HBZ Bank Limited

(A subsidiary of Habib Bank AG Zurich)

South Africa

Quarterly Public Disclosure
September 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 quarterly results of HBZ Bank Limited for the perod ended 30 September 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 September 2023 are disclosed below.

	AVAILABLE CAPITAL (AMOUNTS) R'000	30 Sep 23	30 Jun 23	31 Mar 23	31 Dec 22	30 Sep 22
1	Common Equity Tier 1 (CET1)	592 996	592 961	534 230	534 190	534 447
1a	Fully loaded ECL accounting model	592 996	592 961	534 230	534 190	534 447
2	Tier 1	592 996	592 961	534 230	534 190	534 122
2a	Fully loaded accounting model Tier 1	592 996	592 961	534 230	534 190	534 122
3	Total capital	600 019	598 870	541 774	542 442	551 789
3a	Fully loaded ECL accounting model total capital	600 019	598 870	541 774	542 442	551 789
	RISK-WEIGHTED ASSETS (AMOUNTS) R'000					
4	Total risk-weighted assets (RWA)	3 220 194	3 524 308	3 656 868	3 487 356	3 580 091
4a	Total risk-weighted assets (pre-floor)	3 220 194	3 524 308	3 656 868	3 487 356	3 580 091
	RISK-BASED CAPITAL RATIOS AS A PERCENTAGE OF RWA					
5	CET1 ratio (%)	18,41%	16,82%	14,61%	15,32%	14,93%
5a	Fully loaded ECL accounting model CET1 (%)	18,41%	16,82%	14,61%	15,32%	14,93%
5b	CET1 ratio (%)(pre-floor)	18,41%	16,82%	14,61%	15,32%	14,93%
6	Tier 1 ratio (%)	18,41%	16,82%	14,61%	15,32%	14,92%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	18,41%	16,82%	14,61%	15,32%	14,92%
6b	Tier 1 ratio (%) (pre-floor)	18,41%	16,82%	14,61%	15,32%	14,92%
7	Total capital ratio (%)	18,63%	16,99%	14,82%	15,55%	15,41%
7a	Fully loaded ECL accounting model total capital ratio (%)	18,63%	16,99%	14,82%	15,55%	15,41%
7b	Total capital ratio (%)(pre-floor)	18,63%	16,99%	14,82%	15,55%	15,41%

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

		30 Sep 23	30 Jun 23	31 Mar 23	31 Dec 22	30 Sep 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 (%)	13,91%	12,32%	10,11%	10,82%	9,93%
	BASEL III LEVERAGE RATIO					
13	Total Basel III leverage ratio measure	8 595 769	8 401 900	8 580 627	8 563 429	8 185 298
14	Basel III leverage ratio (%) (including the impact of any applicable temporary exemption of central bank reserves)	7%	7%	6%	6%	7%
14a	Fully loaded ECL accounting model Basel III leverage ratio (including the impact of any applicable temporary exemption of central bank reserves) (%)	7%	7%	6%	6%	7%
14b	Basel III leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	7%	7%	6%	6%	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%	7%	6%	6%	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%	7%	6%	6%	7%
	LIQUIDITY COVERAGE RATIO					
15	Total High Quality Liquid Assets (HQLA)	4 813 321	4 555 882	4 065 779	3 868 219	3 484 407
16	Total net cash outflow	537 040	401 607	343 713	342 691	332 801
17	LCR ratio (%)	896%	1 134%	1 183%	1 129%	1 047%
	NET STABLE FUNDING RATIO					
18	Total available stable funding	5 723 671	5 641 554	5 844 870	5 942 061	5 726 112
19	Total required stable funding	1 964 008	2 086 786	2 070 206	2 280 800	2 256 204
20	NSFR ratio (%)	291%	270%	282%	261%	254%

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 RWA

		RWA		Minimum capital requirements
		Sep 23 R'000	Jun 23 R'000	Sep 23 R'000
1	Credit risk (excluding counterparty credit risk)	2 405 689	2 713 278	282 668
2	Of which: standardised approach (SA)	2 405 689	2 713 278	282 668
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)	3 262	4 852	383
7	Of which: standardised approach for counterparty credit risk	3 262	4 852	383
8	Of which: IMM	-	-	-
9	Of which: other CCR	-	-	-
10	Credit Valuation Adjustment (CVA)	2 479	3 123	291
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	4 231	9 158	497

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

Overview of RWA (continued)

		RWA		Minimum capital requirements
		Sep 23 R'000	Jun 23 R'000	Sep 23 R'000
21	Of which: standardised approach (SA)	4 231	9 158	497
22	Of which: internal model approach (IMA)	-	-	-
23	Capital Charge for switch between trading book and banking book	-	-	-
24	Operational risk	571 179	571 179	67 114
25	Amounts below the thresholds for deduction (subject to 250% risk weight)	233 354	222 718	27 419
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)**	**3 220 194**	**3 524 308**	**378 373**

4 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.

4.1 Liquidity Coverage Ratio

		Total unweighted value	Total weighted value
	HIGH-QUALITY LIQUID ASSETS		
1	Total HQLA	4 813 321	4 813 321
	CASH OUTFLOWS		
2	Retail deposits and deposits from small business customers, of which:	2 016 381	201 638
3	Stable deposits	-	-
4	Less stable deposits	2 016 381	201 638
5	Unsecured wholesale funding, of which:	4 209 769	1 325 499
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-
7	Non-operational deposits (all counterparties)	4 209 769	1 325 499
8	Unsecured debt	-	-
9	Secured wholesale funding	-	-
10	Additional requirements, of which:	476 623	36 122
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	476 623	36 122
14	Other contractual funding obligations	-	-
15	Other contingent funding obligations	-	-
16	TOTAL CASH OUTFLOWS	6 702 773	1 563 259
	CASH INFLOWS		
17	Secured lending (e.g. reverse repos)	-	-
18	Inflows from fully performing exposures	1 385 929	1 026 219
19	Other cash inflows	-	-
20	TOTAL CASH INFLOWS	1 385 929	1 026 219

		Total adjusted value
21	Total HQLA	**4 813 321**
22	Total net cash outflows	**537 040**
23	Liquidity Coverage Ratio (%)	**896%**

4.2 Net Stable Funding Ratio (NSFR)

		Unweighted value by residual maturity				
		No maturity	< 6 months	6 months to < 1 year	≥ 1 year	Weighted value
	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:**	-	3 425 587	-	-	3 083 028
5	Stable deposits	-	-	-	-	-
6	Less stable deposits	-	3 425 587	-	-	3 083 028
7	**Wholesale funding:**	-	3 425 454	636 765	16 395	2 047 505
8	Operational deposits	-	-	-	-	-
9	Non-operational deposits and funding - Corporates	-	3 425 454	636 765	16 395	2 047 505
10	Liabilities with matching interdependent assets	-	-	-	-	-
11	Other liabilities:	-	336 726	-	11 871	-
12	Funding from other legal entities	-	107 255	-	-	-
13	NSFR derivative liabilities	-	-	-	11 871	-
14	All other liabilities and equity not included in the above categories	-	229 471	-	-	-
15	**Total ASF**	**593 138**	**7 187 767**	**636 765**	**28 266**	**5 723 671**
	REQUIRED STABLE FUNDING (RSF) ITEM					
16	Total NSFR high-quality liquid assets (HQLA)		577 887			8 334
17	Deposits held at other financial institutions for operational purposes	-	1 001 408	20 900	-	160 661
18	**Performing loans and securities:**	**-**	**3 963 196**	**1 746 293**	**931 809**	**800 219**
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	-	2 983 470	1 582 144	-	228 281
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:	-	979 726	164 149	-	571 938
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	-	-	-	931 809	792 038
25	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	-	-	-	-
26	Assets with matching interdependent liabilities	-	-	-	-	-

4.2 Net Stable Funding Ratio (NSFR) (continued)

27	**Other assets:**	**-**	**27 294**	**-**	**177 149**	**178 925**
28	Other short-term unsecured instruments and transactions with a residual maturity of less than one year	-	27 294	-	-	13 647
29	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs	-	-	-	-	-
30	NSFR derivative assets	-	-	-	12 413	542
31	NSFR derivative liabilities before deduction of variation margin posted	-	-	-	-	-
32	All other assets not included in the above categories	-	-	-	164 736	164 736
33	Off-balance sheet items	-	-	-	476 964	23 831
34	**Total RSF**					**1 964 008**
35	**Net Stable Funding Ratio (%)**					**291%**

5 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.

CVA4: RWA flow statements of CVA risk exposures under SA-CVA

1	Total RWA for CVA at previous quarter end	3 123
2	Total RWA for CVA at end of reporting period	2 479

6 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 September 2023. These are set out below:

6.1 Summarised comparison of accounting assets and leverage ratio exposure measure

		30 Sep 23	30 Jun 23
1	Total consolidated assets as per published financial statements	8 922 890	8 776 976
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	(12 413)	(8 528)
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)	(277 826)	(330 705)
11	Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital	-	-
12	Other adjustments	(43 205)	(41 759)
13	**Leverage ratio exposure measure**	**8 589 446**	**8 395 984**

6.2 Leverage ratio

On-balance sheet exposures		30 Sep 23	30 Jun 23
1	On-balance sheet exposures(excluding derivatives and securities financing transactions (SFTs), but including collateral)	8 433 523	8 322 479
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)	(43 216)	(41 759)
7	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 to 6)**	**8 390 307**	**8 280 720**

6.2 Leverage ratio (continued)

Derivative exposures		30 Sep 23	30 Jun 23
8	Replacement cost associated with all derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	546	2 221
9	Add-on amounts for potential future exposure associated with all derivatives transactions	5 778	3 695
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)**	**6 324**	**5 916**
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	476 964	445 969
20	(Adjustments for conversion to credit equivalent amounts)	(277 827)	(330 706)
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)**	**199 138**	**115 264**
Capital and total exposures			
23	**Tier 1 capital**	**592 996**	**592 961**
24	**Total exposures (sum of rows 7, 13, 18 and 22)**	**8 595 769**	**8 401 900**
Leverage ratio			
25	**Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)**	**7%**	**7%**
25a	**Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)**	**7%**	**7%**
26	**National minimum leverage ratio requirement**	**4%**	**4%**
27	**Applicable leverage buffers**	**-**	**-**

6.2 Leverage ratio (continued)

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%	7%
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%	7%