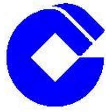

中国建设银行
China Construction Bank
Johannesburg Branch
(Incorporated in the People's Republic of China)

Disclosure Report

China Construction Bank Corporation, Johannesburg Branch

Basel Pillar 3 Semi – Annual Disclosure Report December 2022

”New Start

New Development

New Finance”

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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[1]

As at 31 December 2022, the financial position of the Branch was as follows:

- Total assets of R 43 584 843
- Total liabilities of R 37 296 886
- Total equity of R 6 287 957

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[1] *All amounts/figures are reported in R’000 unless stated otherwise within the presented disclosure.*

Reporting period refers to July 1st 2022 to December 31th 2022, also referred to as H2 2022. (Prior reporting period refers to 1st January 2022 to 30th June 2022/H1 2022).

Total assets increased by 27% compared to 30 June 2022 (R 34 341 466). The increase in total assets is as a result of the following:

- Increase in syndicated loans and bilateral loans
- Purchase of HQLA and corporate bonds
- Depreciation of the ZAR/USD by 0.54 during the period

Financial Performance

For the 6 months period, from 1 July to 31 December 2022, the Branch reported a net profit after tax of R190 551. Operating income experienced a downward trajectory as a result of decreasing average interest bearing assets. This was however offset by the reversal of impairments as a result of the annual update of parameters in the impairment model and the discontinuation of the use of management overlays.

Salient Features

The capital of the Branch as of 31 December 2022 is R 6 357 329
The capital adequacy of the Branch as at 31 December 2022 is 40.40%.
The capital structure of the Branch primarily consists of Branch Capital, Retained Earnings and Other Reserves.
The leverage ratio of the Branch as at 31 December 2022 is 13.89%.
Key Liquidity ratios are as follows:

- The Liquidity Coverage Ratio (LCR) of the Branch as at 31 December 2022 is 190%; and
- The Net Stable Funding Ratio (NSFR) of the Branch as at 31 December 2022 is 139%.

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
CCR6, 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 Corporation Group, 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.

The total regulatory capital minimum requirement to be met by all banks within South Africa is as per Directive 5 of 2021, “Capital Framework for South Africa based on the Basel III framework”, the minimum regulatory requirement is set at 11.50% (excluding D-SIB requirements and Internal Capital Requirement (ICR)). CCB-JHB is not recognised as a D-SIB, hence no D-SIB requirement add-on applies.

CCB-JHB adjusts its internal minimum capital requirement and capital planning 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 (total capital requirement: 8%);
- South African minima (including Conservation buffer (2.5%), Pillar 2A (total capital requirement: 1%), and 2B); and
- Countercyclical buffer ((depending on exposures to corporate sector in foreign jurisdictions).

As economies across the world recover from the COVID-19 pandemic, more jurisdictions are implementing Countercyclical Buffer (CCyB) requirements. CCB-JHB has internal processes to ensure CCyB requirements are met at all times. During H2 2022, the United Kingdom has introduced a 1% CCyB requirement which impacted total minimum capital requirements. Few other jurisdictions are planning to introduce CCyB requirements or increase their CCyB requirements during 2023.

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 (99% of total 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 31 December 2022 is R 6 357 329. The monthly appropriation of profits led to a steady increase of capital supply over the years. Overall capital supply remains stable.

As at 31 December 2022, the Branch reported a capital adequacy of 40.40% and a leverage ratio of 13.89%. The capital adequacy ratio has decreased due to an increase of total RWA, mainly driven by an increase of both credit RWA and CCR RWA; new bilateral and syndicated term loans coupled with investment in new corporate bonds contributed to an increase of credit risk.. Capital demand increased at a faster pace with changes in regulatory RWA, the increase of RWA remained controlled and in line with current growth strategy. The leverage ratio decreased, due to the increase of the total exposures (driven by total balance sheet increase).

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 H2 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, processes and reporting to ensure CCB-JHB's compliance.

CCB-JHB is currently implementing Regulatory Reforms (RR) as per Guidance Note 4 of 2022, "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 31 December 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		2,767,198	BA 700 Line 29
3	Accumulated other comprehensive income (and other reserves)		135,117	BA 700 Line 31
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**		**6,287,957**	BA 700 Line 27
		Common Equity Tier 1 capital regulatory adjustments		
	Prudent valuation adjustments		39,371	BA 700 Line 206
8	Goodwill (net of related tax liability)		-	
9	Other intangibles other than mortgage servicing rights (net of related tax liability)		358	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**		**39,729**	BA 700 Line 42
29	**Common Equity Tier 1 capital (CET1)**		**6,248,228**	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 31 December 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)**		**6,248,228**	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		109,101	BA 700 Line 83
51	**Tier 2 capital before regulatory adjustments**		**109,101**	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)**		**109,101**	BA 700 Line 87
59	**Total regulatory capital (TC = T1 + T2)**		**6,357,329**	BA 700 Line 88
60	**Total risk-weighted assets**		**15,736,482**	BA 700 Line 6 Col 7
		Capital ratios and buffers		
61	**Common Equity Tier 1 (as a percentage of risk-weighted assets)**	N1	**39.71%**	BA 700 Line 18 Col 1
62	**Tier 1 (as a percentage of risk-weighted assets)**	N2	**39.71%**	BA 700 Line 18 Col 2
63	**Total capital (as a percentage of risk-weighted assets)**		**40.40%**	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)**		**2.55%**	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**		**0.05%**	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.**		**31.78%**	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 - BA 700 Line 15 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 - BA 700 Line 15 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 - BA 700 Line 15 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)		72,585	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)		109,101	BA 200 Line 9

CC1: COMPOSITION OF REGULATORY CAPITAL *(CONTINUED)*

R' 000 At 31 December 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	109,101	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 decrease is as a result of increases in credit risk through organic growth of the asset book.

N2: Tier 1 (as a percentage of risk-weighted assets): The decrease is as a result of increases in credit risk through organic growth of the asset book.

CCA: MAIN FEATURES OF REGULATORY CAPITAL INSTRUMENTS

R' 000
At 31 December 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]

CCyB1: Geographical distribution of credit exposures used in the countercyclical buffer

R' 000 At 31 December 2022	a	b	c	d	e
Geographical breakdown	**Countercyclical capital buffer rate**	**Exposure values and/or risk-weighted assets used in the computation of the countercyclical capital buffer**		**Bank-specific countercyclical capital buffer rate**	**Countercyclical buffer amount**
		Exposure values	**Risk-weighted assets**		
South Africa (home)	0%	2,214,343	2,209,244		
Mauritius	N/a	831,340	831,340		
Netherlands	0%	805,709	805,709		
United Kingdom	1%	264,555	264,555		
United States	0%	988,323	988,323		
Sum		**5,104,269**	**5,099,170**		
Total				**0.05%**	**8,167**

Notes

CCB-JHB is now attracting Countercyclical Buffer (CCyB) requirements relating to UK corporate exposure.

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, equity and other risks.

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, interest rate 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 alignment with the SARB Guidance Note 4/2015 which provides guidelines and expectations of the Prudential Authority (PA). The ICAAP document is regularly revised (annually) and subject to periodic independent review.

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

The Capital Management Framework, ICAAP and Recovery and Resolution Plan, 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 and Resolution 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 their 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's Credit Committee (CC) and the Risk, Compliance and Internal Control Committee (RCICC) are tasked to identify, manage and monitor credit risk. The CC is the approval authority of credit facilities, and it exercises its authority within limits and 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, including approving all material aspects of the model design, development, validation and model enhancement. EXCO has the overall responsibility for credit risk and 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, carrying out credit risk assessment, providing risk review opinions on credit submissions, and performing continuous post-loan management, reviewing and recommending loan classification, and loan provision levels through the IFRS9 stage classification.

The Branch's key policies relating to managing credit risk are the Credit and Approval Management Policy and Procedure and the Post Lending Management Policy and Procedure. The two documents cover 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 H2 2022.

Credit Quality of Assets

Overall credit quality of assets remained stable over H2 2022.

The Branch does not have defaulted or past-due exposures as at 31 December 2022.

There are no restructured exposures within the Branch as at 31 December 2022.

CR1: CREDIT QUALITY OF ASSETS

R' 000 At 31 December 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	-	20,979,391	43,338	-	43,338	-	20,936,053	N1
2	Debt Securities	-	19,070,368	50,114	-	50,114	-	19,020,254	N2
3	Off-balance sheet exposures	-	3,828,940	15,649	-	15,649	-	3,813,291	N3
4	**Total**	**-**	**43,878,699**	**109,101**	**-**	**109,101**	**-**	**43,769,598**	

Notes

N1: The increase in loans is mainly as a result of new bilateral and syndicated term loans granted to clients.

N2: The increase in debt securities is primary as a result of the purchase of new government bonds and treasury bills to replace those that have matured, as well as the purchase of new corporate bonds.

N3: The increase is as a result of new committed facilities granted to clients.

CR2: Changes in stock of defaulted loans and debt securities

R'000 At 31 December 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 31 December 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	20,936,053	-	-	-	-	-	-
2	Debt securities	19,020,254	-	-	-	-	-	-
3	**Total**	**39,956,307**	-	-	-	-	-	-
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 charge, the impact of the Revised Standardised Approach is estimated to be low as per prior implementation calculation assessment. This is mainly due to the nature of business of CCB-JHB, as well as CCB-JHB already making use of the Standardised Approach for measuring and reporting credit risk (hence no output floor to be considered).

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

R' 000
At 31 December 2022

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	**N1**	20,554,629	-	20,554,629	-	-	0%
2	Non-central government public sector entities		-	-	-	-	-	-
3	Multilateral development banks		-	-	-	-	-	-
4	Banks	**N2**	16,694,136	-	16,694,136	-	7,339,787	44%
5	Securities firms		-	-	-	-	-	-
6	Corporates	**N3**	3,189,799	3,828,940	3,189,799	1,909,371	5,099,171	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		179,870	-	179,870	-	179,870	100%
14	**Total**		**40,618,434**	**3,828,940**	**40,618,434**	**1,909,371**	**12,618,828**	

Notes

N1: The exposure is predominantly RSA high quality liquid assets. The increase is primarily as a result of the purchase of new government bonds and treasury bills to replace those that have matured in the 1st half of 2022.

N2: The increase is mainly as a result of new bilateral and syndicated term loans granted to banks as well as the purchase of new corporate bonds.

N3: 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 31 December 2022

	Risk weight / Asset classes	a	b	c	d	e	f	g	h	i	j
		0%	**10%**	**20%**	**35%**	**50%**	**75%**	**100%**	**150%**	**Others**	**Total credit exposures amount (post CCF and post CRM)**
1	Sovereigns and their central banks	20,554,629	-	-	-	-	-	-	-	-	20,554,629
2	Non-central government public sector entities (PSEs)	-	-	-	-	-	-	-	-	-	-
3	Multilateral development banks (MDBs)	-	-	-	-	-	-	-	-	-	-
4	Banks	7,174,968		1,943,708		1,248,831	-	6,326,629	-	-	16,694,136
5	Securities firms	-	-	-	-	-	-	-	-	-	-
6	Corporates	-	-	-	-	-	-	5,099,170	-	-	5,099,170
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	-	-	-	-	-	-	179,870	-	-	179,870
14	**Total**	**27,729,597**	**-**	**1,943,708**	**-**	**1,248,831**	**-**	**11,605,669**	**-**	**-**	**42,527,805**

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 and CSA agreements for selected counterparties, as well as exchange of cash variation margin; 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.

CCB-JHB is exchanging daily cash variation margin with selected banking counterparts. Policies and processes were refined during H2 2022. The amounts are disclosed below in CCR5. CCB-JHB has conducted an assessment in terms of regulatory credit risk mitigation eligibility of cash variation margin. All regulatory criteria are met and thus could potentially benefit capital ratios, it was however decided to conservatively exclude any benefits over 2022.

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 713 494 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 December 2022 amounted to R 1 441 704, a significant but controlled increase. FX derivatives are booked as hedging instruments and their replacement costs are affected by exchange rates. When ZAR appreciates against the USD, the replacement cost of ZAR/USD derivatives increases, the derivatives are usually ranging from a few days to 3 months. The ZAR appreciation trend started at the beginning of November 2022 and affected replacement costs of the FX derivatives portfolio (of instruments booked before reporting date and of which maturity extends to 2023). Consequently, this contributed to an increase of CCR EAD and CCR RWA.

CCR levels are under control and CCR capital requirements are monitored daily

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) is expected from January 2024.

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

		a	b	c	d	e	f
R'000 **At 31 December 2022**		**Replacement cost**	**Potential future exposure**	**EEPE**	**Alpha used for computing regulatory EAD**	**EAD post CRM**	**RWA**
1	SA-CCR	474,242	384,723		1.4	1,202,550	919,350
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**						**919,350**

Notes

N1: The counterparty credit risk exposure is calculated using the revised standardised method (SA-CCR). The increase from June 2022 to December 2022 is as a result of the ZAR appreciating towards USD during 2022 last quarter, resulting in an increase in replacement cost of ZAR/USD derivatives contracted before end of December to after end of December (reporting period); which contributes to an increase in total counterparty credit risk.

CCR2: CREDIT VALUATION ADJUSTMENT (CVA) CAPITAL CHARGE

R'000 At 31 December 2022		a EAD post CRM	b 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	919,350	522,354
4	Total subject to the CVA capital charge	919,350	522,354

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 31 December 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	283,200	-	-	-	-	-	919,349	-	-	1,202,549
Securities firms	-	-	-	-	-	-	-	-	-	-
Corporates	-	-	-	-	-	-	1	-	-	1
Regulatory retail portfolios	-	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-	-	-
Total	**283,200**	**-**	**-**	**-**	**-**	**-**	**919,350**	**-**	**-**	**1,202,550**

Notes

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

CCR5: STANDARDIZED APPROACH - COMPOSITION OF COLLATERAL FOR CCR EXPOSURE

	R'000 At 31 December 2022	a	b	c	d	e	f
		Collateral used in derivative transactions				Collateral used in SFTs	
		Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
		Segregated	Unsegregated	Segregated	Unsegregated		
1	Cash – domestic currency	-	315,194	-	-	-	-
2	Cash – other currencies	-	-	-	-	-	-
3	Domestic sovereign debt	-	-	-	-	-	-
4	Government agency debt	-	-	-	-	-	-
5	Corporate bonds	-	-	-	-	-	-
6	Equity securities	-	-	-	-	-	-
7	Other collateral	-	-	-	-	-	-
8	**Total**	-	**315,194**	-	-	-	-

Notes

The collateral relates to the cash variation margin amounts as per the Credit Support Annexure (CSA) agreements that are in place.

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 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 regard 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 through 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 190% as at 31 December 2022. Although the portfolio of high-quality liquid assets (HQLA) has increased from the prior reporting date (June 2022), the ratio decreased due to balance sheet size adjustment and profitability optimisation. The Branch maintained LCR compliance in excess of both the risk appetite and regulatory requirements.

Directive 11 of 2022 had a positive impact in terms of LCR due to a reduction in restrictions applying to HQLA across currencies.

The NSFR demonstrates the Branch's funding stability and the resilience of its liquidity position over a one year period. As at 31 December 2022, NSFR was reported at 139%, a decrease from prior reporting. The required stable funding has increased (mainly due to an increase in loans to financial institutions), while the available stable funding has remained relatively constant, contributing to the decrease in NSFR. NSFR compliance was achieved both in terms of internal and regulatory requirements.

Both LCR and NSFR are monitored daily, and adjustments, where applicable, are made to ensure continuous compliance with both internal and regulatory requirements.

LIQ2: NET STABLE FUNDING RATIO (NSFR) Q4 2022

R' 000 At 31 December 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:	6,287,957	-	-	-	6,287,957
2	*Regulatory capital*	6,287,957				6,287,957
3	*Other capital instruments*					
4	Retail deposits and deposits from small business customers:	-	43,712	5,646	-	44,422
5	*Stable deposits*					
6	*Less stable deposits*		43,712	5,646	-	44,422
7	Wholesale funding:	-	27,267,187	4,912,518	4,363,216	12,551,966
8	*Operational deposits*					
9	*Other wholesale funding*		27,267,187	4,912,518	4,363,216	12,551,966
10	Liabilities with matching interdependent assets					
11	Other liabilities:		302,838	10,322	76,253	33,479
12	*NSFR derivative liabilities* N2		148 330			
13	*All other liabilities and equity not included in the above categories*		202,443	10,322	28,318	33,479
14	**Total ASF**					**18,917,824**
15	Total NSFR high-quality liquid assets (HQLA)					914,204
16	Deposits held at other financial institutions for operational purposes	-	-	-	-	-
17	Performing loans and securities:	-	12,044,682	1,048,270	9,135,270	11,553,717
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*	-	10,787,274	1,048,270	6,785,387	8,927,613
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:*	-	8,577	-	2,349,883	2,001,689
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*	-	1,248,831	-	-	624,415
25	Assets with matching interdependent liabilities	-	-	-	-	-
26	Other assets:	-	484,104	-	1,026,431	978,497
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* N2		1 358 424			826,386
30	*NSFR derivative liabilities before deduction of variation margin posted*		-			-
31	*All other assets not included in the above categories*	-	-	-	152,111	152,111
32	Off-balance sheet items		3,843,773			206,280
33	***Total RSF***					**13,652,698**
34	***Net Stable Funding Ratio (%)*** **N1**					**139%**

Notes

N1: The NSFR has consistently exceeded the regulatory requirement during the reporting period, 239% in June 2022 and 139% in December 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.

N2: The derivative assets and derivative liabilities are reported as per the BA100.

LIQ2: NET STABLE FUNDING RATIO (NSFR) Q3 2022

R' 000
At 30 September 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:	6,046,162	-	-	-	6,046,162
2	*Regulatory capital*	6,046,162	-	-	-	6,046,162
3	*Other capital instruments*	-	-	-	-	-
4	Retail deposits and deposits from small business customers:	-	44,557	5,793	-	45,314
5	*Stable deposits*	-	-	-	-	-
6	*Less stable deposits*	-	44,557	5,793	-	45,315
7	Wholesale funding:	-	18,923,461	7,828,043	4,628,196	15,389,810
8	*Operational deposits*	-	-	-	-	-
9	*Other wholesale funding*	-	18,923,461	7,828,043	4,628,196	15,389,810
10	Liabilities with matching interdependent assets	-	-	-	-	-
11	Other liabilities:	-	1,160,467	5,668	53,897	16,538
12	*NSFR derivative liabilities*		405 516			
13	*All other liabilities and equity not included in the above categories*		795,144	5,668	13,704	16,538
14	**Total ASF**					**21,497,824**
15	Total NSFR high-quality liquid assets (HQLA)					934,665
16	Deposits held at other financial institutions for operational purposes	-	-	-	-	-
17	Performing loans and securities:	-	12,371,869	445,470	5,660,465	7,395,069
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*	-	12,232,243	86,270	3,041,931	4,919,902
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:*	-	139,626	359,200	2,618,534	2,475,167
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:	-	27,556	-	885,060	844,867
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*		764 635			696 886
30	*NSFR derivative assets before deduction of variation margin posted*		956 961			-
31	*All other assets not included in the above categories*	-	-	-	147,981	147,981
32	Off-balance sheet items		3 939 616			759 378
33	***Total RSF***					**9 933 979**
34	***Net Stable Funding Ratio (%)***					**216%**

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, with relevant reporting to ALCO, RCICC, Head Office and the local regulator.

IRRBB Position and Hedging Effectiveness

NII sensitivity, which assesses the impact of interest rates on earnings of the Branch, remained within the Branch's appetite during H2 2022.

The interest rate shocks used to measure interest rate sensivity have been updated in accordance with 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 revised IRRBB Framework and established regulatory requirements was implemented in January 2023 andthere is no concern regarding CCB-JHB's ability in meeting the new framework requirements from January 2023 monthly reporting. Adjustments to IRR policy, procedure, modelling, reporting and risk appetite have all been performed.

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/term deposits and related IRS have proved to be highly effective throughout H2 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 positions.

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. The new FRTB framework will not impact current 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 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 currencies 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 (reporting) is expected from January 2024. Relevant applications have been submitted to the regulator with regard 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 H2 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 31 December 2022**	**a**
		Capital charge in SA
1	General interest rate risk	-
2	Equity risk	-
3	Commodity risk	-
4	Foreign exchange risk	1 392
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**	**1 392**

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 H2 2022 due to increased gross operating income in 2021 and H1 2022.

No material operational losses have occurred in H2 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. While an increase of total operational risk RWA is anticipated, the current CCB-JHB capital supply is suited to absorb the increase and CCB-JHB capital adequacy ratio to remain operating within internal targets.

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

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, pandemics 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;
- meet general markets demand for sustainable banking/sustainable finance/sustainable institutions; and
- achieve carbon neutrality (medium-term goal).

CCB-JHB has implemented an ESG Framework to address all aspects of ESG. The 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 which has 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.