

Disclosure Report

China Construction Bank Corporation, Johannesburg Branch

Basel Pillar 3 Semi – Annual Disclosure Report June 2021

"New Start

New Development

New Finance"

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***All amounts/figures are reported in R'000 unless stated otherwise within the present 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, and 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 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 2021, the financial position of the Branch was as follows:

- Total assets of R 34 534 151
- Total liabilities of R 29 001 174
- Total equity of R 5 532 977

Total assets decreased by 14% compared to 31 December 2020 (R 40 050 645). This is mainly as a result of early repayment of loans and short-term bank placements maturing. The increase in debt securities, primarily as a result of the purchase of new treasury bills, only partly compensated reduced loan and placement amounts. Early repayments are a direct consequence of the current economic environment marked by COVID-19 1st, 2nd and 3rd wave.

Financial Performance

For the 6 months period, from 1 January to 30 June 2021, the Branch reported a net profit after tax of R 202 925 which is in line with expectations.

Salient Features

The capital position of the Branch as of 30 June 2021 is R5 664 305.

The capital adequacy of the Branch as at 30 June 2021 is 47.02%.

The capital structure of the Branch primarily consists of Branch Capital and Retained Earnings.

The leverage ratio of the Branch as at 30 June 2021 is 15.77%.

Liquidity position, including-

- The Liquidity Coverage Ratio (LCR) of the Branch as at 30 June 2021 is 193%; and
- The Net Stable Funding Ratio (NSFR) of the Branch as at 30 June 2021 is 171%.

Directive 1 of 2019 and Related Tables within Present Disclosure

The following tables as per Directive 1 of 2019 have not been included in the present 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 | Not yet implemented per the Directive |
| 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.

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 by the CCB Group.

There is no restriction 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 CET 1 capital. This capital is well-suited to absorb losses and retain value under stressed conditions. There have been no material changes in the capital structure 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 2021 is R5 664 305. The appropriation of profits led to a slow but steady growth over the years. Overall capital supply remains stable.

As at 30 June 2021, the Branch reported a capital adequacy of 47.02% and a leverage ratio of 15.77%. The capital adequacy ratio and leverage ratio have increased mainly due to a combination of loans maturing (affecting both ratios), as well as a decrease in exposure to corporates and banks (affecting capital adequacy). Capital demand decreased with changes in regulatory RWA.

The capital level is deemed appropriate to support CCB-JHB business operations under stressed environment conditions. Capital adequacy and leverage ratios have remained well above industry regulatory minimums of 10.50% and 4.00% respectively during H1 2021.

CC1: COMPOSITION OF REGULATORY CAPITAL

R' 000
At 30 June 2021

| | | a | | b | |
|----|--|---|-----------|--|-----------------|
| | | Amounts | | Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation | |
| | Notes | | | | |
| | | 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 | | 2,147,335 | | BA 700 Line 29 |
| 3 | Accumulated other comprehensive income (and other reserves) | | - | | |
| 4 | <i>Directly issued capital subject to phase-out from CET1 (only applicable to non-joint stock companies)</i> | | - | | |
| 5 | Common share capital issued by third parties (amount allowed in group CET1) | | - | | |
| 6 | Common Equity Tier 1 capital before regulatory deductions | | 5,532,977 | | BA 700 Line 27 |
| | | Common Equity Tier 1 capital regulatory adjustments | | | |
| 7 | Prudent valuation adjustments | | 460 | | BA 700 Line 203 |
| 8 | Goodwill (net of related tax liability) | | - | | |
| 9 | Other intangibles other than mortgage servicing rights (net of related tax liability) | | 714 | | 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 | | 1,174 | | BA 700 Line 42 |
| 29 | Common Equity Tier 1 capital (CET1) | | 5,531,803 | | 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 | <i>Directly issued capital instruments subject to phase-out from additional Tier 1</i> | | - | | |
| 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 2021

| R 000 At 30 June 2021 | | a | | b | |
|--------------------------|---|--|------------|--|--|
| | | Amounts | | Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation | |
| Notes | | | | | |
| 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) | | 5,531,803 | 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 | | 132,502 | BA 700 Line 83 | |
| 51 | Tier 2 capital before regulatory adjustments | | 132,502 | 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) | N1 | 132,502 | BA 700 Line 87 | |
| 59 | Total regulatory capital (TC = T1 + T2) | | 5,664,305 | BA 700 Line 88 | |
| 60 | Total risk-weighted assets | | 12,046,255 | BA 700 Line 6 Col 7 | |
| | | Capital ratios and buffers | | | |
| 61 | Common Equity Tier 1 (as a percentage of risk-weighted assets) | N2 | 45.92% | BA 700 Line 18 Col 1 | |
| 62 | Tier 1 (as a percentage of risk-weighted assets) | N3 | 45.92% | BA 700 Line 18 Col 2 | |
| 63 | Total capital (as a percentage of risk-weighted assets) | | 47.02% | 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. | | 38.55% | KM1 Line 12 | |
| | | National minima (if different from Basel III) | | | |
| 69 | National Common Equity Tier 1 minimum ratio (if different from Basel III minimum) | | 7.00% | BA 700 Line 17 Col 1 - BA 700 Line 12 Col 1 | |
| 70 | National Tier 1 minimum ratio (if different from Basel III minimum) | | 8.50% | BA 700 Line 17 Col 2 - BA 700 Line 12 Col 2 | |
| 71 | National total capital minimum (if different from Basel III minimum) | | 10.50% | 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) | | 74,814 | 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) | | 168,769 | BA 200 Line 9 | |

CC1: COMPOSITION OF REGULATORY CAPITAL *(CONTINUED)*

R' 000
At 30 June 2021

| | | a | b |
|----|--|---------|--|
| | | Amounts | 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 | 132,502 | 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:** Tier 2 capital (T2): The decrease is as a result of a decrease in the general allowance for credit impairment.
- N2:** Common Equity Tier 1 (as a percentage of risk-weighted assets): The increase is as a result of a decrease in credit and counterparty credit risk.
- N3:** Tier 1 (as a percentage of risk-weighted assets): The increase is as a result of a decrease in credit and counterparty credit risk.

CCA: MAIN FEATURES OF REGULATORY CAPITAL INSTRUMENTS

R' 000
At 30 June 2021

| | | 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 | No |
| 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 (there is currently no equity risk exposure).

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 is 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).

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, Recovery Plan and ICAAP, 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 financial institutions and large corporates. 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 improvement and, if necessary, adjusting the credit risk profile and credit risk appetite 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 ratings, providing risk review opinions for credit applications, carrying out credit assessments and continuous monitoring, performing post-loan management, reviewing and recommending performing 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 areas through the credit life cycle to ensure the credit risk is assessed at the different stages of the credit life cycle, and appropriate actions to be taken to mitigate the risk. There has been no major change in managing credit risk in H1 2021.

Credit Quality of Assets

Overall credit quality of assets remained stable over H1 2021. There have been no material movements between defaulted and non-defaulted exposure during the period. There is one past-due exposure as at 30 June 2021, which relates to a real estate company in South Africa (unchanged) and is 2745 days past due and is fully impaired.

There are no restructured exposures within the Branch as at 30 June 2021.

There are no write-offs in H1 2021.

CR1: CREDIT QUALITY OF ASSETS

R' 000
At 30 June
2021

| | | 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 | 3,047 | 17,077,001 | 66,925 | 7,791 | 59,134 | - | | 17,013,123 | N1 |
| 2 | Debt Securities | - | 16,836,115 | 104,516 | - | 104,516 | - | | 16,731,599 | N2 |
| 3 | Off-balance sheet exposures | - | 785,434 | 5,119 | - | 5,119 | - | | 780,315 | N3 |
| 4 | Total | 3,047 | 34,698,550 | 176,560 | 7,791 | 168,769 | - | | 34,525,037 | |

Notes

- N1:** The decrease in loans and impairments is as a result of repayment of loans (including early repayments) and maturities in short-term bank placements.
- N2:** The increase in debt securities is primarily as a result of the purchase of new treasury bills.
- N3:** The increase in off-balance sheet exposures is as a result of new committed facilities granted to clients.

CR2: CHANGES IN STOCK OF DEFAULTED LOANS AND DEBT SECURITIES

| R'000 | | A |
|-------|--|-------|
| 1 | Defaulted loans and debt securities at end of the previous reporting period | 3,047 |
| 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) | 3,047 |

Credit Risk Mitigation (CRM)

The Branch has approved collateral that is acceptable in reducing credit risk and the collateral type must meet the minimum requirements that are stipulated in the Credit Management Policy and Procedure. 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 if meeting regulatory requirements.

CR3: CREDIT RISK MITIGATION TECHNIQUES – OVERVIEW

R' 000
At 30 June 2021

| | | 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 | 17,080,048 | - | - | - | - | - | - |
| 2 | Debt securities | 16,836,115 | - | - | - | - | - | - |
| 3 | Total | 33,916,163 | - | - | - | - | - | - |
| 4 | Of which defaulted | 3,047 | - | - | - | - | - | - |

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 point of view, 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 of 100%.

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

R' 000
At 30 June 2021

Notes

| | | | a | b | c | d | e | f |
|----|---|----|------------------------------|--------------------------|----------------------------|--------------------------|---------------------|-------------|
| | | | 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 | | 17,101,561 | - | 17,101,561 | - | - | 0% |
| 2 | Non-central government public sector entities | | 1,075,517 | - | 1,075,517 | - | 1,075,517 | 100% |
| 3 | Multilateral development banks | | - | - | - | - | - | - |
| 4 | Banks | N1 | 14,232,812 | 153 | 14,232,812 | 77 | 6,074,271 | 43% |
| 5 | Securities firms | | - | - | - | - | - | - |
| 6 | Corporates | N2 | 3,044,426 | 785,281 | 3,044,426 | 387,541 | 3,433,490 | 100% |
| 7 | Regulatory retail portfolios | | - | - | - | - | - | - |
| 8 | Secured by residential property | | - | - | - | - | - | - |
| 9 | Secured by commercial real estate | | - | - | - | - | - | - |
| 10 | Equity | | - | - | - | - | - | - |
| 11 | Past-due loans | | - | - | - | - | - | 50% |
| 12 | Higher-risk categories | | - | - | - | - | - | - |
| 13 | Other assets | | 171,127 | - | 171,127 | - | 171,127 | 100% |
| 14 | Total | | 35,625,443 | 785,434 | 35,625,443 | 387,618 | 10,754,405 | |

Notes

N1: The decrease is predominately driven by maturities in short term bank placements and repayment of loans (including early repayments).

N2: The decrease in corporate loans is a result of scheduled and early repayments.

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

| R'000 At 30 June 2021 | | a | b | c | d | e | f | g | h | i | j |
|--------------------------|--|-------------------|----------|----------------|----------|------------------|----------|------------------|----------|----------|---|
| | Risk weight | 0% | 10% | 20% | 35% | 50% | 75 % | 100% | 150 % | Other s | Total credit exposures amount (post CCF and post CRM) |
| | Asset classes | | | | | | | | | | |
| 1 | Sovereigns and their central banks | 17,101,561 | - | - | - | - | - | - | - | - | 17,101,561 |
| 2 | Non-central government public sector entities (PSEs) | - | - | - | - | - | - | 1,075,517 | - | - | 1,075,517 |
| 3 | Multilateral development banks (MDBs) | - | - | - | - | - | - | - | - | - | - |
| 4 | Banks | 6,407,047 | - | 465,777 | - | 2,757,898 | - | 4,602,167 | - | - | 14,232,889 |
| 5 | Securities firms | - | - | - | - | - | - | - | - | - | - |
| 6 | Corporates | - | - | - | - | - | - | 3,431,967 | - | - | 3,431,967 |
| 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 | - | - | - | - | - | - | 171,127 | - | - | 171,127 |
| 14 | Total | 23,508,608 | - | 465,777 | - | 2,757,898 | - | 9,280,778 | - | - | 36,013,061 |

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 the transaction in cases where there is a bilateral risk of loss.

Derivative financial instruments used by the Branch include Interest Rate Swaps (IRS) and Foreign Exchange Contracts (FX). IRS transactions are solely booked for hedging purposes while FX transactions are booked 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 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 type 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 527 530 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 new Standardised Approach (SA-CCR) since January 2021 (previously using the Current Exposure Method (CEM)); 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 capital requirement for June 2021 amounted to R 23 156. The decrease of CCR capital requirement is mainly due to FX derivatives capital demand.

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

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

| | | a | b | c | d | e | f |
|--------------------------|---|---------------------|---------------------------------|------|---|-----------------|---------------|
| R'000 At 30 June 2021 | | Replacement cost | Potential future exposure | EEPE | Alpha used for computing regulatory EAD | EAD post CRM | RWA |
| 1 | SA-CCR | 15,753 | 151,111 | | 1.4 | 233,609 | 23,156 |
| 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 | | | | | | 23,156 |

Notes

N1: The counterparty credit risk exposure is calculated using the revised standardised method. The decrease is a result of fair value movements in currency swaps resulting from exchange rate fluctuations.

CCR2: CREDIT VALUATION ADJUSTMENT (CVA) CAPITAL CHARGE

| | | 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 | 23,156 | 13,157 |
| 4 | Total subject to the CVA capital charge | 23,156 | 13,157 |

Notes

Please refer to CCR1.

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

| | | | | | | | | | | | |
|--|--|---------|-----|-----|-----|-----|-----|--------|------|--------|-----------------------|
| R'000 | | a | b | c | d | e | f | g | h | i | j |
| At 30 June 2021 | | | | | | | | | | | |
| Risk weight | | 0% | 10% | 20% | 35% | 50% | 75% | 100% | 150% | Others | Total credit exposure |
| Regulatory Portfolio | | | | | | | | | | | |
| Sovereigns | | - | - | - | - | - | - | - | - | - | - |
| Non-central government public sector entities (PSEs) | | - | - | - | - | - | - | - | - | - | - |
| Multilateral development banks (MDBs) | | - | - | - | - | - | - | - | - | - | - |
| Banks | | 210,453 | - | - | - | - | - | 23,156 | - | - | 233,609 |
| Securities firms | | - | - | - | - | - | - | - | - | - | - |
| Corporates | | - | - | - | - | - | - | - | - | - | - |
| Regulatory retail portfolios | | - | - | - | - | - | - | - | - | - | - |
| Other assets | | - | - | - | - | - | - | - | - | - | - |
| Total | | 210,453 | - | - | - | - | - | 23,156 | - | - | 233,609 |

Notes

Please refer to mr1. 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, it is however 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 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. Overall funding strategy remained unchanged during H1 2021.

In light of the negative impact of the pandemic, early warning indicators are closely monitored to decide if the liquidity risk contingency plan is to be activated or not.

LCR and NSFR Positions

LCR has been maintained well above regulatory and internal requirements throughout the first half of 2021, with the ratio reported at 193% as 30 June 2021.

The regulatory requirement with regards to the net stable funding ratio has been met throughout the first half of 2021. As at 30 June 2021, the net stable funding ratio was reported as 171% as shown below:

LIQ2: NET STABLE FUNDING RATIO (NSFR) Q2 2021

R' 000
At 30 June 2021

| | | 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: | 5,532,977 | - | - | - | 5,532,977 |
| 2 | Regulatory capital | 5,532,977 | - | - | - | 5,532,977 |
| 3 | Other capital instruments | - | - | - | - | - |
| 4 | Retail deposits and deposits from small business customers: | - | 26,489 | 15,605 | - | 37,884 |
| 5 | Stable deposits | - | - | - | - | - |
| 6 | Less stable deposits | - | 26,489 | 15,605 | - | 37,884 |
| 7 | Wholesale funding: | - | 18,768,050 | 4,473,013 | 5,274,727 | 13,074,989 |
| 8 | Operational deposits | - | - | - | - | - |
| 9 | Other wholesale funding | - | 18,768,050 | 4,473,013 | 5,274,727 | 13,074,989 |
| 10 | Liabilities with matching interdependent assets | - | - | - | - | - |
| 11 | Other liabilities: | - | 169,938 | 66,909 | 206,444 | 12,294 |
| 12 | NSFR derivative liabilities | - | 354,321 | | | - |
| 13 | All other liabilities and equity not included in the above categories | - | 64,382 | 24,588 | - | 12,294 |
| 14 | Total ASF N2 | | | | | 18,658,144 |
| 15 | Total NSFR high-quality liquid assets (HQLA) | | | | | 863,837 |
| 16 | Deposits held at other financial institutions for operational purposes | - | - | - | - | - |
| 17 | Performing loans and securities: | - | 6,604,194 | 3,579,395 | 6,893,412 | 9,946,139 |
| 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 | - | 5,525,905 | 3,579,395 | 6,193,412 | 8,811,995 |
| 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: | - | 1,078,288 | - | 700,000 | 1,134,144 |
| 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: | - | 101,455 | - | 77,644 | 73,142 |
| 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 | - | 105,957 | | | - |
| 30 | NSFR derivative liabilities before deduction of variation margin posted | - | - | | | - |
| 31 | All other assets not included in the above categories | - | - | - | 73,142 | 73,142 |
| 32 | Off-balance sheet items | - | 785,434 | | | 39,272 |
| 33 | Total RSF | | | | | 10,922,390 |
| 34 | Net Stable Funding Ratio (%) | | | | | 171% |

Notes

N1: The NSFR has consistently exceeded the regulatory requirement during the reporting period, 181% in December 2020 and 171% in June 2021. 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.

N2: The decrease in available stable funding (ASF) is as a result of deposits maturing.

LIQ2: NET STABLE FUNDING RATIO (NSFR) Q1 2021

R' 000
At 30 June 2021

| | | 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: | 5,434,554 | - | - | - | 5,434,554 |
| 2 | Regulatory capital | 5,434,554 | - | - | - | 5,434,554 |
| 3 | Other capital instruments | - | - | - | - | - |
| 4 | Retail deposits and deposits from small business customers: | - | 23,004 | 21,355 | - | 39,923 |
| 5 | Stable deposits | - | - | - | - | - |
| 6 | Less stable deposits | - | 23,004 | 21,355 | - | 39,923 |
| 7 | Wholesale funding: | - | 20,338,512 | 3,957,687 | 6,929,207 | 16,472,541 |
| 8 | Operational deposits | - | - | - | - | - |
| 9 | Other wholesale funding | - | 20,338,512 | 3,957,687 | 6,929,207 | 16,472,541 |
| 10 | Liabilities with matching interdependent assets | - | - | - | - | - |
| 11 | Other liabilities: | - | 301,694 | 22,682 | 250,133 | 11,341 |
| 12 | NSFR derivative liabilities | - | - | 254,645 | - | - |
| 13 | All other liabilities and equity not included in the above categories | - | 297,182 | 22,682 | - | 11,341 |
| 14 | Total ASF | | | | | 21,958,359 |
| 15 | Total NSFR high-quality liquid assets (HQLA) | | | | | 899,076 |
| 16 | Deposits held at other financial institutions for operational purposes | - | - | - | - | - |
| 17 | Performing loans and securities: | - | 9,284,771 | 2,015,642 | 7,617,605 | 9,916,273 |
| 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 | - | 9,275,826 | 909,564 | 6,917,605 | 8,763,761 |
| 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: | - | 8,946 | 1,106,078 | 700,000 | 1,152,512 |
| 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: | - | 299,069 | - | 79,297 | 52,536 |
| 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 | | | 325,830 | | - |
| 30 | NSFR derivative assets before deduction of variation margin posted | | | - | | - |
| 31 | All other assets not included in the above categories | - | - | - | 52,536 | 52,536 |
| 32 | Off-balance sheet items | | | 897,010 | | 44,851 |
| 33 | Total RSF | | | | | 10,912,734 |
| 34 | Net Stable Funding Ratio (%) | | | | | 201% |

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.

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.

Interest rate swaps are utilized to hedge against the fixed-rate exposure on loans with a tenor exceeding 12 months, and government securities. Fixed-rate deposits with a maturity exceeding 9 months are hedged (exception is made when operating below an ALCO determined limit).

IRRBB is quantified using net repricing mismatch, Net Interest Income (NII) & Economic Value of Equity (EVE) sensitivity, and stress testing.

Hedge effectiveness of the IRS portfolio is monitored monthly and effectiveness is demonstrated over H1 2021.

There has been no significant change in terms of managing IRRBB during H1 2021.

IRRBB Position and Hedging Effectiveness

In response to the COVID-19 pandemic, the SARB has decreased the repo rate by 300 bps to support the economy in 2020. The repo rate has remained unchanged during H1 2021. CCB-JHB NII and EVE sensitivity remained within appetite and the hedging strategy remained highly effective.

7. MARKET RISK

Market risk refers to the risk of losses in on-and-off balance sheet exposures arising from movements in market prices.

The risk is limited to the banking book as the Branch does not hold trading 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.

CCB-JHB has no trading book 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. No major changes have been identified during H1 2021.

Market Risk Measurement

The market risk capital requirement is calculated using the Standardised Approach 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.

MR1: MARKET RISK UNDER THE STANDARDISED APPROACH (SA)

| | R'000 | a |
|----|--|----------------------|
| | At 30 June 2021 | Capital charge in SA |
| 1 | General interest rate risk | - |
| 2 | Equity risk | - |
| 3 | Commodity risk | - |
| 4 | Foreign exchange risk | 259 |
| 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 | 259 |

Notes

Market risk is not significant for the Branch, as the Branch does not have trading activities and holds a low value of open positions.

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 aims to appropriately identify and manage operational risk within acceptable levels by adopting sound operational risk management practices which are fit for purpose.

The operational risk policy is embedded at all levels of the Branch, supported by the risk culture, and is enhanced continually in line with regulatory developments, CCB Head Office, and Branch requirements. 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, both business continuity and pandemic/epidemic risks 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 2021 due to increased gross operating income in 2020 and H1 2021 (requirement is based on last three years gross operating income).

No material operational losses have occurred in H1 2021.

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

9. PANDEMIC RISK

Pandemic risk refers to the estimated probabilities that, in any given year, pandemics of varying degrees of severity will occur; the consequences of a pandemic can be both quantified in terms of lost income and/or lost lives.

Pandemic risk falls within the broader scope of climate risk. CCB-JHB does not consider that climate risk (other than epidemics/pandemics) is currently material to CCB-JHB.

Management of Pandemic Risk

CCB-JHB has taken special measures to ensure that the health, safety, and welfare of employees are protected in the workplace as far as is reasonably practical in accordance with ethical considerations and the Branch's legal obligations.

A responsible approach to epidemics/pandemics involves maintaining the interests of the Branch, its employees, and the community in which the Branch operates. It is the Branch's objective to protect its employees and to take measures to assist in curbing the spread of epidemics/pandemics.

CCB-JHB has established a standard of conduct for all employees and guides unacceptable conduct concerning policies and procedures on infectious diseases or epidemics or pandemics. It sets out the Branch's approach to health and safety within the workplace in relation to the outbreak and containment of epidemics/pandemics.

CCB-JHB has also established a business continuity plan for infectious disease focussing on remote working when and where possible and only having critical staff onsite who are screened daily and undergo regular COVID-19 PCR tests.

During H1 2021, few COVID-19 cases occurred within CCB-JHB's staff, the spread of the virus was however contained and core business functions sustained.

Secondary effects of the pandemic affect the global and local economy which have a direct impact on CCB-JHB counterparties (credit quality and repayment ability), deposits' structure, business activity (volume, growth potential and financing opportunities) and overall profitability.

CCB-JHB has been able to successfully contain secondary impacts by enhancing credit monitoring, focussing on attracting new business opportunities (new counterparties, shift on other products/services), limit costs and maintain profitability during H1 2021.