中国建设银行
China Construction Bank
Johannesburg Branch
(Incorporated in the People's Republic of China)

Disclosure Report

China Construction Bank Corporation, Johannesburg Branch

Basel Pillar 3 Semi – Annual Disclosure Report June 2022

”New Start

New Development

New Finance”

CONTENTS

***All amounts/figures are reported in R'000 unless stated otherwise within the presented disclosure.*

1. OVERVIEW

Introduction

The following information is compiled in terms of the requirements of the Banks Act 1990 (as amended) and Regulation 43 of the Regulations relating to Banks (“the Regulations”), whereby banks (including foreign branches) are obliged to publicly report certain qualitative and quantitative information with regards to their risk profile and capital adequacy regularly to the public. This disclosure is commonly known as Pillar 3 of the Basel Accord.

China Construction Bank Corporation, Johannesburg Branch (hereafter referred to as CCB-JHB or the Branch) is an overseas branch of China Construction Bank Corporation (incorporated in the People’s Republic of China).

CCB-JHB’s business model is that of a corporate and merchant bank servicing the South African business community and promoting Chinese/African investments primarily within the Sub-Saharan region of Africa.

Since the inception of CCB-JHB, the Branch has made significant progress in the region. Throughout the years, the scope of business remained diversified, covering various business sectors, such as natural resources, power, energy, telecommunication, logistics, financial services, commodity trade, and manufacturing.

The Executive Management Committee (EXCO) is responsible for establishing and maintaining an effective internal control structure in respect of the disclosure of financial information in line with Pillar 3 requirements. The EXCO-approved Regulatory Disclosure Policy sets out the policy requirements for disclosure by CCB-JHB in line with applicable directives issued by the Regulator (refers to the Prudential Authority (PA)) and the Revised Pillar 3 disclosure requirements read together with the Consolidated and Enhanced Framework.

The policy sets out:

- that EXCO, as part of the internal governance and approval process, must assess whether the information contained in CCB-JHB’s Pillar 3 disclosure reports is adequate and appropriate;
- the nature and extent of the information to be disclosed;
- the disclosure requirements;
- the internal controls and processes; and
- independent review requirements.

Financial Position

As at 30 June 2022, the financial position of the Branch was as follows:

- Total assets of R 34 341 466
- Total liabilities of R 28 379 176
- Total equity of R 5 962 290

Total assets decreased by 18% compared to 31 December 2021 (R 41 777 640). This is mainly as a result of scheduled repayments as well as a few early repayment of loans. The decrease in debt securities is primarily as a result of treasury bills and government bonds which matured and were not replaced.

Financial Performance

For the 6 month period, ending 30 June 2022, the Branch reported a net profit after tax of R 176 476. This is 5% below budget and is mainly as a result of decreases in interest income resulting from the decrease in loans and advances. Included in the net profit after tax is a write back in impairments of R 46 million.

Salient Features

The capital of the Branch as of 30 June 2022 is R 6 042 562.
The capital adequacy of the Branch as at 30 June 2022 is 68.87%.
The capital structure of the Branch primarily consists of Branch Capital and Retained Earnings.
The leverage ratio of the Branch as at 30 June 2022 is 17%.
Key Liquidity ratios are as follows:

- The Liquidity Coverage Ratio (LCR) of the Branch as at 30 June 2022 is 270%; and
- The Net Stable Funding Ratio (NSFR) of the Branch as at 30 June 2022 is 239%.

Directive 1 of 2019 and Related Tables within Presented Disclosure

The following tables as per Directive 1 of 2019 have not been included in the presented disclosure and the reasons are stated as per the below:

Directive 1 of 2019: Semi-Annual Disclosure required tables per Annex 1	Explanation
CR6, CR10, CCR4, MRC, MR2, MR4	Not applicable due to regulatory reporting approach followed by the Branch
CCR5, CCR6, CCyB1, CCR8	Not applicable, as no items to be disclosed
SEC1, SEC2, SEC3, and SEC4	CCB-JHB has no securitization exposure hence not applicable
TLAC1, TLAC2, and TLAC3	TLAC was implemented in South Africa on 1 April 2022 in South Africa. China Construction Bank, the parent of CCB-JHB Branch is a G-SIB. Per Directive 1 of 2019 the PA is not currently the home regulator to any G-SIB. As CCB JHB Branch is not in and of itself a G-SIB and the PA is not the home regulator of CCB, these tables are not prepared for the Branch
CC2	No semi-annual financial statements are issued

2. CAPITAL MANAGEMENT

Capital Adequacy and Capital Composition

CCB-JHB has met both regulatory and internal minimum capital requirements for the period under review, as stipulated within the Banks Act and Internal Capital Adequacy Assessment Process (ICAAP) respectively.

As per Directive 5 of 2021, "Capital Framework for South Africa based on the Basel III framework", total regulatory capital minimum requirement has increased from January 2022, to pre-COVID 19 levels, the amount increased by +1%, for all banks operating within South Africa, the minimum regulatory requirement is now set at 11.50% (excluding D-SIB requirements and Internal Capital Requirement (ICR)). CCB-JHB has adjusted its internal minimum capital requirement accordingly.

The minimum capital requirements are defined by the following capital adequacy ratios, namely:

- Common Equity Tier 1 (CET1) capital as a percentage of risk-weighted assets;
- Tier 1 capital as a percentage of risk-weighted assets; and
- Total qualifying capital as a percentage of risk-weighted assets.

And considers:

- BCBS Basel III minima;
- South African minima (including Conservation buffer, Pillar 2A, and 2B); and
- Countercyclical buffer.

As a branch of CCB Group, the capital in issuance by CCB-JHB is held by the Group. CCB-JHB's capital structure is as follows:

- Paid in capital amount (investment from CCB Group) qualifying as CET1 capital;
- Retained earnings accumulated since the Branch's creation qualifying as CET1 capital;
- General allowance for credit impairments qualifying as T2 capital; and
- Regulatory adjustment as prescribed by the Regulator.

There are no other capital instruments currently held at CCB-JHB; any other capital instrument would require approval from the CCB Group as well as the Prudential Authority.

There are no restrictions on the transfer of funds or qualifying capital within the CCB banking group; CCB-JHB complies with local requirements in terms of the transfer of funds or qualifying capital outside of South Africa.

CCB JHB has high-quality capital with almost all of its capital consisting of CET1 capital. This capital is well-suited to absorb losses and retain value under stressed conditions. There have been no material changes in the capital of CCB-JHB following the capital injection in 2016.

Capital Position, Capital Adequacy and Leverage Ratio Levels

The total qualifying capital position of the Branch as at 30 June 2022 is R 6 042 562. The appropriation of profits led to a steady increase over the years. Overall capital supply remains stable.

As at 30 June 2022, the Branch reported a capital adequacy of 68.87% and a leverage ratio of 17%. The capital adequacy ratio has increased mainly due to loans maturing (risk-weighted at 50/100%) and not replaced. Capital supply increased with retained earnings (via profit appropriation) and capital demand decreased at a faster pace with changes in regulatory RWA (mainly related to credit RWA). The leverage ratio increased due to the decrease of the total exposures (driven by total balance sheet decrease).

The capital level is deemed appropriate to support CCB-JHB business operations under stressed conditions. Capital adequacy and leverage ratios have remained well above industry regulatory minimums of 11.50% and 4% respectively during H1 2022.

The Large Exposure Framework (LEX) was implemented in April 2022; restrictions are established in terms of CCB-JHB's total exposures to a group of interconnected counterparties to total parent company CET1. CCB-JHB has implemented necessary controls and processes to ensure CCB-JHB complies with new requirements.

CCB-JHB is currently implementing Regulatory Reforms (RR) as per Guidance Note 4 of 2021, "Revised Basel Implementation Dates", of which some will have a direct impact on minimum capital requirements. More detail is provided in risk specific sections below. There are no concerns in terms of CCB-JHB meeting incoming RR from a capital or liquidity perspective.

CC1: Composition of Regulatory Capital

R' 000 At 30 June 2022		Notes	a Amounts	b Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
		Common Equity Tier 1 capital: instruments and reserves		
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus		3,385,642	BA 700 Line 28
2	Retained earnings		2,576,648	BA 700 Line 29
3	Accumulated other comprehensive income (and other reserves)		-	
4	Directly issued capital subject to phase-out from CET1 (only applicable to non-joint stock companies)		-	
5	Common share capital issued by third parties (amount allowed in group CET1)		-	
6	**Common Equity Tier 1 capital before regulatory deductions**		**5,962,290**	BA 700 Line 27
		Common Equity Tier 1 capital regulatory adjustments		
7	Prudent valuation adjustments		6,008	BA 700 Line 206
8	Goodwill (net of related tax liability)		-	
9	Other intangibles other than mortgage servicing rights (net of related tax liability)		584	BA 700 Line 44
10	Deferred tax assets that rely on future profitability, 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 (as set out in paragraph 36 of Basel III securitisation framework)		-	
14	Gains and losses due to changes in own credit risk on fair valued liabilities		-	
15	Defined benefit pension fund net assets		-	
16	Investments in own shares (if not already subtracted from paid-in capital on reported balance sheet)		-	
17	Reciprocal cross-holdings in common equity		-	
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)		-	
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)		-	
20	Mortgage servicing rights (amount above 10% threshold)		-	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)		-	
22	Amount exceeding 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		-	
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**		**6,592**	BA 700 Line 42
29	**Common Equity Tier 1 capital (CET1)**		**5,955,698**	BA 700 Line 64
		Additional Tier 1 capital: instruments		
30	Directly issued qualifying 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 Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in AT1)		-	
35	Of which: instruments issued by subsidiaries subject to phase-out		-	
36	Additional Tier 1 capital before regulatory adjustments		-	
		Additional Tier 1 capital: regulatory adjustments		
37	Investments in own additional Tier 1 instruments		-	
38	Reciprocal cross-holdings in additional Tier 1 instruments		-	
39	Investments in capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation		-	
40	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation		-	

CC1: COMPOSITION OF REGULATORY CAPITAL *(CONTINUED)*

R' 000 At 30 June 2022		Notes	a Amounts	b Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
41	National specific regulatory adjustments		-	
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 capital (AT1)**		-	
45	**Tier 1 capital (T1= CET1 + AT1)**		**5,955,698**	BA 700 Line 77
		Tier 2 capital: instruments and provisions		
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 instruments not included in rows 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		86,864	BA 700 Line 83
51	**Tier 2 capital before regulatory adjustments**		**86,864**	BA 700 Line 78
		Tier 2 capital: regulatory adjustments		
52	Investments in own Tier 2 instruments		-	
53	Reciprocal cross-holdings in Tier 2 instruments and other TLAC liabilities		-	
54	Investments in capital and other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)		-	
54a	Investments in the other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation and where the bank does not own more than 10% of the issued common share capital of the entity: amount previously designated for the 5% threshold but that no longer meets the conditions (for G-SIBs only)		-	
55	Significant investments in the capital and other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)		-	
56	National specific regulatory adjustments		-	
57	**Total regulatory adjustments to Tier 2 capital**		**-**	
58	**Tier 2 capital (T2)**		**86,864**	BA 700 Line 87
59	**Total regulatory capital (TC = T1 + T2)**		**6,042,562**	BA 700 Line 88
60	**Total risk-weighted assets**		**8,773,690**	BA 700 Line 6 Col 7
		Capital ratios and buffers		
61	**Common Equity Tier 1 (as a percentage of risk-weighted assets)**	N1	**67.88%**	BA 700 Line 18 Col 1
62	**Tier 1 (as a percentage of risk-weighted assets)**	N2	**67.88%**	BA 700 Line 18 Col 2
63	**Total capital (as a percentage of risk-weighted assets)**		**68.87%**	BA 700 Line 18 Col 3
64	**Institution specific buffer requirement (capital conservation buffer plus countercyclical buffer requirements plus higher loss absorbency requirement, expressed as a percentage of risk-weighted assets)**		**2.50%**	BA 700 Line 14 + BA 700 Line 15 + BA 700 Line 16
65	**Of which: capital conservation buffer requirement**		**2.50%**	BA 700 Line 16
66	**Of which: bank-specific countercyclical buffer requirement**		**0.00%**	BA 700 Line 15
67	**Of which: higher loss absorbency requirement**		**0.00%**	BA 700 Line 14
68	**Common Equity Tier 1 (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirement.**		**60.01%**	KM1 Line 12
		National minima (if different from Basel III)		
69	National Common Equity Tier 1 minimum ratio (if different from Basel III minimum)		7.50%	BA 700 Line 17 Col 1 - BA 700 Line 12 Col 1
70	National Tier 1 minimum ratio (if different from Basel III minimum)		9.25%	BA 700 Line 17 Col 2 - BA 700 Line 12 Col 2
71	National total capital minimum (if different from Basel III minimum)		11.50%	BA 700 Line 17 Col 3 - BA 700 Line 12 Col 3
		Amounts below the thresholds for deduction (before risk weighting)		
72	Non-significant investments in the capital and other TLAC liabilities of other financial entities		-	
73	Significant investments in common stock of financial entities		-	
74	Mortgage servicing rights (net of related tax liability)		-	
75	Deferred tax assets arising from temporary differences (net of related tax liability)		69,564	BA 100 Line 51
		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)		140,743	BA 200 Line 9

CC1: COMPOSITION OF REGULATORY CAPITAL *(CONTINUED)*

R' 000 At 30 June 2022		a **Amounts**	b **Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation**
77	Cap on inclusion of provisions in Tier 2 under standardised approach	86,864	BA 700 Line 83
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 subject 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 after redemptions and maturities)	-	
84	Current cap on T2 instruments subject to phase-out arrangements	-	
85	Amount excluded from T2 due to cap (excess after redemptions and maturities)	-	

Notes

N1: Common Equity Tier 1 (as a percentage of risk-weighted assets): The increase is as a result of decreases in credit risk.

N2: Tier 1 (as a percentage of risk-weighted assets): The increase is as a result of decreases in credit risk.

CCA: MAIN FEATURES OF REGULATORY CAPITAL INSTRUMENTS

R' 000
At 30 June 2022

		a
		Quantitative/Qualitative Information
1	Issuer	All capital is issued at group level
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	China Construction Bank Corporation -Group
3	Governing law(s) of the instrument	All capital is issued at group level from China
3a	Means by which enforceability requirement of Section 13 of the TLAC Term Sheet is achieved (for other TLAC-eligible instruments governed by foreign law)	[NA]
4	Transitional Basel III rules	Common Equity Tier 1
5	Post-transitional Basel III rules	Common Equity Tier 1
6	Eligible at solo/group/group and solo	Solo and Group
7	Instrument type (types to be specified by each jurisdiction)	[NA]
8	Amount recognised in regulatory capital (currency in millions, as of most recent reporting date)	R 3 386
9	Par value of instrument	[NA]
10	Accounting classification	Branch capital
11	Original date of issuance	Initial capital injection was received upon establishment in 2000
12	Perpetual or dated	Perpetual
13	Original maturity date	[NA]
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates, and redemption amount	[NA]
16	Subsequent call dates, if applicable	[NA]
	Coupons / dividends	
17	Fixed or floating dividend/coupon	[NA]
18	Coupon rate and any related index	[NA]
19	Existence of a dividend stopper	[NA]
20	Fully discretionary, partially discretionary or mandatory	[NA]
21	Existence of step-up or other incentive to redeem	No
22	Non-cumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	[NA]
25	If convertible, fully or partially	[NA]
26	If convertible, conversion rate	[NA]
27	If convertible, mandatory or optional conversion	[NA]
28	If convertible, specify instrument type convertible into	[NA]
29	If convertible, specify issuer of instrument it converts into	[NA]
30	Writedown feature	No
31	If writedown, writedown trigger(s)	[NA]
32	If writedown, full or partial	[NA]
33	If writedown, permanent or temporary	[NA]
34	If temporary write-own, description of writeup mechanism	[NA]
34a	Type of subordination	[NA]
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument in the insolvency creditor hierarchy of the legal entity concerned).	No
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	[NA]

Capital Management Framework

CCB-JHB quantifies and holds capital against risks that are specified in the minimum requirements from Pillar 1 as per the Banks Act and Regulations thereto. Those risks include credit, counterparty credit, market, operational, and other risks. The Branch does not have any exposures which gives rise to equity risk.

Further, CCB-JHB seeks to capture risks for which an explicit regulatory capital treatment is not present, commonly referred to as Pillar 2 risks, such as, but not limited to, positions that result in concentrated exposures to a type of counterparty or industry, liquidity risk, reputational risk, and strategic risk. For those risks, validated assumptions made in the estimation process are discussed and understood by Senior Management at various committees and forums to ensure the potential for these to negatively impact a bank are not underestimated. The outcome is presented within the CCB-JHB ICAAP document, developed in conjunction with the SARB Guidance Note 4/2015 which provides guidelines and expectations of the Prudential Authority (PA). The ICAAP document is regularly reviewed by independent third-parties.

In addition, CCB-JHB has established a Recovery Plan (RP) detailing the range of strategies Senior Management can employ to address anticipated and unexpected capital shortfalls.

The Capital Management Framework, ICAAP and Recovery Plan, all aligned to Regulatory and CCB Group requirements and standards, define the capital management strategy within CCB-JHB. This ensures the Branch's level of capital:

- remains sufficient to support the Branch's risk profile and outstanding commitments;
- exceeds the Branch's minimum capital for complying with the Banks Act and Regulations thereto by an appropriate internal buffer;
- is capable of withstanding a severe economic downturn stress scenario;
- is able to activate capital recovery options as envisaged in the Recovery Plan should a severe economic downturn materialize; and
- remains consistent with the Branch's strategic and operational goals for the next five years, and aligned to CCB Group's expectations.

3. CREDIT RISK

Credit risk is defined as the risk that a borrower will not fulfil its contractual obligations for payment of amounts owing, when due. The Branch's credit risk is assumed through lending activities. It includes credit default risk, pre-settlement risk, country risk, and concentration risk.

A counterparty is considered to be in default when:

- the counterparty is unlikely to repay its credit obligations to the Branch in full, without recourse by the Branch to actions such as realizing security (if any is held);
- the counterparty is more than 90 days past due on any material credit obligation to the Branch;
- overdrafts are considered past due once the customer has breached an advised limit or been advised of a limit that is smaller than the current amount outstanding.

As per the current business model and CCB-JHB's core business, the Branch's primary exposure to credit risk arises through its loans and advances to counterparties. The amount of credit exposure in this regard is represented by the carrying amounts of the financial assets on the statement of financial position. The Branch is exposed to credit risk to a lesser degree on various other financial assets, including derivative financial instruments and interest-bearing securities. In addition, the Branch is exposed to off-balance sheet credit risk through commitments in respect of undrawn committed facilities, letters of credit, and guarantees.

The Branch's lending strategy has remained stable over the years.

Governance and Credit Risk Management

The Branch has set up the Credit Committee (CC) and the Risk, Compliance and Internal Control Committee (RCICC) to identify, manage and monitor credit risk. The CC is the independent approval authority of credit facilities, and it exercises its authority within limits and other parameters delegated by CCB Head Office. The RCICC monitors credit risk of existing loans and advances portfolio, including country risk and concentration risk assessments, and is responsible for IFRS 9 impairment processes (model approval, staging, and documentation). EXCO is responsible for approving recommended improvements for CC and RCICC and, if necessary, adjusting the credit risk appetite of the Branch which determines the credit risk profile of the Branch.

The Risk Management Department (RMD) carries out daily risk monitoring functions and ensures both RCICC and CC decisions are executed. The credit risk function within RMD mainly entails day-to-day management of credit risk, validating internal credit ratings, providing risk review opinions on credit applications, carrying out credit risk assessments and continuous monitoring, performing post-loan management, reviewing and recommending loan classification, and loan provision levels via IFRS9 stage classification.

The Branch's key policy relating to managing credit risk is the Credit Management Policy and Procedure. It covers the credit life cycle of credit exposures to ensure the credit risk is assessed at the different stages of the cycle, and appropriate actions to be taken to mitigate the risk. There has been no major change in managing credit risk in H1 2022.

Credit Quality of Assets

Overall credit quality of assets remained stable over H1 2022.

The Branch does not have defaulted or past-due exposures as at 30 June 2022.

There are no restructured exposures within the Branch as at 30 June 2022.

CR1: CREDIT QUALITY OF ASSETS

R' 000 At 30 June 2022		a	b	c	d	e	f	g	
		Gross carrying values of		Allowances / impairments	Of which ECL accounting provisions for credit losses on SA exposures		Of which ECL accounting provisions for credit losses on IRB exposures	Net values (a+b-c)	
		Defaulted exposures	Non-defaulted exposures		Allocated in regulatory category of Specific	Allocated in regulatory category of General			
1	Loans	-	17,936,741	39,908	-	39,908	-	17,896,833	N1
2	Debt Securities	-	14,040,142	92,074	-	92,074	-	13,948,068	N2
3	Off-balance sheet exposures	-	2,141,709	8,760	-	8,760	-	2,132,949	N3
4	**Total**	**-**	**34,118,592**	**140,742**	**-**	**140,742**	**-**	**33,977,850**	

Notes

N1: The decrease in loans is mainly as a result of early repayment of loans and loan maturities.

N2: The decrease in debt securities is primary as a result of the government bonds and treasury bills that matured and were not replaced.

N3: The increase is as a result of new committed facility granted to client.

CR2: CHANGES IN STOCK OF DEFAULTED LOANS AND DEBT SECURITIES

R'000 At 30 June 2022		A
1	**Defaulted loans and debt securities at end of the previous reporting period**	**-**
2	Loans and debt securities that have defaulted since the last reporting period	-
3	Returned to non-defaulted status	-
4	Amounts written off	-
5	Other changes	-
6	**Defaulted loans and debt securities at end of the reporting period (1+2-3-4±5)**	**-**

Credit Risk Mitigation (CRM)

The Branch has approved collateral that is acceptable in reducing credit risk. The collateral type must meet the minimum requirements that are stipulated in the Collateral Management in Corporate Lending Policy and Procedures. Preference is for collateral types that are easily valued and realizable, with minimum costs. The Branch also accepts credit insurance from accredited insurers. CRM (netting, guarantees, collateral, and others) is recognised only where regulatory requirements have been met.

CR3: CREDIT RISK MITIGATION TECHNIQUES – OVERVIEW

R' 000 At 30 June 2022		a	b	c	d	e	f	g
		Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral of which: secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees, of which: secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives, of which: secured amount
1	Loans	17,896,833	-	-	-	-	-	-
2	Debt securities	13,948,068	-	-	-	-	-	-
3	**Total**	**31,844,901**	-	-	-	-	-	-
4	Of which defaulted	-	-	-	-	-	-	-
		N1						

Notes

N1: Please refer to CR1.

N2: There has been no significant change with regards to risk mitigation techniques.

Measurement of Credit Risk

From a regulatory capital requirement perspective, CCB-JHB is currently using the Standardised Approach for measuring credit risk. This approach is based on counterparties' external ratings mapped to pre-defined risk-weight ratios using the ratings table included in Regulation 23 of the Regulations to the Banks Act. If no external rating is available, the credit exposure will be allocated a conservative risk weight based on the local regulatory requirements.

CCB-JHB is actively preparing for the implementation of the revised Standardised Approach, with full implementation expected from January 2024. Although credit risk capital demand is the largest capital demand, the impact of the RR is estimated to be low.

CR4: STANDARDISED APPROACH - CREDIT RISK EXPOSURE AND CREDIT RISK MITIGATION (CRM) EFFECTS

R' 000
At 30 June 2022

			a	b	c	d	e	f
		Notes	Exposures before CCF and CRM		Exposures post CCF and 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
1	Sovereigns and their central banks		16,277,431	-	16,277,431	-	-	-
2	Non-central government public sector entities		-	-	-	-	-	-
3	Multilateral development banks		-	-	-	-	-	-
4	Banks	**N1**	14,950,753	-	14,950,753	-	3,033,996	20%
5	Securities firms		-	-	-	-	-	-
6	Corporates	**N2**	2,841,472	2,141,709	2,841,472	1,065,755	3,907,226	100%
7	Regulatory retail portfolios		-	-	-	-	-	-
8	Secured by residential property		-	-	-	-	-	-
9	Secured by commercial real estate		-	-	-	-	-	-
10	Equity		-	-	-	-	-	-
11	Past-due loans		-	-	-	-	-	-
12	Higher-risk categories		-	-	-	-	-	-
13	Other assets		173,289	-	173,289	-	173,289	100%
14	**Total**		**34,242,945**	**2,141,709**	**34,242,945**	**1,065,755**	**7,114,511**	

Notes

N1: The decrease in bank off-balance sheet is predominately as a result of committed facility drawdowns.

N2: The increase in corporate off-balance sheet items is as a result of new committed facilities granted to clients.

CR5: STANDARDISED APPROACH - EXPOSURES BY ASSET CLASSES AND RISK WEIGHTS

R'000
At 30 June 2022

		a	b	c	d	e	f	g	h	i	j
	Risk weight / **Asset classes**	**0%**	**10%**	**20%**	**35%**	**50%**	**75%**	**100%**	**150%**	**Others**	**Total credit exposures amount (post CCF and post CRM)**
1	Sovereigns and their central banks	16,277,431	-	-	-	-	-	-	-	-	16,277,431
2	Non-central government public sector entities (PSEs)	-	-	-	-	-	-	-	-	-	-
3	Multilateral development banks (MDBs)	-	-	-	-	-	-	-	-	-	-
4	Banks	7,532,823	-	5,479,917	-	-	-	1,938,013	-	-	14,950,753
5	Securities firms	-	-	-	-	-	-	-	-	-	-
6	Corporates	-	-	-	-	-	-	3,907,227	-	-	3,907,227
7	Regulatory retail portfolios	-	-	-	-	-	-	-	-	-	-
8	Secured by residential property	-	-	-	-	-	-	-	-	-	-
9	Secured by commercial real estate	-	-	-	-	-	-	-	-	-	-
10	Equity	-	-	-	-	-	-	-	-	-	-
11	Past-due loans	-	-	-	-	-	-	-	-	-	-
12	Higher-risk categories	-	-	-	-	-	-	-	-	-	-
13	Other assets	-	-	-	-	-	-	173,289	-	-	173,289
14	**Total**	**23,810,254**	**-**	**5,479,917**	**-**	**-**	**-**	**6,018,529**	**-**	**-**	**35,308,700**

Notes

Please refer to CR4.

4. COUNTERPARTY CREDIT RISK

Counterparty credit risk (CCR) is the risk that a counterparty could default before the final settlement of a transaction in cases where there is a bilateral risk of loss.

The Branch's derivative portfolio consists of Interest Rate Swaps (IRS) and Foreign Exchange Contracts (FX). IRS transactions are solely to hedge interest rate risk while FX transactions are for hedging and funding purposes.

Counterparty Credit Risk Governance and Management

The responsibility of managing and monitoring CCR lies with the Assets and Liabilities Committee (ALCO), which delegates measurement and reporting responsibilities to relevant departments (RMD, Treasury and Accounting) as stipulated by the counterparty credit risk policy. ALCO monitors this risk and periodically assesses the appropriateness of the Branch's strategy.

CCR management relies on dedicated credit lines for derivatives with major local banks having signed ISDA master agreements; automated limit system to prevent limit breach; list of approved types of derivatives and currencies; semi-automated regulatory CCR capital requirement calculation; and the Treasury department monitoring exchange rates and reporting.

The Branch does not conduct any proprietary trading.

Counterparty Credit Risk Position

The Branch has reported a fair value movement in derivative instruments of R 279 437 as a result of exchange rate fluctuations during the period.

There are two components for the CCR calculation as detailed as below:

- CCR calculated based on the Standardised Approach (SA-CCR); and
- Credit valuation adjustment (CVA), the difference between the risk-free portfolio value and the true portfolio value that takes into account the possibility of counterparty's default; in other words, CVA is the market value of the counterparty credit risk. CCB-JHB adopted the Standardised CVA calculation with prescribed risk-weight ratios based on external ratings (ECAIs).

CCR RWA for June 2022 amounted to R 12 374. The decrease of CCR capital requirement is mainly due to FX derivatives capital demand.

CCB-JHB does not conduct any Securities Financing Transactions (SFTs).

CCB-JHB is preparing for the implementation of the revised Credit Valuation Adjustment Framework (CVA) and established regulatory requirements as per the PA's FRTB roadmap. Full implementation (reporting and capital requirement) is expected from January 2024.

CCR1: ANALYSIS OF COUNTERPARTY CREDIT RISK (CCR) EXPOSURE BY APPROACH

R'000 At 30 June 2022		a	b	c	d	e	f
		Replacement cost	Potential future exposure	EEPE	Alpha used for computing regulatory EAD	EAD post CRM	RWA
1	SA-CCR	-	137,788		1.4	192,904	7,891
2	Internal Model Method (for derivatives and SFTs)			-	-	-	-
3	Simple Approach for credit risk mitigation (for SFTs)					-	-
4	Comprehensive Approach for credit risk mitigation (for SFTs)					-	-
5	VaR for SFTs					-	-
6	**Total** **N1**						**7,891**

Notes

N1: The counterparty credit risk exposure is calculated using the Standardised Approach (SA-CCR). The decrease is a result of fair value movements in currency swaps resulting from exchange rate fluctuations.

CCR2: CREDIT VALUATION ADJUSTMENT (CVA) CAPITAL CHARGE

R'000 At 30 June 2022		a	b
		EAD post CRM	RWA
Total portfolios subject to the advanced CVA capital charge		-	-
1	(i) VaR component (including the 3x multiplier)		-
2	(ii) Stressed VaR component (including the 3x multiplier)		-
3	All portfolios subject to the Standardised CVA capital charge	7,891	4,483
4	Total subject to the CVA capital charge	7,891	4,483

Notes

Please refer to CCR1.

Intragroup exposures are excluded from EAD post CRM for CVA capital charge.

CCR3: STANDARDIZED APPROACH - CCR EXPOSURES BY REGULATORY PORTFOLIO AND RISK WEIGHTS

R'000 At 30 June 2022	a	b	c	d	e	f	g	h	i	j
Risk weight **Regulatory Portfolio**	0%	10%	20%	35%	50%	75%	100%	150%	Others	Total credit exposure
Sovereigns	-	-	-	-	-	-	-	-	-	-
Non-central government public sector entities (PSEs)	-	-	-	-	-	-	-	-	-	-
Multilateral development banks (MDBs)	-	-	-	-	-	-	-	-	-	-
Banks	185,013	-	-	-	-	-	7,891	-	-	192,904
Securities firms	-	-	-	-	-	-	-	-	-	-
Corporates	-	-	-	-	-	-	-	-	-	-
Regulatory retail portfolios	-	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-	-	-
Total	**185,013**	**-**	**-**	**-**	**-**	**-**	**7,891**	**-**	-	**192,904**

Notes

Derivatives are contracted mainly with local banking counterparties and CCB Head Office.

5. LIQUIDITY AND FUNDING RISK

Liquidity risk is the risk that the Branch, although solvent, does not have available or sufficient financial resources to meet its obligations as they fall due, either entirely or only at excessive cost. As part of its operations, the Branch is exposed to liquidity risk encompassed in financial risks relating to assets and liabilities, comprising of funding risk, market liquidity risk, currency mismatch, and concentration risk.

Funding risk is the risk that the Branch does not have stable sources of funding to meet its financial obligations as they fall due, either entirely or only at excessive cost. The Branch has the full support of its Head Office, however it is the Branch's responsibility to maintain a strong liquidity and funding position at all times.

Liquidity and Funding Risk Governance and Management

The RCICC institutes the control framework in which liquidity is to be managed in accordance with the risk appetite statement and liquidity risk framework. The committee is responsible for establishing policies and contingency plans which detail the responsibilities, management processes, governance, stress testing, and monitoring procedures for managing liquidity.

The ALCO is mandated by the EXCO to ensure independent supervision of liquidity and funding risks within the risk appetite, internal limits, and prudential requirements. The committee conducts monthly meetings to monitor the liquidity position and to elect strategies to optimize the structure of the balance sheet. The risk management function is tasked with monitoring liquidity risk and making recommendations to the committee with regards to the management of liquidity. The Treasury function is required to execute these strategies and manage the Branch's liquidity daily.

The Branch aims to manage liquidity efficiently, ensuring continuous banking operations in both normal and stressed conditions. Adherence to prudential and internal requirements drives the execution of this strategy, with metrics such as the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) playing a pivotal role in the liquidity management process. CCB-JHB also uses contractual and hypothetical assets and liabilities mismatches and survival horizon (normal and stressed) to monitor its liquidity risk.

The Branch's funding is constituted by Head Office, interbank, institutional, and corporate funding. The strategy is to diversify funding from sustainable sources to build a profile that enables the Branch to achieve its strategic objectives efficiently; depositor's concentration is monitored continuously.

LCR and NSFR Positions

The Branch’s liquidity profile has shown short-term resilience throughout the year, with LCR at 270% as at 30 June 2022. Although the portfolio of high-quality liquid assets (HQLA) has decreased from the prior reporting date, the Branch sustained LCR compliance in excess of both the risk appetite and regulatory requirements.

NSFR demonstrates the Branch’s funding stability and the resilience of its liquidity position over a one year period. As at 30 June 2022, NSFR was reported at 239%, a 14% increase from prior year. The required stable funding has decreased while the available stable funding has remained relatively stable, contributing to the increase in NSFR.

As per Directive 8 of 2021, LCR minimum regulatory requirements moved from 80% to 90% from January 2022 and 100% from April 2022.

LIQ2: NET STABLE FUNDING RATIO (NSFR) Q2 2022

R' 000 At 30 June 2022		a	b	c	d	e
		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:	5,962,290	-	-	-	5,962,290
2	*Regulatory capital*	5,962,290				5,962,290
3	*Other capital instruments*	-	-	-	-	-
4	Retail deposits and deposits from small business customers:	-	51,332	-	-	46,199
5	*Stable deposits*	-	-	-	-	-
6	*Less stable deposits*	-	51,332	-	-	46,199
7	Wholesale funding:	-	19,317,293	3,820,403	4,761,104	13,128,092
8	*Operational deposits*	-	-	-	-	-
9	*Other wholesale funding*	-	19,317,293	3,820,403	4,761,104	13,128,092
10	Liabilities with matching interdependent assets	-	-	-	-	-
11	Other liabilities:	-	414,153	4,091	10,799	12,845
12	*NSFR derivative liabilities*		335,065			0
13	*All other liabilities and equity not included in the above categories*	-	79,088	4,091	10,799	12,845
14	**Total ASF**					**19,149,426**
15	Total NSFR high-quality liquid assets (HQLA)					719,788
16	Deposits held at other financial institutions for operational purposes	-	-	-	-	-
17	Performing loans and securities:	-	13,109,352	406,920	4,420,470	6,361,165
18	*Performing loans to financial institutions secured by Level 1 HQLA*	-	-	-	-	-
19	*Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions*	-	12,813,680	78,804	2,202,786	4,164,240
20	*Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:*	-	295,672	328,116	2,217,684	2,196,925
21	*With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk*	-	-	-	-	-
22	*Performing residential mortgages, of which:*	-	-	-	-	-
23	*With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk*	-	-	-	-	-
24	*Securities that are not in default and do not qualify as HQLA, including exchange-traded equities*	-	-	-	-	-
25	Assets with matching interdependent liabilities	-	-	-	-	-
26	Other assets:	-	5,279	-	604,898	604,898
27	*Physical traded commodities, including gold*	-				-
28	*Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs*		-			-
29	*NSFR derivative assets*		507,484			502,204
30	*NSFR derivative liabilities before deduction of variation margin posted*		-			-
31	*All other assets not included in the above categories*	-	-	-	102,694	102,694
32	Off-balance sheet items		2,347,633			313,010
33	***Total RSF***					**7,998,861**
34	***Net Stable Funding Ratio (%)*** **N1**					**239%**

Notes

N1: The NSFR has consistently exceeded the regulatory requirement during the reporting period, 210% in December 2021 and 239% in June 2022. The ratio has been consistent with the Branch's risk appetite, operating above the internal requirements allocated by the ALCO. The internal requirement for NSFR is reviewed on an annual basis to ensure appropriateness to absorb any systemic volatility, if experienced.

LIQ2: NET STABLE FUNDING RATIO (NSFR) Q1 2022

R' 000
At 31 March 2022

		a	b	c	d	e
		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:	5,866,398	-	-	-	5,866,398
2	*Regulatory capital*	5,866,398	-	-	-	5,866,398
3	*Other capital instruments*	-	-	-	-	-
4	Retail deposits and deposits from small business customers:	-	50,310	150	-	45,414
5	*Stable deposits*	-	-	-	-	-
6	*Less stable deposits*	-	50,310	150	-	45,414
7	Wholesale funding:	-	21,223,936	2,074,869	4,233,172	12,458,383
8	*Operational deposits*	-	-	-	-	-
9	*Other wholesale funding*	-	21,223,936	2,074,869	4,233,172	12,458,383
10	Liabilities with matching interdependent assets	-	-	-	-	-
11	Other liabilities:	-	226,084	3,978	13,961	9,461
12	*NSFR derivative liabilities*		108,331			0
13	*All other liabilities and equity not included in the above categories*	-	124,242	3,978	7,472	9,461
14	**Total ASF**					**18,379,656**
15	Total NSFR high-quality liquid assets (HQLA)					772,755
16	Deposits held at other financial institutions for operational purposes	-	-	-	-	-
17	Performing loans and securities:	-	11,657,753	692,765	4,279,779	6,208,274
18	*Performing loans to financial institutions secured by Level 1 HQLA*	-	-	-	-	-
19	*Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions*	-	11,234,225	435,220	2,181,212	4,083,956
20	*Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:*	-	423,528	257,545	2,098,567	2,124,318
21	*With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk*	-	-	-	-	-
22	*Performing residential mortgages, of which:*	-	-	-	-	-
23	*With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk*	-	-	-	-	-
24	*Securities that are not in default and do not qualify as HQLA, including exchange-traded equities*	-	-	-	-	-
25	Assets with matching interdependent liabilities	-	-	-	-	-
26	Other assets:	-	282,564	-	399,686	99,039
27	*Physical traded commodities, including gold*					-
28	*Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs*		-			-
29	*NSFR derivative assets*		583,211			294,157
30	*NSFR derivative assets before deduction of variation margin posted*		-			-
31	*All other assets not included in the above categories*	-	-	-	99,039	99,039
32	Off-balance sheet items		988,315			510,842
33	***Total RSF***					**7,885,067**
34	***Net Stable Funding Ratio (%)***					**233%**

6. INTEREST RATE RISK IN THE BANKING BOOK (IRRBB)

Interest rate risk in the banking book (IRRBB) refers to current or prospective risk to the bank's income and/or economic value arising from adverse movements in interest rates. The interest rate risk exposure emanates from the banking book, as assets and liabilities are subject to repricing risk, yield curve risk, and basis risk.

The Branch's exposure is limited to interest rate risk in the banking book as the Branch does not hold trading book exposure.

IRRBB Governance and Management

The ALCO provides oversight of interest rate risk following the policy and contingency plan approved by the RCICC. ALCO is responsible for establishing the appropriate risk appetite for IRRBB and monitoring adherence to internal limits set by the committee. Operationally, the Treasury function is responsible for the daily management of interest rate risk per guidelines stipulated by the ALCO.

The Branch aims to maintain a balance sheet profile with natural interest rate risk offsets. In cases where there are no natural offsets, interest rate risk is hedged using appropriate derivatives which can affect CCB-JHB's income statement. In mitigation, the Branch has implemented fair-value hedge accounting to align the economic substance of the hedges with their accounting treatment.

IRRBB is quantified using serveral metrics such as the net repricing mismatch, Net Interest Income (NII) and Economic Value of Equity (EVE) sensitivity. In addition, stress testing is conducted at variuos levels of the Branch, with relevent reporting to ALCO, RCICC, Head Office and the local regulator.

IRRBB Position and Hedging Effectiveness

NII and EVE sensitivity, which assesses the impact of interest rates on earnings and the economic value of equity of the Branch, remained within the Branch's appetite during H1 2022.

The interest rate shocks used to measure interest rate sensivity have been updated in accordance to the incoming IRRBB regulatory reform. In addition, behavioural modelling has been incorporated into the measurement of IRRBB to ensure a more robust assessment of the risk.

The implementation of the revised IRRBB Framework and established regulatory requirements is expected from January 2023, there is no concern regarding CCB-JHB's ability in meeting RR requirements and within the allocated timelines.

The Branch has continued to employ fair-value hedge accounting under IFRS 9 to recognise fair-value changes related to interest rate risk on hedged positions. Hedge effectiveness of the Interest Rate Swap (IRS) portfolio is assessed monthly and reported to ALCO as part of hedge accounting procedures. The hedge relationship of the government bonds and IRS has proved to be highly effective throughout H1 2022.

7. MARKET RISK

Market risk refers to the risk of losses in on-and-off balance sheet exposures arising from movements in market prices.
As the Branch does not hold trading book exposures, the risk is limited to banking book exposures.

The Branch's exposure to market risk primarily stems from positions resulting from the facilitation of client flows in foreign exchange and money markets. This mainly consists of foreign exchange risk. Foreign exchange risk is limited due to strict internal limits in respect of open foreign currencies position.

CCB-JHB has no trading book exposure. CCB-JHB conducted a review of the banking/trading book exposure delimitations as per the BCBS Fundamental Review of the Trading Book (FRTB) Framework. Local implementation will not impact CCB-JHB banking/trading book classification.

CCB-JHB has no equity, credit default or commodities derivatives exposure.

CCB-JHB interest rate derivatives are booked with the parent company for hedging purposes (banking book) and do not attract regulatory capital requirement.

CCB-JHB has no securitisation exposure.

Market Risk Governance and Management

The ALCO is accountable for the independent oversight of the effectiveness of the market risk framework. The committee ultimately approves the market risk appetite and related limits following both Head Office and local requirements. The committee reviews the market risk exposure monthly and ensures the effectiveness of the management process and approved strategy.

In mitigation of the risks emanating from the facilitation of client flows, exposures are hedged as part of the end-of-day procedures with the aim of squaring-off positions. Treasury is restricted to trading in limited major currencies, ensuring that the Branch only trades in highly liquid markets to mitigate market liquidity risk. FX exposure is hedged within the Head Office intra-day and overnight limits as well as the local open position limit.

The Branch has a dedicated policy and contingency plan to ensure there is a formal process for recognition and authorisation for risk excesses incurred.

Market Risk Measurement

The Standardised Approach is currently used for calculating the market risk capital requirement as per the regulations, it is driven by the net open foreign currency position held by CCB-JHB. It is considered immaterial to the total regulatory capital requirements as the Branch has a restricted open position limit.

CCB-JHB is actively preparing for the implementation of the revised Market Risk Framework (encompassed within the FRTB Framework) and established regulatory requirements as per the PA's revised FRTB roadmap. Full implementation is expected from January 2024. Relevant applications have been submitted to the regulator with regards to the method for measuring market risk.

As a result of increased volatility in the market due to heightened geopolitical risks, the Branch has enhanced monitoring of market risk events using early warning indicators as defined in the liquidity risk contingency plan. During H1 2022, the Branch has not detected market risk events that would have a significant effect on the Branch.

MR1: Market risk under the standardised approach (SA)

	R'000 **At 30 June 2022**	**a**
		Capital charge in SA
1	General interest rate risk	-
2	Equity risk	-
3	Commodity risk	-
4	Foreign exchange risk	4,284
5	Credit spread risk - non-securitisations	-
6	Credit spread risk - securitisations (non-correlation trading portfolio)	-
7	Credit spread risk - securitisation (correlation trading portfolio)	-
8	Default risk - non-securitisations	-
9	Default risk - securitisations (non-correlation trading portfolio)	-
10	Default risk - securitisations (correlation trading portfolio)	-
11	Residual risk add-on	-
12	**Total**	**4,284**

Notes

Market risk is not significant for the Branch, as the Branch does not have trading activities and as a result maintains a low open foreign currency position.

8. OPERATIONAL RISK

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people, and systems or external events, it includes legal risk but excludes strategic risk.

Operational risk can cause financial loss, reputational loss, loss of competitive position, or regulatory sanctions. Such risk can be minimised by the implementation of adequate infrastructure, controls, systems, and appropriately trained/skilled staff. Operational risk is an inherent risk in the ordinary course of business activity.

Operational Risk Governance and Management

The Branch appropriately identifies and manages operational risk within acceptable levels by the adoption of sound operational risk management practices which are fit for purpose.

The operational risk management policy is embedded at all levels of the Branch, supported by the risk culture, and is continually enhanced in line with regulatory developments, CCB Head Office, and Branch requirements; this in turn facilitates ongoing operational risk resilience. RCICC is the governing committee for identifying, monitoring and mitigating this risk.

No material changes have been made in terms of strategy and management of operational risk as a whole since the previous semi-annual disclosure. However, among the wide scope of operational risk, business continuity and risk management and processes continue to be reviewed and enhanced.

Operational Risk Measurement and Position

From a regulatory perspective, the Branch applies the Basic Indicator Approach (BIA) for the assessment of regulatory capital; the BIA calculation is based on a multiplication factor that is applied to gross operating income.

Operational capital requirement increased in H1 2022 due to increased gross operating income in 2021 and H1 2022.

No material operational losses have occurred in H1 2022.

CCB-JHB is actively preparing for the implementation of the revised Standardised Approach for measuring operational risk. Full implementation is expected from January 2024.

Additional disclosure on operational risk may be found in the CCB-JHB Pillar 3 annual disclosures.

9. ENVIRONMENT, SOCIAL AND GOVERNANCE (ESG) RISK

Environmental, Social and Governance (ESG) is an evaluation of a company's contribution to the three factors when measuring sustainability and ethical impact.

The three central factors of ESG are:

- Environmental criteria which examines how the business performs as a steward of the natural environment (waste and pollution; resource depletion; greenhouse gas emission; deforestation; climate change);
- Social criteria which looks at how employees, clients, vendors, third parties and local communities are treated (employee relations; working conditions; contribution to local communities; health and safety; consumer protection and animal welfare);
- Governance criteria, which looks at how a company is governed (corporate transparency; remuneration and incentives; donations and political lobbying; corruption and bribery; management diversity and structure).

Climate risk refers to risk assessments based on formal analysis of the consequences, likelihoods, and responses to the impacts of climate change and how societal constraints shape adaptation options.

Climate risk mainly includes temperature increases, extreme weather, polar cap melting, changes to Earth's eco-systems, pandemic and epidemics.

While climate risk can affect all economic sectors, besides direct physical climate risks, there are also indirect risks such as the impact on selected sectors (agriculture, fisheries, forestry, health care, real estate, and tourism), reputational risks, litigation risks, financial risks, etc.

Governance and Management of ESG risk

CCB-JHB's goals are to:

- uphold the guiding principles of CCB Group's Green Development Strategy and ESG;
- promote green, sustainable financing and investment;
- establish relevant governance, reporting practices and internal controls for identifying, reporting, monitoring and managing ESG risk;
- supply demand for sustainable banking; and
- achieve carbon neutrality (medium-term goal).

CCB-JHB has developed and issued an ESG Framework to address all aspects of ESG. This framework lays out CCB-JHB's overall principles and guidelines for managing, enhancing and improving ESG within the Branch. The Branch has also established an ESG forum assuming responsibility for the implementation of the Green and Carbon Emission strategies.

CCB-JHB has taken into consideration ESG risk drivers when developing and implementing its business strategy, governance processes, management responsibilities and overall risk management.

Management of ESG is embedded in policies, frameworks, procedures, internal controls or other internal processes such as, but not limited to, product and service offerings, AML/CFT screening and rating, risk appetite setting, credit rating, credit granting, stress testing, procurement, committees' mandates, hiring, remuneration and training.