	-
11	Adjusted effective notional amount of written credit derivatives	-	-
12	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-	-
13	**Total derivative exposures (sum of rows 8 to 12)**	**5 916**	**9 473**
Securities financing transaction exposures			
14	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	-	-
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
16	Counterparty credit risk exposure for SFT assets	-	-
17	Agent transaction exposures	-	-
18	**Total securities financing transaction exposures (sum of rows 14 to 17)**	**-**	**-**
Other off-balance sheet exposures			
19	Off-balance sheet exposure at gross notional amount	445 969	524 260
20	(Adjustments for conversion to credit equivalent amounts)	(330 706)	(333 795)
21	(Specific and general provisions associated with off-balance sheet exposures deducted in determining Tier 1 capital)		
22	**Off-balance sheet items (sum of rows 19 to 21)**	**115 264**	**190 466**
Capital and total exposures			
23	**Tier 1 capital**	**592 961**	**534 230**
24	**Total exposures (sum of rows 7, 13, 18 and 22)**	**8 401 900**	**8 580 627**

9.2 Leverage ratio (continued)

Leverage ratio			
25	Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)	7%	6%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	7%	6%
26	National minimum leverage ratio requirement	4%	4%
27	Applicable leverage buffers	-	-
Disclosure of mean values			
28	Quarter-end value of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables	-	-
29	Quarter-end value of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables	-	-
30	Total exposures (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	-	-
30a	Total exposures (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	-	-
31	Basel III leverage ratio (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	7%	6%
31a	Basel III leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	7%	6%