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

# Disclosure Report

*Pillar 3 Annual Disclosure Report for the year ended 31 December 2023*

# Contents



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

Reporting period refers to 2023 (January to December). Financial and risk management information is provide as at December 2023, unless stated otherwise.

# 1. OVERVIEW

## 1.1. 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 publically 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, the Bank or the Branch) is an overseas institution 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.

The Executive Management and Executive Management Committee (EXCO) are responsible for establishing and maintaining an effective internal control structure in respect of the disclosure of financial information in line with the 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 (the Prudential Authority – PA) and the Revised Pillar 3 disclosure requirements read together with the Consolidated and Enhanced Framework.

This document sets out the Annual Pillar 3 Disclosures as applicable to CCB-JHB as at December 2023. Where referring to prior period, this should be interpreted as December 2022, unless stated otherwise.

The key elements of the policy are:

- Appropriateness assessment - voting members of EXCO, as part of the internal governance and approval process, should assess whether the information contained in CCB-JHB’s Pillar 3 disclosure reports is adequate and appropriate;
- Nature and extent of the information will be disclosed in compliance with International Financial Reporting Standards (IFRS), the minimum requirements as set out in the Regulations and the Pillar 3 disclosure requirements, and CCB-JHB audited financial statements;
- Disclosure requirements – sets out minimum requirements for quantitative and qualitative disclosure as per Regulation 43 and the timelines for disclosure;
- Internal controls and procedures – sets out the controls and procedures in place to manage the review, approval and publication of disclosures; and
- Independent review requirements – sets out the requirements for independent review prior to publication of disclosure and the regulatory requirements.

In the execution of its governance, roles and responsibilities the Executive Management and EXCO of CCB-JHB adopt a stakeholder inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the Branch. Various policies, charters and committee terms of references have been implemented to ensure that there is governance on stakeholder relationships.

# 2. Overview of Risk Management, Key Prudential Metrics, and RWA

## 2.1. BUSINESS ACTIVITIES AND RESULTANT RISKS

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*Table 1: Products, Services, and associated risks*

## 2.2. CCB-JHB RISK PROFILE

CCB-JHB has established processes for identifying material risks. A risk is evaluated by its likelihood and impact. A material risk is defined by its potential to create significant business losses, disruption or reputational damage.

The potential materiality is dependent on the risk's impact on various criteria, such as:

- Profitability (quantitative);
- Capital Adequacy Ratio (CAR) (quantitative);
- Reputation (qualitative);
- Market share (qualitative); and
- Regulatory penalty (qualitative and quantitative).

The Bank identified the following risk types that are material to CCB-JHB:

- Credit Risk (including Credit Concentration Risk);
- Counterparty Credit Risk (CCR);
- Market Risk (including Foreign Exchange Risk);
- Operational Risk (including Property, People, IT, Cybersecurity, Business Continuity, Outsourcing/Third-Party risks);
- Solvency Risk (included in Capital Management and Liquidity Risk sections);
- Liquidity Risk( including Depositor Concentration Risk);
- Interest Rate Risk on the Banking Book (IRRBB);
- Regulatory and Conduct Risk (including Compliance, Financial Crime, AML/CFT/CPF and Legal risks);
- Country and Geopolitical and Macroeconomic Risk;
- Business and Strategic Risk;
- Model Risk;
- Reputation Risk; and
- ESG Risk.

The risks above are presented within this document. For ease of reference, some risks are grouped.

The CCB-JHB risk profile can be summarised as shown on the following page.

| | | 31 December 2023 | Risk Appetite/Target | Year under review |
|---|---|---|---|---|
| Growth and Returns | | NPAT increase<br>**34%**<br>*2022:-19%* | Articulated around financial and business projections, RoA and ROE, and monitored monthly | As at 31 December 2023, the financial position of the Branch was as follows:<br>• Total assets R 44 490 246<br>• Total liabilities R37 688 611<br>• Total equity R6 801 635<br>• Net profit after tax of R490 119 and operating income excluding impairments of R1 009 578<br>Operating profit increased year-on-year as a result of increasing average interest-bearing assets (thanks to improved credit demand) and the increase in South African Rand & US Dollars base rates. This led to increased profitability, RoA and RoE. |
| | | Total Assets growth<br>**2,08%**<br>*2022:4,33%* | | |
| Solvency | | Total CAR<br>**29,87%**<br>*2022: 40,40%* | Internal Buffers on top of minimum regulatory requirement and monitored monthly | There were no significant changes in capital management strategy, the capital structures is relatively stable and CCB-JHB operated within internal appetite.<br><br>The Branch's returns contributed to a steady increase of qualifying capital via profit appropriation.<br><br>The controlled increase of credit risk contributed to an overall increase of capital demand. This is mainly driven by additional term loans and investment into corporate bonds during 2023. This also led to improved capital efficiency. |
| | | T1 / CET1 CAR<br>**29,23%**<br>*2022: 39,71%* | | |
| | | Leverage<br>**14,23%**<br>*2022: 13,89%* | | |
| Liquidity | | LCR<br>**301%**<br>*2022: 190%* | Internal Buffer on top of Minimum regulatory requirement (100%) | CCB-JHB liquidity risk profile remained stable and overall strategy unchanged.<br><br>CCB-JHB's funding strategy relied is centred around diversification, while some improvements were observed in certain areas (name and sector concentration) the overall concentration remained high and further efforts will be put forward in the years to come.<br><br>CCB-JHB operated within LCR and NSFR appetite, over and above regulatory requirements. |
| | | NSFR<br>**130%**<br>*2022: 139%* | | |
| Exposure per risk type | Credit Risk | NPLs<br>**0%**<br>*2022: 0%* | Appetite set in terms of internal credit ratings, credit concentration (industry, asset class and name), and NPL | The overall Financial Institutions and Large Corporates credit demand continued to improve during 2023. This contributed to additional term loans (replacement and new) being granted during 2023. The increase in total credit RWA is closely monitored, as planned and controlled.<br><br>CCB-JHB lending portfolio is performing with no counterpart defaulting in 2023 nor any exposure being restructured.<br><br>Credit impairments increased as total loans and advances and corporate bonds increased.<br><br>The preparation of the credit risk regulatory reform is on-track and all regulatory milestones have been met. |
| | | Credit Loss Ratio<br>**0%**<br>*2022: 0%* | | |
| | | Total credit RWA<br>**R19,6Bn**<br>*2022: R12,4Bn* | | |
| | Market Risk | Net Open Foreign Currency Position<br>**2023: $0Mn / R0Mn**<br>Limit: $2.8Mn / R51Mn | Appetite set in terms of traded currencies, open position limits and FX derivative instruments | CCB-JHB operates under a restricted currency limit.<br>Only major currencies are exchanged.<br>FX exposures are hedged (exceptions are to be approved by ALCO).<br>No trading position or arbitrage.<br>The preparation of the market risk regulatory reform (FRTB) is on track and all regulatory milestones have been met. |
| | IRRBB | Net Interest Income sensitivity<br>**48,3%**<br>SOT (EVE sensitivity)<br>**20,3%** | Appetite set in terms of NII and EVE sensitivity limits, IRS derivative instruments and hedging effectiveness | CCB-JHB maintained its IRRBB hedging strategy.<br>IRR exposures are hedged (longer than 9 months).<br>CCB-JHB has successfullly implemented the revised Interest Rate Risk in the Banking Book framework (from January 2023).<br>Risk management, processes, reporting and appetites have all been adjusted in line with new amended regulations. |
| | Operational Risk | Operational risk loss rate<br>**0%**<br>*2022: 0%* | Appetite set in terms of number and amount of operational losses | No material operational losses were recorded and no material internal control failures occurred.<br><br>The preparation of the operational risk regulatory reform (New Standardised Approach) is on track and all regulatory milestones have been met. |

*Table 2: Overview of financial position and risk profile*

## 2.3. RISK MANAGEMENT GOVERNANCE

The following committees have been established:

| Committee | Frequency | Mandate |
|---|---|---|
| Executive Management Committee (EXCO) | Minimum Quarterly / upon request | Responsible for reviewing the risk reports and approve recommended improvements and, if necessary, adjust the risk profile or risk appetite of the Bank. It is also informed of and formally approves any material management actions taking into account the Bank's risk tolerance levels.<br>EXCO also performs an overview of Corporate Governance and approves EXCO level policies and procedures.<br>EXCO is the final approval of sub-committee decisions in terms of material matters.<br>EXCO is ultimately responsible for the annual financial budget and financial accounts. |
| Risk, Compliance and Internal Control Committee (RCICC) | Minimum Quarterly / upon request | RCICC is responsible for ensuring that an integrated and effective risk and compliance management framework is maintained throughout the Bank and that the Bank's business is conducted by following applicable laws and regulations. |
| Asset and Liability Committee (ALCO) | Minimum Monthly / upon request | The ALCO is constituted to exercise its responsibilities in managing the Bank's liquidity (incl. funding), market (incl. hedging and pricing), investment, foreign exchange, and interest rate (incl. interest rate margin) risks. |
| Credit Committee (CC) | Upon request | The CC is responsible for matters relating to credit risk management decisions, including loan approval matters and loan classifications (performing). |
| Audit Committee (AC) | Minimum Quarterly / upon request | The AC is responsible for reviewing internal controls and working with both internal and external auditors, ensuring objectivity and credibility of the Bank's financial reporting. The AC assists to ensure that the Bank has exercised care, diligence, and skill as prescribed by South African laws and regulations. |
| Remuneration Committee (REMCO) | Minimum Quarterly / upon request | The Remuneration Committee's (REMCO) main roles are to:<br>- Determine, agree and develop CCB-JHB's policy in terms of remuneration;<br>- Ensure performance management is fair and transparent; and<br>- Appoint/dismiss department heads, subject to HO final approval. |

*Table 3: Committees at CCB-JHB*

RCICC, ALCO and CC are committees established by EXCO to assist in monitoring key risks as identified by the Executive and Senior Management. These committees convene regularly with the overall objective of ensuring that the risk profile supports the overall risk appetite of the Bank. All committees have their Terms of Reference (ToR).

Committees have established underlying operational forums to prepare, facilitate, consult on various risk topics. The purpose of the forums are to make recommendations the committees for decision-making, as the forums may have limited or no decision-making authority. The current risk forums have dedicated Terms of reference.

CCB-JHB has adopted the ‘Three Lines of Defence’ model, as illustrated below:

<table>
<tr><th colspan="3">Three lines of defence</th></tr>
<tr><th>First line of defence</th><th>Second line of defence</th><th>Third line of defence</th></tr>
<tr>
<td>Ensure that the front line departments and support functions act following mandates, policies, and procedures
<ul>
<li>Identify key risks to own business area</li>
<li>Specify and implement appropriate risk management processes and internal controls</li>
<li>Specify and implement early warning measures, as well as associated reporting and management processes</li>
<li>Implement corrective actions, as required</li>
<li>Participate in formulating risk management strategies</li>
<li>Ensure all staff understand their responsibilities concerning daily business and risk management</li>
<li>Report all-risk incidents as soon as discovered to RMD</li>
</ul></td>
<td>Independent oversight and monitoring risk and compliance across departments<br><br>
<u>Committees</u>
<ul>
<li>Take ownership of and maintain risk governance frameworks</li>
<li>Specify risk appetite in line with the strategy</li>
<li>Approve risk and compliance-related policies</li>
</ul>
<u>RMD</u>
<ul>
<li>Establish and monitor risk universe</li>
<li>Implement risk appetite, framework, and policies</li>
<li>Challenge risk profile through review of risk assessment and measures, evaluation of risk management processes, and monitoring of corrective actions and mitigation</li>
<li>Joint assessment to the business unit according to risk management and issues</li>
</ul>
<u>Compliance in line with Regulation 49</u>
<ul>
<li>Establish and mointor regulatory universe</li>
<li>Facilitate the development, approval, and maintenance of CCB-JHB's Compliance manual, charter, mehtodology and policy</li>
<li>Ensure consistency of approach and practice throughout CCB-JHB.</li>
<li>Entrench the culture of compliance in CCB-JHB such that any incident of non-compliance can be identified in a timely manner</li>
<li>Provide a central point of reference and expertise to compliance-related matters and advice on policy and strategic decisions that have compliance implications</li>
<li>Ensure the monitoring of regulatory and reputational risk in line with CCB as well as industry standards</li>
<li>Ensure effective co-operation and interaction with all role players Submit detailed and summarised reports on areas covered, findings, and appropriate recommendations.</li>
</ul></td>
<td>Independent Assurance<br><br>
<u>Internal Audit</u>
<ul>
<li>Provide independent assurance of the adequacy and effectiveness of the bank’s system of internal controls and the bank’s risk management in line with Regulation 48, Head Office requirements and internal audit methodology</li>
<li>Carry out assurance over the system of internal controls and risk management in line with the risk-based Internal Audit plan.</li>
<li>Evaluate compliance with policies, laws and regulations and industry standards</li>
<li>Review the integrity, reliability, timeliness, accuracy, and completeness of risk reports and other business reports</li>
<li>Follow-up on implementation of audit recommendations and resolving audit findings</li>
</ul>
<u>External audit</u><br><br>
Conducts annual statutory and regulatory audits, and may from time to time be assigned to complete other assurance activities, where required by regulatory authorities or other.</td>
</tr>
</table>

*Table 4: Risk Management Framework – Three Lines of Defence*

RMD is responsible for the overall risk management and coordination within the Bank. To ensure effective management for all risk categories to which the Branch is exposed, the department has set up internal requirements, risk reporting standards, and responsibilities, which form CCB-JHB's Risk Management Framework (RMF).

RMD comprises two distinct functions, namely the risk management and credit approval functions.

| Risk Function | Credit Approval Function |
|---|---|
| Independent oversight risks including identification, monitoring, reporting, mitigation, and management of all material risks | Day-to-day management of credit risk |
| Risk Appetite Framework (RAF) and Risk Appetite Statement (RAS) monitoring and reporting | Validating internal ratings |
| Stress Testing Framework, conducting stress testing process | Providing risk review opinion for both local and HO credit applications |
| Recovery & Resolution Plan and specific risk-related contingency plans | Carrying out credit assessments and continuous monitoring |
| Consolidated plan in terms of Business Continuity Management | Performing post-loan management |
| Capital Management Framework and Internal Capital Adequacy Assessment Process (ICAAP) | Reviewing and recommending performing loan classification |
| Model Management, monitoring, model validation, and identifying acceptable alternatives | Recommending loan provision levels via IFRS9 stage classification |
| Risk Data Aggregation and Risk Reporting (RDARR) Framework and related implementation and monitoring | |
| Non-performing asset management | |
| New Product and Services Approval Policy and process for both regulatory and non- regulatory projects | |
| Monitoring fraud risk | |
| Assisting with communicating to the Regulator on all risk related topics and review all public risk disclosures | |

*Table 5: Risk Management Department functions*

As a Branch of China Construction Bank, various risk-reporting lines are in place with the Group:

- reporting from General Manager to Head Office;
- reporting of RMD to various Head Office departments based on risk types and overall risk management department; and
- reporting of Compliance department to CCB Head Office's Internal Control and Compliance Department

## 2.4. COMBINED ASSURANCE

Principle 3.5 of the King III Report introduced combined assurance as a recommended governance practice. King IV expanded on this concept by indicating that a combined assurance model incorporates and optimises all assurance services and functions so that, taken as a whole, these enable an effective control environment, support the integrity of information used for decision-making by management, the governing body and its committees.

CCB-JHB requires all lines of defence to work together to ensure that combined assurance is achieved following the Bank's Combined Assurance Framework which is set out in the diagram below:

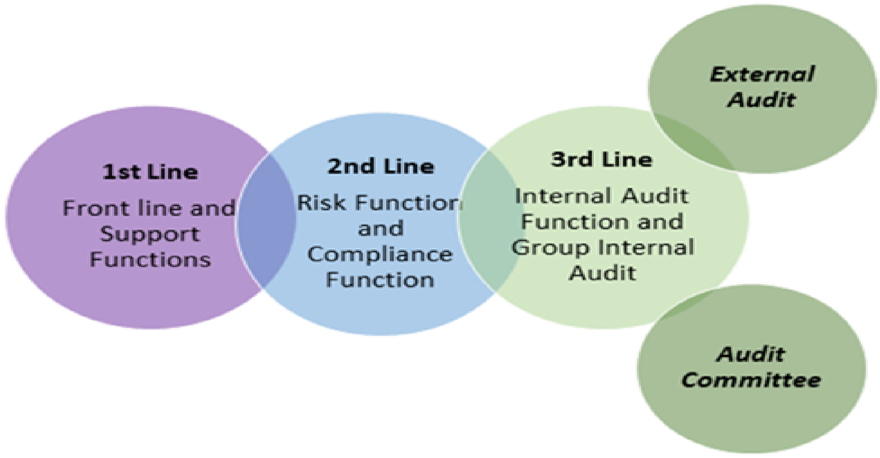


*Figure 1: Combined Assurance Model - 2023*

## 2.5. RISK MEASUREMENT APPROACHES

CCB-JHB measures assesses risk exposures using the following approaches:

| Risk Type | Risk Measurement Approach | Expected changes in Risk Measurement Approach |
|---|---|---|
| Credit Risk | Standardised Approach (Basel II.5) | Revised Standardised Approach from July 2025 (Basel IV) |
| Counterparty Credit Risk | SA-CCR<br><br>Standardised Approach for CVA calculation | SA-CCR aggregation rules and incorporation of variation margin<br><br>Reduced Basic Approach for CVA (BA-CVA) from July 2025 (Basel IV) |
| Market Risk | Standardised Approach (Basel II) | Sensitivities-Based-Method (SBM) from July 2025 (Basel IV) |
| Operational Risk | Basic Indicator Approach (BIA) (Basel II) | New Standardised Approach from July 2025 (Basel III) |
| Other Assets | Standardised Approach | No expected change |
| Interest Rate Risk in the Banking Book (IRRBB) | Revised IRRBB Framework (from January 2023) | No expected change |
| Credit concentration | Large Exposure Framework | No expected change |

*Table 6: Risk Measurement Approaches*

More details on the different risk measurement approaches are presented in the risk-specific sections below.

## 2.6. RISK MANAGEMENT SYSTEMS

Risk management systems within CCB-JHB are a combination of CCB Head Office and locally developed systems. These systems facilitate risk measurement and management as a whole.

## 2.7. RISK REPORTING

Over and above reporting to the various committees governing risk and to the local regulatory authorities, clear reporting lines and escalation channels are established for risk reporting to CCB Head Office, Executive Management, RMD and the Compliance Department.

The scope of risk reporting to committees are specified within their respective Terms of Reference. Committee members perform annual committee self-assessments, including risk-reporting assessments where any identified gaps and areas of improvement are then implemented.

Regular risk reporting enables Executive Management and Department Heads to evaluate and understand the level and trend of material risk exposures.

Risk reports typically include:
- risk exposure (identification, review, measure, mitigation, residual risk);
- monitoring of the implementation of risk management;
- risk appetite monitoring and recommendation;
- limit and breach management;
- internal or external requirements affecting the risk management framework, policies, and processes;
- risk management assessment and compliance with policies; and
- identification of emerging risk.

## 2.8. RISK DATA AGGREGATION AND RISK REPORTING (RDARR)

BCBS 239 issued in January 2013 sets out the principles to strengthen risk data aggregation capabilities and internal risk reporting practices applicable to all banks, the implementation has contributed to enhancing risk management and decision-making processes.

The Branch achieved the first phase of its RDARR plan during 2023. CCB-JHB has adopted a phased approach with phase 1 consisting of applying the principles to 19 selected risk metrics, which included, but not limited to, pillar 1 risks. Compliance was achieved by implementing a pragmatic approach that is fit for purpose.

Independent and ongoing reviews are and will be carried out to ensure RDARR principles are suitably enhanced and complied with during future phases with additional metrics.

## 2.9. RISK AND COMPLIANCE CULTURE

CCB-JHB, to encourage a risk and compliance culture, has established:
- Risk management forums to foster discussions between Front Line Departments, support functions, Compliance and RMD;
- Conduct risk standards implemented through conduct risk policies;
- A culture of no tolerance for any unethical behaviour;
- Risk and compliance management frameworks, policies, and procedures communicated and made available to all staff;
- That Compliance and RMD assist all departments when requiring support related to a specific risk process;
- That the risk and compliance management strategies are reviewed annually and communicated to Executive Management and Department Heads;
- That all staff must report risk incidents and are then investigated to implement corrective measures, enhanced controls;
- A whistle blowing policy and the process is outsourced to ensure independence and impartiality;
- A fit and proper test for key risk and compliance roles (before hiring and periodic assessments thereafter); and
- Various risk and compliance trainings, which are conducted annually where training is performed either by CCB-JHB staff and/or industry experts.

## 2.10. RISK APPETITE

The Risk Appetite Framework (RAF) is designed to establish an active risk management culture within the organisation, where the relevant and accurate risk information is utilised across the Branch for decision-making. CCB-JHB is committed to creating an environment where each staff member understands both what the Branch is aiming to achieve and the risk management constraints within which the Branch must operate to be successful.

Developing and embracing a Risk Appetite Statement (RAS) assists the Branch in:

- aligning HO group risk appetite and CCB-JHB risk appetite;
- aligning budgeted financial goals with necessary risk exposures;
- managing earnings volatility within acceptable levels;
- optimising the use of available capital and liquidity;
- maximising risk-adjusted returns, in the context of approved strategy;
- enhancing strategic planning and budgeting processes;
- enhancing effective decision-making, management, and control of the business; and
- ensuring compliance with regulatory ratios, internal appetite requirements, and CCB Head-Office requirements at all times.

CCB-JHB defines both quantitative and qualitative statements covering all major risks. The statement is translated into quantifiable performance measures and limits that are used to communicate, embed, and support the risk management process throughout the Bank.

The RAS is reviewed annually or any other time when a significant change in CCB-JHB's risk profile is experienced.

## 2.11. STRESS AND SCENARIO/SENSITIVITY TESTING

CCB-JHB's stress testing objective is to ensure that CCB-JHB can meet its capital requirements, prudential ratios, and sustaining business in a forward-looking manner, including severe but plausible economic stresses specific to CCB-JHB's portfolio and risk profile.

Stress testing at CCB-JHB takes the form of scenario analysis and/or sensitivity analysis:

- Stress Testing Scenario: refers to performing multiple sensitivity analyses at the same time, looking at the variables (and their interdependencies) that affect the Bank's CAR, Leverage Ratio, LCR, NSFR and other prudential ratios, and overall performance. Here, most of the sensitivity analyses are combined to form a scenario. By changing a combination of these factors, the Bank can assess several different scenarios;
- Sensitivity Analysis: specific risks applied to CCB-JHB can take the form of credit, market, or liquidity risks. To conduct sensitivity analysis, a certain variable affecting the respective risk category is stressed, keeping other variables constant, to see how the change would affect the overall CAR and Leverage Ratio, liquidity ratios, financial performance, and overall performance metrics of the Bank.

Stress testing outputs are used to:

- measure the sensitivity of risk portfolios to changes in the economic variables associated with the defined stress scenarios;
- setting the Branch's risk tolerance and establishing the risk strategy;
- inform senior management of possible vulnerabilities and available recovery options as defined within the Recovery & Resolution Plan (RRP); and
- perform capital planning and setting capital management strategy.

During 2023, the following risks were covered:

- Credit risk and concentration risk by applying stress to both external and internal credit ratings, defaulting credit exposures and changing impairment stages; different stresses were applied to different assets classes, industries and geography;
- Liquidity risk by applying stress to level of deposits, failed received payments, reduced available source of funding and reduced liquidity of instruments;
- IRR by applying currency specific interest rate shocks;
- Market risk and CCR by applying stressed to exchange rates;
- Operational risk by stressing operational losses amounts, limiting access to workplace and/or equipment;
- Reputation, ESG and Group wide risks by combining various above stresses.

## 2.12. Hedging strategy and effectiveness

CCB-JHB has established dedicated strategies for both currency and interest rate risks. These strategies are reviewed annually and driven by both CCB Group and ALCO.

The strategies are embedded in respective policies and aimed at reducing overall risks of conducting business.

CCB-JHB uses both FX derivatives and IRS derivatives to hedge positions within pre-established limits and in line with overall appetite. The aim is to:

- reduce as much a possible currency risk arising from the lending business and treasury services with strict open foreign currency position limits; and
- reduce as much as possible IRR by converting fixed rate into variable rate.

Hedge effectiveness is monitored monthly via dedicated risk sensitivity calculations, set appetite and results are reviewed at ALCO. Any significant deviation from hedging strategy or poor hedge effectiveness results will trigger a review of hedges in place and possible corrective actions to be taken.

# 3. LINK BETWEEN FINANCIAL STATEMENTS AND REGULATORY EXPOSURES

## 3.1. ACCOUNTING AND REGULATORY RECONCILIATIONS

The present disclosure refers to CCB-JHB only.
Consolidation of all CCB Group entities, including CCB-JHB, is managed at the Group level.

**LI1/LIA – Difference between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories**

| | a | b | c | d | e | f | g |
|---|---|---|---|---|---|---|---|
| | Carrying values as reported in published financial statements | Carrying values under scope of regulatory consolidation | Carrying values of items: | | | | |
| R' 000<br>At December 2023 | | | Subject to credit risk framework | Subject to counterpart y credit risk framework | Subject to the securitisation framework | Subject to the market risk framework | Not subject to capital requirement s or subject to deduction from capital |
| **Assets** | | | | | | | |
| Cash and cash equivalents | 743,441 | 688,435 | 688,435 | - | - | 356 | - |
| Loans and advances to banks | 15,463,437 | 15,518,960 | 15,518,960 | - | - | 14,355,499 | - |
| Loans and advances to customers | 6,249,682 | 6,249,682 | 6,249,682 | - | - | 3,837,321 | - |
| Derivative financial instruments | 1,113,622 | 1,113,622 | - | 1,113,622 | - | 690,918 | - |
| Interest-bearing securities at amortised cost | 9,527,965 | 9,527,965 | 9,527,965 | - | - | 9,579,631 | - |
| Interest-bearing securities at FVOCI | 11,132,086 | 11,132,086 | 11,132,086 | - | - | 4,248,986 | - |
| Investment in associate | - | - | - | - | - | - | - |
| Other assets | 22,849 | 25,351 | 25,351 | - | - | 5,672 | - |
| Deferred taxation asset | 66,503 | 66,503 | - | - | - | - | 66,503 |
| Right of use assets | 3,019 | - | - | - | - | - | - |
| Property, plant and equipment | 167,642 | 167,642 | 167,642 | - | - | - | - |
| **Total assets** | **44,490,246** | **44,490,246** | **43,310,121** | **1,113,622** | **-** | **32,718,383** | **66,503** |
| **Liabilities** | | | | | | | |
| Deposits from banks | 15,364,431 | 15,364,431 | - | - | - | 10,009,627 | 5,354,804 |
| Deposits from customers | 22,020,456 | 22,020,456 | - | - | - | 2,313,274 | 19,707,183 |
| Derivative financial instruments | 193,272 | 193,272 | - | 193,272 | - | 42,864 | - |
| Employee related liabilities | 24,429 | - | - | - | - | - | - |
| Tax payable | 3,472 | 3,472 | - | - | - | | 3,472 |
| Other liabilities | 79,237 | 106,980 | - | - | - | 65,660 | 106,980 |
| Lease liabilities | 3,314 | - | - | - | - | - | - |
| **Total liabilities** | **37,688,611** | **37,688,611** | **-** | **193,272** | **-** | **12,431,425** | **25,172,439** |

*Table 7: LI1*

The variance between the financial statements and the regulatory consolidating is due to the classification of asset and liability classes. Cash and cash equivalents for regulatory reporting only take into account the cash reserve at the South African Reserve Bank (SARB) while financial statements also include Nostro accounts positions held at other CCB entities and banking counterparts.

## LI2/LIA: Main sources of differences between regulatory exposure amounts and carrying values in financial statements

| R' 000<br>At 31 December 2023 | | a | b | c | d | e |
|---|---|---|---|---|---|---|
| | | | Items subject to: | | | |
| | | Total | Credit risk framework | Securitisation framework | Counterparty credit risk framework | Market risk framework |
| 1. | Asset carrying value amount under scope of regulatory consolidation (as per li1) | 44,490,246 | 43,310,121 | - | 1,113,622 | 32,718,384 |
| 2. | Liabilities carrying value amount under regulatory scope of consolidation (as per li1) (***) | - | - | - | 193,272 | 12,431,426 |
| **3.** | **Total net amount under regulatory scope of consolidation** | 44,490,246 | 43,310,121 | - | 920,350 | 20,286,958 |
| 4. | Off-balance sheet amounts (*) | 5,856,312 | 2,928,156 | - | - | - |
| 5. | Differences in valuations | - | - | - | - | - |
| 6. | Differences due to different netting rules, other than those already included in row 2 | - | - | - | - | - |
| 7. | Differences due to consideration of provisions | - | - | - | - | - |
| 8. | Differences due to prudential filters | - | - | - | - | - |
| 9. | Other changes (**) | - | (1,529,057) | - | 127,280 | - |
| **10.** | **Exposure amounts considered for regulatory purposes** | 50,346,558 | 44,709,220 | - | 1,047,630 | 20,286,958 |

*Table 8: LI2*

(*) Off-balance sheet amount in column b does not take into account Credit Risk Mitigation (CRM) and thus does not match to line 14, column d of the semi-annual CR4 table.

(**) Other changes:

- Credit Risk: The main difference regarding the credit risk framework is explained by the placements exposure, in Column a, the exposure is as of 31 December 2023 while in Column b is a monthly average; as well as differences for Off-balance sheet amounts in Columns a and b explained by Credit Conversion Factors (CCF) being applied in Column b.
- Counterparty Credit Risk: The main difference for column d is that the EAD is arrived at using SA-CCR, thereby resulting in the fair value of derivative liabilities made equal to 0, and an add-on factor for all derivatives is added.
  The CCR disclosed is the fair value of the Branch's derivatives. The derivatives are made up of interest rate swaps, currency swaps, and forward exchange contracts.

(***) Total liabilities carrying value amount under regulatory scope of consolidation as per LI1 is R 37 688 611.

## 3.2. PRUDENT VALUATION

Instruments are fair-valued in accordance with International Financial Reporting Standards (IFRS).

Fair value is used for OTC derivatives and securities, namely:
- Foreign Exchange (FX) derivatives;
- Interest Rate Swaps (IRS);
- Government bonds;
- Treasury bills; and
- Corporate bonds.

The bank uses the following hierarchy for determining and disclosing the fair value of financial instruments:
- Level 1: The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date; and
- Level 2: The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques based on observables inputs.

The following key controls over and above system reliance have been noted:
- reconciliation is performed between the system calculation and Trial Balance (Derivative Instruments);
- controls are in place to ensure the accuracy of rates uploaded into the system from Bloomberg sources.

There is currently no Independent Price Verification process (IPV) at the Branch; this is performed at the CCB Head Office level.

Capital regulatory frameworks require banks to apply prudent valuation to all fair value assets and liabilities. The difference between the prudent value and the fair value in terms of IFRS called prudent valuation adjustments (PVAs) is directly deducted from Common Equity Tier 1 (CET1) capital.

### PV1: Prudent valuation adjustments

| R' 000<br>At 31 December 2023 | | a | b | c | d | e | f | g | h |
|---|---|---|---|---|---|---|---|---|---|
| | | **Equity** | **Interest rates** | **FX** | **Credit** | **Commodities** | **Total (*)** | **Of which: In the trading book** | **Of which: In the banking book** |
| 1 | Closeout uncertainty, of which: | - | - | - | - | - | 35 343 | - | 35 343 |
| 2 | *Mid-market value* | - | - | - | - | - | - | - | - |
| 3 | *Closeout cost* | - | - | - | - | - | 35 343 | - | 35 343 |
| 4 | *Concentration* | - | - | - | - | - | - | - | - |
| 5 | Early termination | - | - | - | - | - | - | - | - |
| 6 | Model risk | - | - | - | - | - | - | - | - |
| 7 | Operational risk | - | - | 5 558 | - | - | 11 654 | - | 11 654 |
| 8 | Investing and funding costs | | | | | | | | |
| 9 | Unearned credit spreads | | | | | | | | |
| 10 | Future administrative costs | - | - | - | - | - | - | - | - |
| 11 | Other | - | - | 55 578 | - | - | 81 198 | - | 81 198 |
| **12** | **Total adjustment** | **-** | **-** | **61 136** | **-** | **-** | **128 195** | **-** | **128 195** |

*(*) includes PVA calculated on securities at FVOCI*

*Table 9: PV01*

As per the Prudential Authority's (PA) Directive 5/2020: Matters related to the Prudential Valuation Adjustment Framework, CCB-JHB is currently making use of the core approach for calculating PVA on its banking book.

The total PVA amount was arrived at by conducting an independent fair value calculation of CCB-JHB financial instruments (subject to PVA requirements).

The calculation has been completed by assessing the various adjustments contributing to PVA namely: Market Price Uncertainty, Close-Out Costs, Model Risk, Unearned Credit Spreads, Investing and Funding Costs, Concentrate Positions, Future Administrative Costs, Early Termination and Operational Risk.

The PVA calculation was refined during 2023 by including fair valued bonds. With the change of accounting classification for all newly purchased bonds to Fair Value through Other Comprehensive Income (FVOCI), PVA has now increased and taken into account in CCB-JHB's five-year capital plan. The PVA calculation is limited to the FX Swap book and FVOCI bonds.

The total PVA amount is deducted from CET1 and, as of December 2023, amounted to R128.2Mn.

The table below provides explanations on PVA categories retained, being the Close-out Uncertainty and Other (Market Price Uncertainty) PVA categories.

| PVA category under the CA | Assessment | Materiality |
|---|---|---|
| Close-out Uncertainty | Mid-market value:<br>FX: Not traded and fair value calculated using end of day rates<br>Securities: traded but, fair value already factoring mid-price<br>Close-out Cost (CoC):<br>Assessed to be material for both FX and Securities (calculation detailed below)<br>Concentration:<br>The FX and TB portfolios are not constituted of very large exposures relative to market size. | None<br><br><br><br>Material<br><br><br>None |
| Model risk | FX: valuation model is simple and no model risk is arising for the valuations that are taken into consideration.<br>Securities: valuation is derived from traded prices and not modelled. | None |
| Unearned credit spread | FX: derivatives book is very short-dated and either contracted internally or with counterparties with good credit rating<br>Securities: high liquidity nature and risk not material as instruments are simple and vanilla in nature | None |
| Investing and Funding costs | FX: funding costs associated are negligible<br>Securities: not applicable | None |
| Future administration costs | FX: administrative costs and future hedging costs over expected life are negligible with the instruments being very short-dated<br>Securities: liquid and traded in the market | None |
| Early termination | FX: early termination is only observed in more long-dated derivatives<br>Securities: no early termination | None |
| Operational risk | As per regulatory requirement, CCB-JHB does not make use of the Advanced Measurement Approach (AMA) for measuring Operational risk | Material |
| Other – Market Price Uncertainty (MPU) | Refers to the valuation uncertainty of a valuation exposure arising from uncertainty of a valuation input Considered to be material for securities | Material |

*Table 10: PVA assessment*

Fair value calculation

Market Price Uncertainty and Close-out Cost are calculated using the fair value pricing dynamics that regulate the instruments.

To perform different fair value calculations, CCB-JHB uses:

- FX rates
    - Sourced multiple FX rates from third party data vendors;
    - Built a confidence interval around the data sourced;
    - Considered bid-ask spread and added it to the base FX rate; and
    - Re-performed the calculations with the newly calculated FX rates
- Interest rates
    - Sourced basis curves; and
    - Re-performed calculations with the newly sourced interest rates
- Price (Securities)
    - Close-out bid price from third party data vendors; and
    - Close-out ask price from third party vendors.

*Calculation of Close-out Cost adjustment*

The bid/offer spread is calculated per transaction, by taking the difference between maximum ask prices and minimum bid prices sourced from different third-parties.

*Calculation of Market Price Uncertainty adjustment*

The valuation exposure is defined as the amount of a valuation position which is sensitive to the movement in a valuation input. MPU is calculated using standard deviation of the ask, bid, mid prices sources from different third-parties.

*The Operational Risk adjustment*

The Operational Risk adjustment is calculated by assessing the potential losses that may be incurred because of operational risk related to valuation processes; it is calculated using 10% of the other categories PVA.

# 4. CAPITAL MANAGEMENT

## 4.1. INTRODUCTION

Capital Management is aligned to CCB-JHB's risk profile, medium and long-term strategy, and risk appetite. The following is taken into account:

| | |
|---|---|
| Prudential requirements | Strategic and organic growth plan |
| Minimum regulatory and internal requirements | Incoming regulatory reforms |
| CCB Group expectations | Stress testing outputs and recovery options |
| CCB-JHB size and mandate | Peer comparison |

The Capital Management Framework, Recovery & Resolution Plan, and Internal Capital Adequacy Assessment Process (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;
- should a severe economic downturn materialize, be able to activate capital recovery options as envisaged in the Recovery & Resolution Plan; and
- remains consistent with the Branch's strategic and operational goals for the next five years and is aligned to CCB Group's expectations.

## 4.2. CAPITAL ADEQUACY AND LEVERAGE

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 (1%), and 2B); and
- Countercyclical buffer (depending on exposures to corporate sector in foreign jurisdiction).

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 risk and other risks.

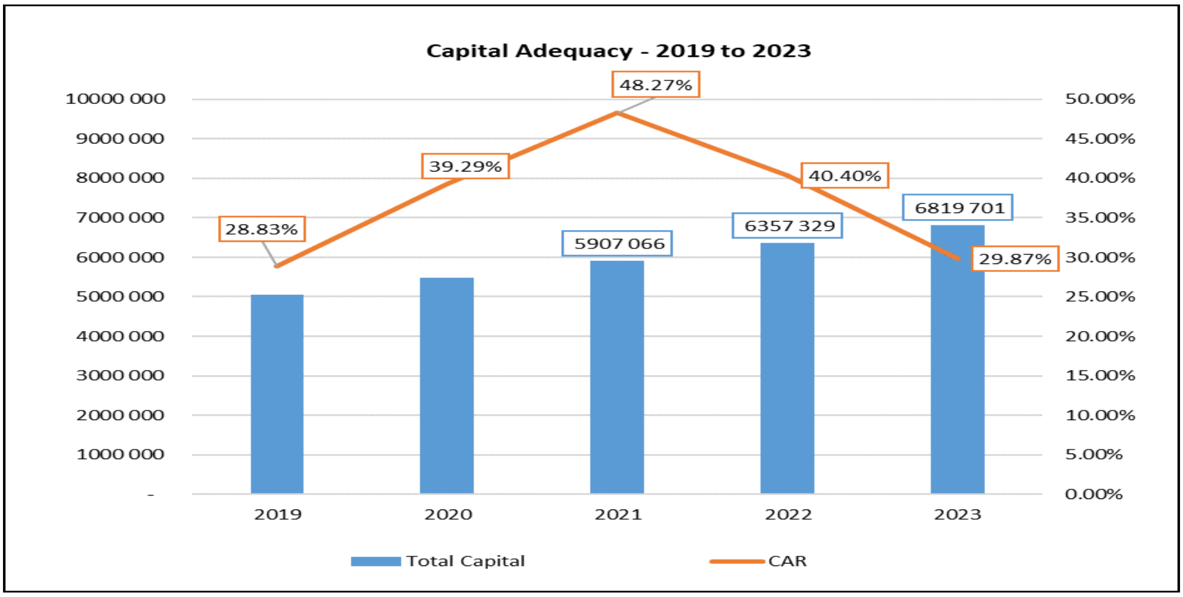


*Figure 2: CAR and Qualifying Capital – 2019 to 2023*

As at 31 December 2023, the Branch reported a capital adequacy ratio of 29.87% and a leverage ratio of 14.23%. CCB-JHB has met both regulatory and internal minimum capital requirements for the period under review, per the requirements of the Banks Act and stipulated within the ICAAP.

The capital adequacy ratio has decreased due to an increase of total RWA, mainly driven by an increase of credit RWA; new bilateral and syndicated term loans coupled with investment in new corporate bonds contributed to an increase of credit risk. CCB-JHB is now operating at similar levels as during 2019.

## 4.3. SUPPLY OF CAPITAL

CCB- JHB capital structure is as follows:

- Paid in capital amount qualifying as Common Equity Tier 1 (CET1) capital;
- Retained earnings accumulated since the Branch’s creation qualifying as CET1 capital;
- Other Reserves qualifying as CET1 (OCI);
- General allowance for credit impairments qualifying as Tier 2 capital; and
- Regulatory adjustment as prescribed by the Regulator (PVA deduction).

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

| *R'000* | 2023 | 2022 |
|---|---|---|
| **Tier 1 capital** | **6 673 353** | **6 248 228** |
| *Branch capital* | *3 385 642* | *3 385 642* |
| *Retained earnings* | *3 257 317* | *2 767 198* |
| *Accumulated other comprehensive income* | *158 679* | *135 117* |
| *Regulatory Adjustments* | *-128 285* | *-39 729* |
| **Tier 2 capital** | **146 348** | **109 101** |
| *General allowance for credit impairment* | *146 348* | *109 101* |
| **Total regulatory capital** | **6 819 701** | **6 357 329** |

*Table 11: Capital supply*

CCB JHB has high-quality capital with 97,85% of total capital constituting CET1. CET1 is suitable to absorb losses and retain value under stressed conditions. There have been no material changes in the capital composition/structure of CCB-JHB during 2023. CCB-JHB capital level is assessed as adequate to support the Branch’s medium to long-term strategy while implementing Basel regulatory reforms.

## 4.4. DEMAND FOR CAPITAL

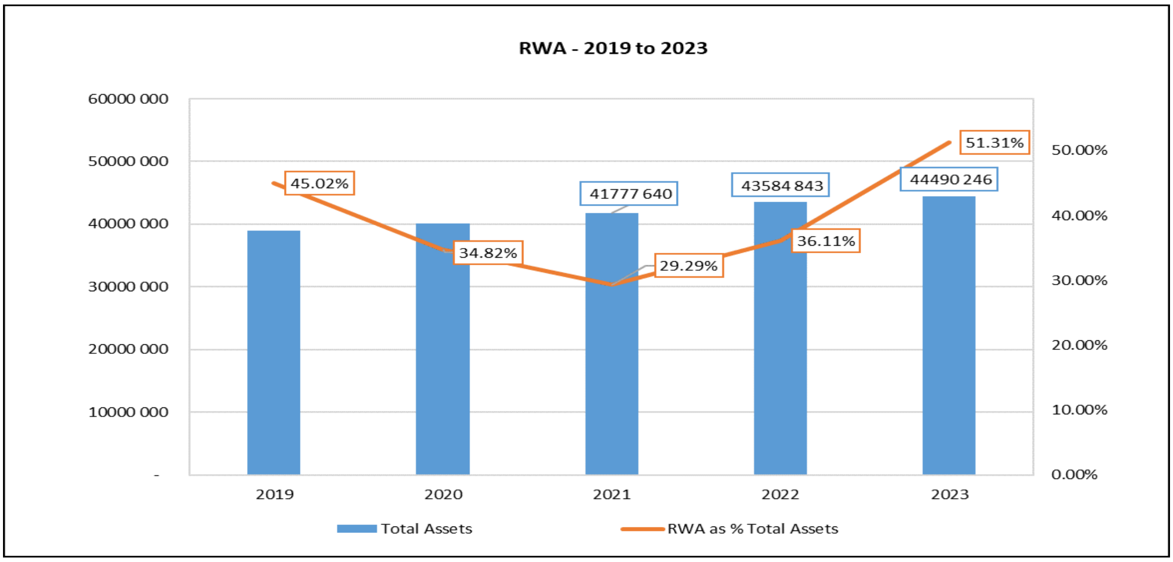


*Figure 3: RW ratio and Total Assets – 2019 to 2023*

The RWA decrease from 2020 to 2022 was due to the COVID-19 pandemic impact on credit demand with loans maturing and not being replaced, early repayments and a decrease in exposure to large local and international corporates.

At a relative comparable balance sheet size, the average risk-weight ratio during 2023 increased to levels comparable with 2019. The change in asset mix, which started during 2022, continued during 2023, as per strategy, and consisting in:

- an increase in longer term loans and advances (to large FIs and corporates);
- a decrease in medium and short-term banking credit exposure; and
- an increase in corporate bonds holdings.

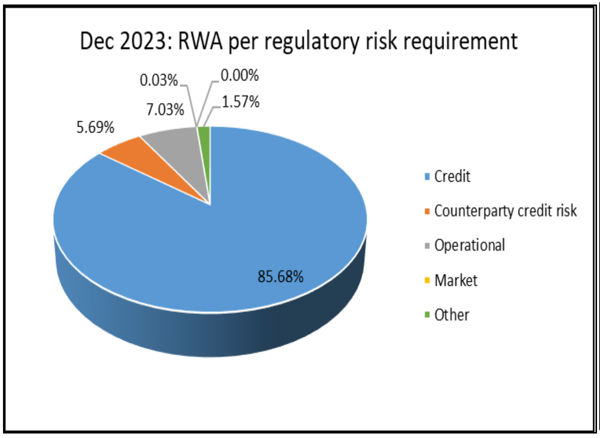


*Figure 4: RWA per risk category – 2023*

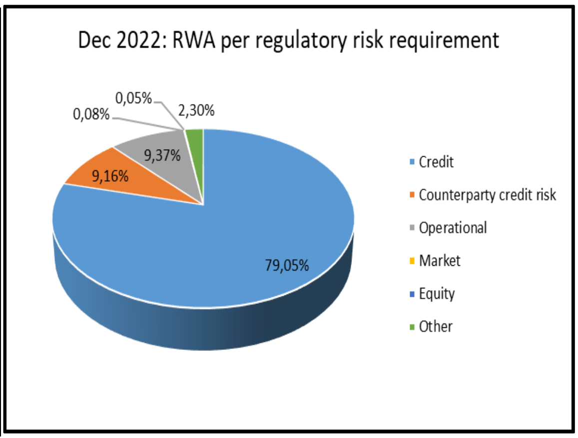


*Figure 5: RWA per risk category - 2022*

CCB-JHB's RWA profile has been mostly stable over 2023 with credit representing the largest capital requirements (86%). The main change relates to a controlled and monitored increased credit risk contribution.

## 4.5. CAPITAL MANAGEMENT

The CCB-JHB capital framework and policy specifies the principles that management will follow in making decisions to manage the Branch's capital.

The RCICC is accountable for demonstrating that adherence to the capital framework and policy will allow the bank to maintain ready access to funding, meet its obligations to creditors and other counterparties, and continue to serve as a credit intermediary before, during, and after a stressful scenario.

| Capital Management | | | | |
|---|---|---|---|---|
| **Investment of capital** | **Profit appropriation/repatriation** | **Capital planning** | **Capital monitoring** | **Recovery & Resolution Plan** |
| "Risk-free" assets where a secondary market is active | Steady increase through monthly appropriation | Evaluate the level and trend of material risks and their effect on capital levels | Monitoring of regulatory capital measures (CET1, T1, CAR, Leverage, RWA growth, RWA contribution per risk, LEX framework) | The setting of early warning triggers |
| Maturity diversification of securities | No constraint from Head Office aimed at supporting the growth strategy | Evaluate the sensitivity and reasonableness of key assumptions used in the capital assessment measurement system | Monitoring of performance-related metrics (RoE, RAROC, EVA) | Identification of recovery options |
| | No barriers to transferability of capital from the Group to the Branch | Determine that sufficient capital against the various risks is held | Monitoring of risk appetite metrics (internal buffers) | Establishing governance for crisis management |
| | | Capital adequacy goals | Pre-established reporting channels to Executives, Committees and Senior Management | Establishing escalation and reporting channels for crisis management |
| | | Assess future capital requirements based on reported risk profile and make necessary adjustments to the strategic plan accordingly | | |

*Table 12: Capital management principles*

## 4.6. ICAAP

The Internal Capital Adequacy Assessment Process (ICAAP) document is developed in alignment to SARB Guidance Note 4/2015 which provides guidelines and expectations of the Prudential Authority (PA). The aforementioned guidance note refers to the Basel Committee on Banking Supervision (BCBS), Financial Stability Board (FSB) principles, best practices and requirements.

A successful ICAAP requires that the management of risk and capital should be embedded within business processes and span the entire spectrum of its activities.

CCB-JHB reviews its ICAAP annually in line with the current strategy. CCB-JHB identifies the associated risks and assesses how those risks contribute to capital needs as measured by both internal and regulatory requirements.

During the ICAAP, review of risk management processes are performed to ensure integrity, accuracy, and reasonableness of:

- appropriateness of the bank's capital assessment process given the nature, scope, and complexity of its activities;
- identification of large exposures and risk concentrations;
- accuracy and completeness of data inputs into the bank's assessment process;
- reasonableness and validity of scenarios used in the assessment process; and
- stress testing and analysis of assumptions and inputs.

CCB-JHB has set the ICAAP stress testing process for determining the severity of risk management gaps and developing appropriate responses, including monitoring and limiting the exposure in question and holding regulatory capital to serve as a buffer to absorb these risks.

## 4.7. RECOVERY AND RESOLUTION PLAN

The Recovery & Resolution Plan (RRP) details the range of strategies Executive Management and Department Heads can employ to address anticipated and unexpected capital shortfalls.

The Bank takes into account the following aspects of the RRP when considering its current ability to recover from severe stress:

- measures to reduce risks;
- restore financial strength;
- ensure critical processes are maintained;
- address liquidity pressures;
- conservation of capital and solvency;
- strategic options including the divestment of business lines and restructuring of assets and liabilities;
- the process to ensure timely implementation;
- appropriate governance is followed during crises;
- appropriate reporting to both CCB Head Office and regulators are executed; and
- appropriate external communications are prepared, approved, and performed.

In terms of resolution, the following aspects would be taken into account:

- communication channels and coordination with Head-Office and the SARB;
- ensure temporary continuity by maintaining critical functions;
- protect depositors while reducing and adjusting level of required funding, using intragroup funding if available;
- protect creditors by selling-off loans and advances on the secondary market and/or other CCB entities/ensuring FX derivatives are held till maturity and collateral returns;
- protect service providers and third parties with cooperation, information exchanges and transparency;
- ensure no legal impediments with third parties in the process;
- protect staff with following local labour regulation;
- avoid unnecessary destruction of value and minimise overall costs;
- exit market in an orderly way; and
- prepare with HO all external communications.

# 5. CREDIT RISK

## 5.1. CREDIT RISK OVERVIEW AND GOVERNANCE

### Overview

The Branch's credit risk arises through its lending activities. It includes credit default risk, pre-settlement risk, country risk, and concentration risk.

A customer 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 customer 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.

The Bank's primary exposure to credit risk arises through its loans and advances. The credit exposure is represented by the carrying amounts of the financial assets on the statement of financial position. The bank 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 bank is exposed to off-balance sheet credit risk through commitments in respect of undrawn part of committed facilities and guarantees.

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

### Governance

EXCO has the overall responsibility for credit risk and for approving recommended improvements for credit risk governance and management and, if necessary, adjusting the credit risk appetite of the Branch.

The Branch's CC and 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. RCICC monitor(s) 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.

RMD carries out daily risk monitoring functions and ensures both RCICC and CC decisions are executed. The credit risk function mainly entails ongoing management of credit risk, which includes validating internal credit ratings, carrying out credit risk assessment, providing risk review opinions on credit submissions, performing continuous post-loan management, reviewing and recommending loan classification, and loan provision levels through the IFRS9 stage classification. The function also monitors compliance with various key credit related policies.

The compliance department:
- performs internal controls checks after selecting samples; and
- monitor compliance with regulatory requirements.

The internal audit function will carry dedicated audits, audit plan is determined on a risk-based approach basis and reviewed annually.

There has been no major change in managing credit risk in 2023.

## 5.2. MEASUREMENT AND MANAGEMENT OF CREDIT RISK

CCB-JHB is currently using the Standardised Approach for measuring credit risk. This approach is based on customers' external ratings mapped to pre-defined risk-weight ratios using the ratings table included in Regulation 23 of the Regulations to the Banks Act and due consideration to the applicability of the rating to the exposure as contemplated in Regulation 23(5). 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 preparing for the implementation of the revised Standardised Approach, with full implementation expected from July 2025, as per Guidance Note 3 of 2023. Although credit risk capital demand is the largest capital charge for the Branch, the potential impact of the new approach is limited. This is mainly due to the nature of business of CCB-JHB and capital output floors not being applied (no used of IRB).

## *Credit Risk Assessment*

The Branch's credit risk appetite is determined under the Branch's Risk Appetite Framework and guidance from CCB Head Office credit-related policies by promoting the sound and sustainable development of credit business.

The Deal Forum (DF) is responsible for conducting an initial high-level assessment on prospective credit proposals to determine compliance with the credit risk appetite.

Credit proposals undergo an assessment which includes the following:

- Assessment of the counterparty's internal credit rating
    - Counterparty internal credit ratings are initiated by the front-line departments (FLDs), reviewed and validated by RMD, and approved by CC.
    - The process of assigning an internal credit rating to a counterparty is guided by the Credit and Approval Management Policy and Procedure.
- Assessment of the counterparty's external credit rating
    - Under the guidance of the Credit and Approval Management Policy and Procedure, counterparty external credit ratings that are issued by approved rating agencies are utilised for referencing in the credit assessment process.
    - For regulatory reporting, CCB-JHB uses external ratings of rating agencies that have been approved by the PA, commonly referred to as eligible External Credit Assessment Institutions (ECAIs). CCB-JHB uses Moody's Investor Services, Standard and Poor's Rating Services, and Global Credit Ratings Co (Pty) Ltd. external ratings. Fitch Ratings Inc. was derecognised during 2023, hence no longer used. ECAIs ratings are used for banking and large corporates. When no external rating is available, the exposure is categorised as "unrated".
- Counterparts with no external credit rating are allocated a set risk weight as per Regulations relating to Banks ("Method 2: Calculation of credit risk exposure in terms of the standardised approach" section) and treated as unrated, including unrated subsidiaries or Branches where the parent company is rated.
- Assessment of the counterparty's risk profile
    - Under the guidance of the Credit and Approval Management Policy and Procedure, the assessment of the risk profile includes determining creditworthiness, setting appropriate credit limits within the Branch's credit risk appetite, industry and counterparty concentration, and the counterparty's risk profile;
    - Limits are allocated based on risk profile:

| Type of limits | | |
|---|---|---|
| **Category** | **Limit** | **Sub limit** |
| **Counterparty limits** | Corporate Banking limits | NA |
| | Treasury Transaction limits | FX limits |
| | | Placement limits |
| **Concentration limits** | Single counterparty limits | NA |
| | Group and interconnected parties limits (LEX) | NA |
| | Industry limits | NA |
| **Country limits** | Per country | NA |

*Table 13: Type of credit limits within CCB-JHB*

Credit proposals are independently assessed by the RMD and a risk review opinion is included in all submissions.

## Credit Risk Reporting / Post Lending Management

The Branch's credit risk post-lending management is undertaken with the guidance of CCB Head Office policies and procedures.

Repayments are monitored daily to identify any overdue exposure.

Counterparty concentration is calculated daily, aimed at monitoring a single or group of exposures that may threaten the Branch's capital adequacy or sustainability. The monitoring of counterparty concentration takes into account exposure arising from both on and off-balance sheet items, contingent liabilities and offset by qualifying credit risk mitigation.

Annual reviews of the counterparty's risk profile are conducted by FLDs to determine any change in the counterparty's risk profile. The annual reviews are subject to an independent assessment by RMD and fall under the authority of the CC.

Quarterly lending portfolio reports are also completed as part of post-lending management and these include an assessment of the Branch's lending portfolio by exposure type and related concentration, industry type and related concentration, top 10 counterparties, counterparty risk classifications and non-performing counterparties. This report falls under the authority of the RCICC.

Monthly post lending management reporting is completed and includes an assessment of the counterparty credit risk profile. The report informs on SENS announcement, media news, industry news, related industry news, client communications, upcoming repayment interest payment/principal repayment and so on.

Credit exposures/assets by industry, geography and residual maturity are broken down in the following graphs:

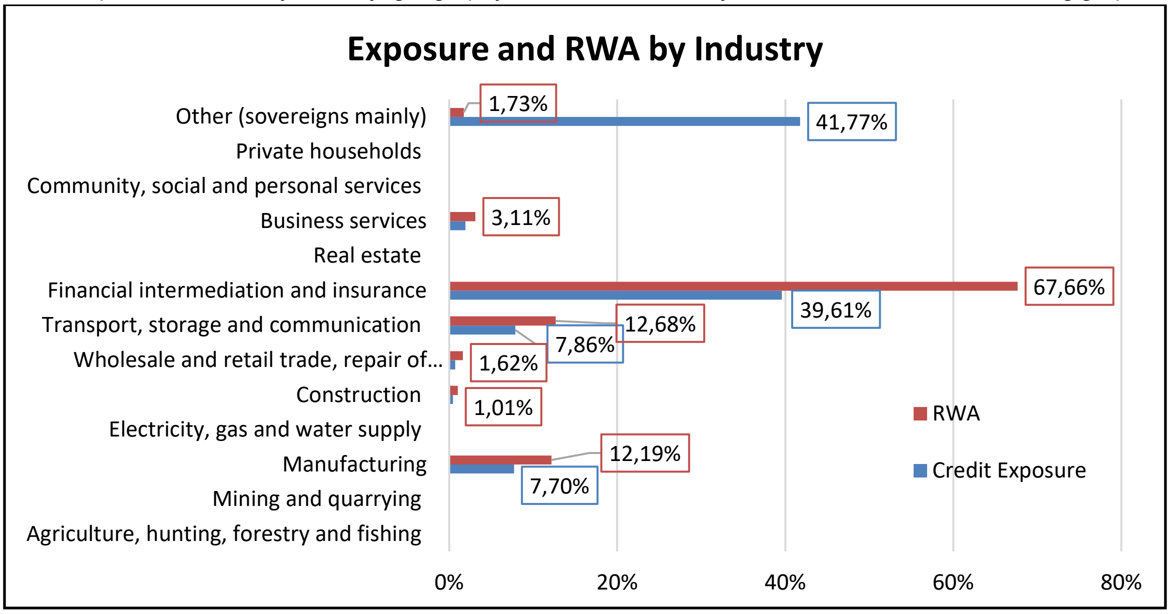


*Figure 6: Credit Exposure and RWA by Industry - 2023*

There are no material changes in terms of sector exposures.

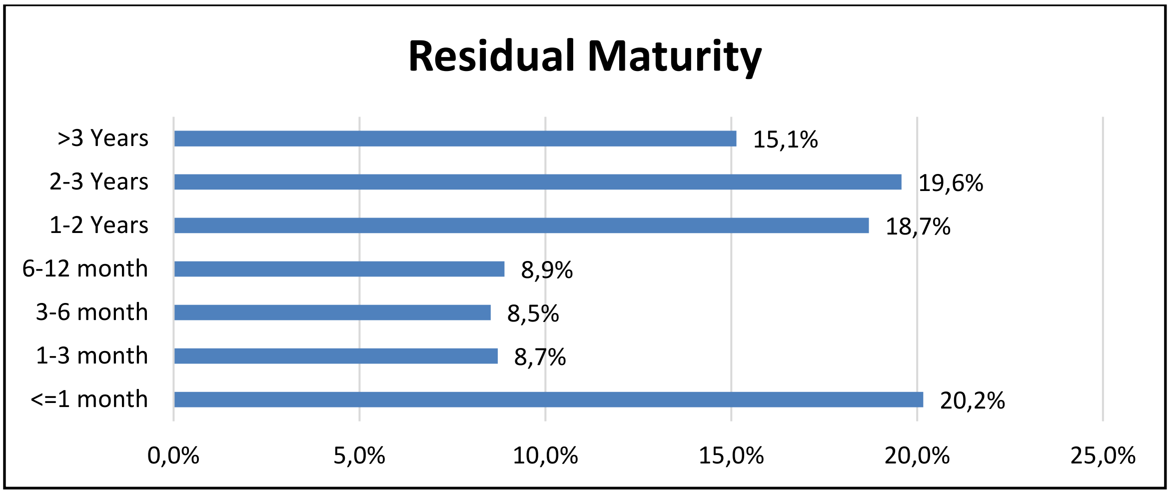


*Figure 7: Credit assets per residual maturity*

Maturity profile remained overall stable in 2023, with few additional longer term loans and advances.

## Country Risk / Geopolitical risk

Credit exposure and RWA are broken down by region and industry in the following figure and table:

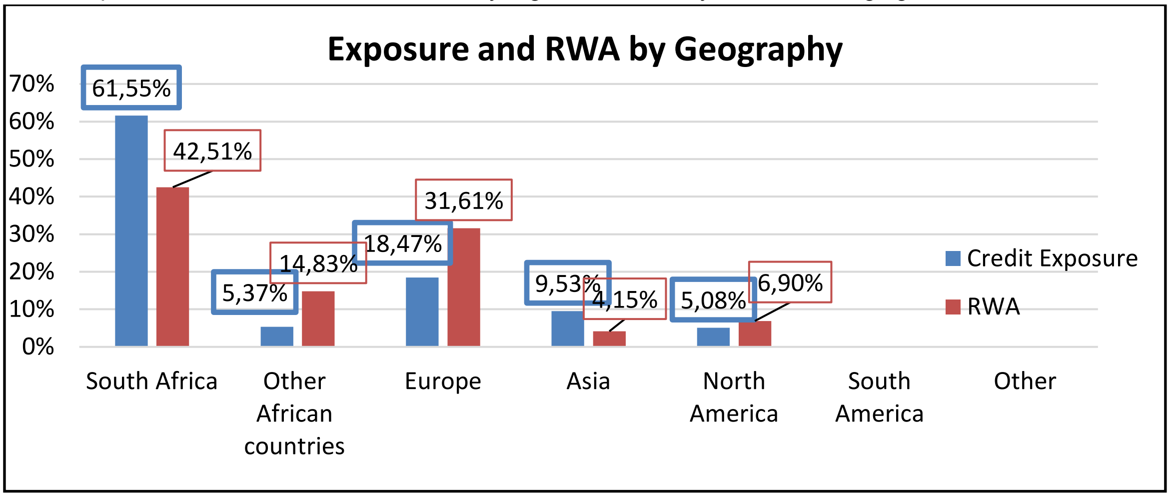


*Figure 8: Credit Exposure and RWA by Geography - 2023*

| As at 31 December 2023 | Overview of EAD and RWA | | | |
|---|---|---|---|---|
| | Total EAD (R'000) | EAD % | RWA (R'000) | RWA % |
| **Geographical** | | | | |
| South Africa | 29 421 705 | 61.55% | 8 666 601 | 42.51% |
| Other African countries | 2 568 017 | 5.37% | 3 024 483 | 14.83% |
| Europe | 8 831 512 | 18.47% | 6 444 359 | 31.61% |
| Asia | 4 556 212 | 9.53% | 845 572 | 4.15% |
| North America | 2 426 166 | 5.08% | 1 406 819 | 6.90% |
| South America | 0 | 0.00% | 0 | 0.00% |
| Other | 57 | 0.00% | 0 | 0.00% |
| **Industry** | | | | |
| Agriculture, hunting, forestry and fishing | - | 0.00% | - | 0.00% |
| Mining and quarrying | - | 0.00% | - | 0.00% |
| Manufacturing | 3 680 914 | 7.70% | 2 484 808 | 12.19% |
| Electricity, gas and water supply | - | 0.00% | - | 0.00% |
| Construction | 206 504 | 0.43% | 206 504 | 1.01% |
| Wholesale and retail trade, repair of specified items, hotel | 331 061 | 0.69% | 331 061 | 1.62% |
| Transport, storage and communication | 3 758 032 | 7.86% | 2 585 557 | 12.68% |
| Financial intermediation and insurance | 18 934 219 | 39.61% | 13 793 706 | 67.66% |
| Real estate | 10 199 | 0.02% | - | 0.00% |
| Business services | 913 348 | 1.91% | 634 391 | 3.11% |
| Community, social and personal services | - | 0.00% | - | 0.00% |
| Private households | - | 0.00% | - | 0.00% |
| Other (sovereigns) | 19 969 389 | 41.77% | 351 807 | 1.73% |

*Table 14: EAD and RWA per region and sector*

Head Office establishes specific country exposure limits for each country with whom the Bank has or may have a business. These limits are based upon an analysis of the socio-political environment in the listed countries, and the Branch manages these accordingly.

CCB-JHB has defined high-risk countries as those for which the political environment is such that the flow of capital into and out of the country could be restricted. This could preclude payment of obligations by obligors who have the willingness and ability to pay their obligations.

Risk analysis on operating in a given country is performed for all credit applications.

Country risk is managed/mitigated:

- with diversified funding lines across various regions than the one it is operating with;
- hedging all transactions > 9 months using Interest Rate derivatives and forex;
- contingency plans rely on other CCB branches across the world and on the CCB Group;
- ongoing monitoring of market movements due to geopolitical influences; and
- stress testing encompassing geopolitical and macroeconomic shock.

As of December 2023, 57% of total RWA are to companies domiciled outside of South Africa; RWA distribution has changed over 2023 with a decreased concentration in South Africa and increased credit exposure within Europe (South African companies operating in Europe). There are no concerns with any given countries the Branch has exposures to with the exception of Egypt; the counterparty in Egypt is however not directly linked to the Egyptian government or sovereign.

### 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 Collateral Management in Corporate Lending 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 when the branch is meeting regulatory requirements.

As of 31 December 2023, limited collateral has been accepted to mitigate credit risk, mainly in the form of cash and demand guarantees. There is no concentration in any type of collateral.

## 5.3. CREDIT QUALITY OF ASSETS

### Definition of past-due and impaired for accounting and regulatory purposes

If a payment of principle or interest is not made on the due date, then this is defined as 'past due'. When the bank recognises that it will not be able to collect, or there is no longer a reasonable assurance that the bank will collect all amounts due according to the contractual terms of the written agreement, then it is defined as 'impaired'. A financial asset can be 'impaired' but not necessarily 'past due' if the principle or interest is up to date but the bank believes that it is probable that it will not be able to collect all outstanding amounts.

All past-due exposures (more than 90 days) will be impaired. As end of 2023, the Branch does not have any default loan exposure.

### IFRS 9 Impairment Model

The Branch has adopted the approach prescribed in IFRS 9, which uses an expected credit loss (ECL) for recognition of impairment losses. ECLs are calculated with three main components:

- the probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

PD is derived from the internal rating model used for credit applications. LGD are derived using regulatory guidelines and external benchmarks due to the limited internal default data of the Branch.

Adequacy of impairments is assessed through the continuous review of the quality of credit exposures. Individual exposure is classified into one of the following categories:

| Stage 1 | Stage 2 | Stage 3 |
|---|---|---|
| Credit risk has not had a significant increase since initial recognition or which have low credit risk | Credit risk has increased significantly since initial recognition unless having low credit risk but the asset is not credit-impaired | The asset has become credit-impaired since initial recognition |
| 12-months ECL is recognised | Lifetime ECL is recognised | Lifetime ECL is recognised |

*Table 15: Stage and ECL*

The bank uses a combination of qualitative and quantitative methods for determining the significant increase in credit risk. The quantitative method uses relative trigger thresholds to move exposures to Stage 2 based on the number of notch downgrades experienced between the original date of the financial instrument and the reporting date. The qualitative assessment of a significant increase in credit risk is based on the Branch's current credit risk classification procedure.

The table below sets out the mapping of the current credit risk definitions to the IFRS 9 stages:

| | Stage 1 | Stage 2 | Stage 3 |
|---|---|---|---|
| **Criteria** | Normal – provided that the exposure is not more than 30 days past due;<br><br>Watchlist – provided that the exposure is not more than 30 days past due; and<br><br>Exposures that are not subject to the notching criteria. | Normal – those exposures which are more than 30 days past due;<br><br>Watchlist – those exposures which are more than 30 days past due;<br><br>Special Mention; and<br><br>Exposures whose internal credit rating is downgraded as per the quantitative notch downward criteria. | Special Mention – those exposures which are more than 90 days past due and the net realisable value of the security is sufficient to cover the payment of principal and accrued interest;<br><br>Sub–Standard – those exposures which are more than 90 days past due and the net realisable value of the security is insufficient to cover the payment of principal and accrued interest;<br><br>Doubtful – those exposures which are more than 90 days past due;<br><br>Loss – those exposures which are more than 90 days past due; and<br><br>Exposures that have been restructured due to financial distress. |

*Table 16: stage definitions*

The IFRS 9 impairment model was reviewed during 2023. The parameter updates incorporated the following:

- economic data review;
- S&P matrix & mapping update;
- LGD update; and
- 2022 audit remediation.

The impairment of the Branch has increased from R145m in December 2022 to R180m in December 2023; increase being driven by additional term loans and corporate bonds. The Branch believes that the impairment level was appropriate and sufficient based on the changes in the Branch's portfolio and the current economic environment.

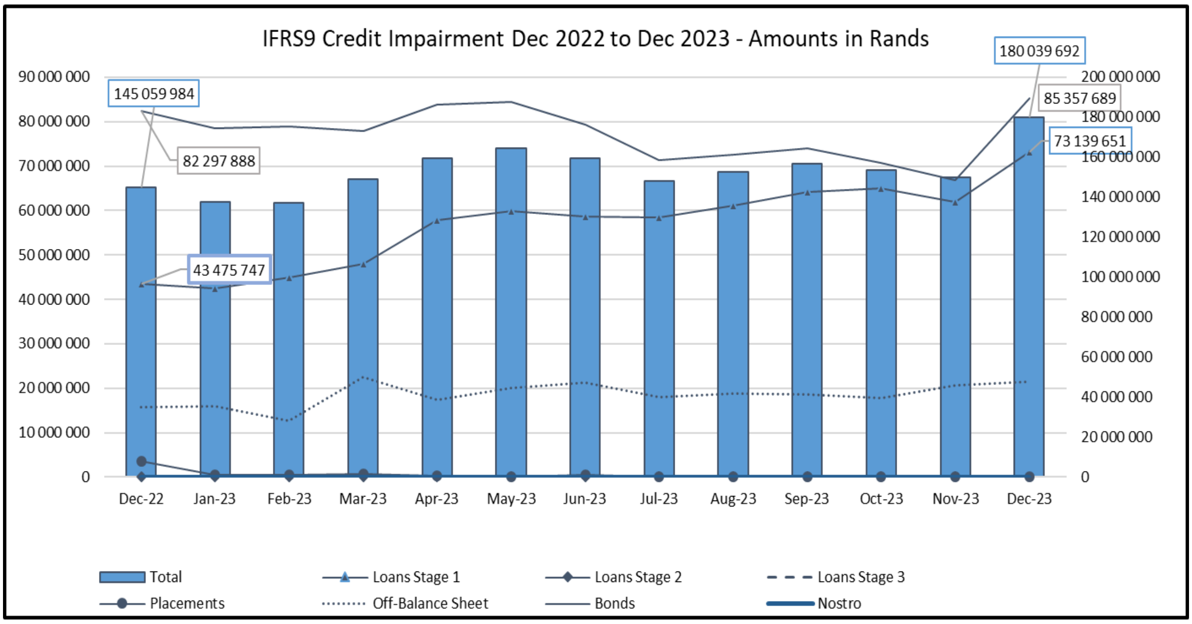


*Figure 9: IFRS9 credit impairments*

## Restructured exposures definition

The definition of restructured exposures is in line with Banks Act Directive 7 of 2015 and Directive 3 of 2020.

Restructured credit exposure is a credit exposure, approved by the CC, where a concession was granted to the Borrower owing to a deterioration in the Borrower's financial condition or owing to a distressed situation of the relevant Borrower.

When the financial distress of a borrower has been established and the remaining requirements of the definition of a restructured exposure have been met, the exposure will be reported to the PA as having been restructured.

There are no restructured exposures within the Branch as of 31 December 2023.

## Year in review

In South Africa, the economy returned to pre-pandemic levels, bolstered by higher commodity prices and increased exports. Business sentiments and economic growth improved during 2023, although fragile. CCB-JHB successfully increased its lending portfolio while maintaining overall credit quality. The lending portfolio increased by 4.05% (excluding ECL impairments).

The Branch does not have any non-performing assets and suffered no losses during the year.

# 6. COUNTERPARTY CREDIT RISK

## 6.1. OVERVIEW

Counterparty Credit Risk (CCR) arises from the derivatives exposure of CCB-JHB. The Branch's derivative portfolio consists of Interest Rate Swaps (IRS) and Foreign Exchange Contracts (FECs). IRS are solely to hedge interest rate risk, while FX derivatives are for hedging and funding purposes.

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

- CCR calculated based on the Standardised Approach (SA-CCR); and
- Credit valuation adjustment (CVA) using the Standardised CVA calculation with prescribed risk-weight ratios based on external ratings (ECAIs).

CCB-JHB conducts Over-The-Counter (OTC) derivatives transactions with clients that have an allocated limit (with the exception of cash cover transactions) and all OTCs are booked as bilateral agreements. CCB-JHB has no exposure to Central Counterparty Clearing House (CCP).

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

CCB-JHB is preparing for the implementation of the Revised Credit Valuation Adjustment Framework (CVA). CCB-JHB is currently using the new framework, making use of the Reduced Basic-Approach CVA (BA-CVA), for internal reporting purposes and measuring impact on capital requirement. Full implementation is expected from July 2025; no material impact on capital requirement is expected.

## 6.2. GOVERNANCE

The responsibility of CCR governance and strategy resides with the Assets and Liabilities Committee (ALCO), which delegates measurement, monitoring and reporting responsibilities to relevant departments (RMD, Treasury and Accounting) as stipulated by the Branch's Counterparty Credit Risk policy.

As part of the new risk measurement approach for CVA, as per Prudential Communications, all ALCO members and senior management were trained and fully understand the revised framework. Model built followed a dual governance approval process (EXCO and AC) and fully operational.

## 6.3. RISK MANAGEMENT

CCR management relies on:

- dedicated credit lines for derivatives with banks having signed ISDA master agreements;
- CSA agreements entered into with selected counterparties;
- an automated limit system to prevent limit breach;
- daily regulatory CCR capital requirement calculation; and
- monitoring and reporting of exchange rates and any significant market event possibly affecting CCR levels.

General wrong-way risk arises when the probability of default of counterparties is positively correlated with general market risk factors. General wrong-way exposures are contracted with CCB-JHB hedging strategy and specific and general wrong-way risks are accepted since CCB- JHB deals mainly with large local banks and corporates to book OTC derivatives with, who are inextricably linked to South African sovereign country rating, South African repo rate, and local currency.

Specific wrong-way risk arises when the exposure to a particular counterparty is positively correlated with the probability of default of the counterparty due to the nature of the transactions with the counterparty. CCB-JHB has no specific wrong-way exposure.

CCB-JHB exchanges daily cash variation margin with selected banking counterparts. The impact of collateral received/posted was not factored in the capital requirement calculation as end of December 2023. From January 2024, the calculation now includes collateral for all margined transactions. Collateral amount is not based on CCB-JHB credit rating but rather on MtM of derivatives; a downgrade of CCB-JHB (CCB Group) would thus not trigger any additional posting of collateral.

## 6.4. YEAR IN REVIEW

Fluctuations in CCR are as a result of the fair value movements in currency swaps. The fair value is determined by discounting future cash flows of the derivative and factors that influence the discounting are:

- the nominal value of contracts;
- the volume of derivatives; and
- interest rates and exchange rates.

The nominal value and volume of derivatives are not materially different from 2022 and the main parameter affecting RWA is the ZAR volatility to USD.

As at 31 December 2023, CCR RWA amounted to R 1 298 171 (including CVA), a decrease from 2022 (-9.96%). FX derivatives are booked as hedging instruments and their replacement costs are affected by exchange rates. When ZAR appreciates towards USD, the replacement cost of ZAR/USD derivatives increases, the derivatives are usually ranging from few days to 3 months. CCR levels are under control and CCR capital requirements are monitored daily.

As at 31 December 2023, the cash variation margin received was R147 597.

# 7. LIQUIDITY AND FUNDING RISK

## 7.1. OVERVIEW

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.

The Branch's responsibility is to maintain a strong liquidity and funding position at all times, although it can rely on support of its Head Office.

The Branch's funding is constituted of interbank, institutional, and corporate funding.

## 7.2. GOVERNANCE

The ALCO is mandated by the EXCO to ensure independent supervision of liquidity risk 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 department is required to execute these strategies and manage the Branch's liquidity daily.

The RCICC institutes the control framework in which liquidity is to be managed in accordance with the risk appetite statement. The risk appetite statement defines risk metrics, buffers, limits, risk tolerances, survival horizon, and qualitative statements that articulate the level of risk the Branch is willing to accept in achieving its strategic objectives. 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 risk management function is tasked with monitoring liquidity risk and making recommendations to the committee with regard to the management of liquidity.

## 7.3. RISK MANAGEMENT

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. LCR and the NSFR are reported daily which enables the Treasury department and ALCO to monitor and manage the Branch's liquidity effectively and maintain pre-established internal buffers. This guarantees the maintenance of sufficient High-Quality Liquid Assets (HQLA); this includes Treasury Bills, sovereign bonds, and other short-term money market instruments. Additional sources of liquidity can be obtained intra-group and in the interbank market. The level of available sources of stress funding is measured and monitored monthly and was deemed sufficient to mitigate liquidity risk throughout the financial year.

RMD and the Accounting Department report and monitor the 60/40 and intra-group limits daily to ensure compliance with all prudential requirements

Monitoring of liquidity mismatches from a contractual, business as usual, and cumulative basis is conducted by RMD. The liquidity gaps, resulting from the maturity of the liabilities being shorter than the maturity of the assets, will be utilized to determine and manage the survival horizon in accordance with risk appetite.

In addition, the source of funding strategy resides in diversifying funding (industry, asset class, tenor and currencies) from sustainable sources to achieve strategic objectives efficiently and limit excessive concentration to achieve liquidity resilience.

To improve the Branch's resilience, stress testing is conducted monthly for regulatory reporting, quarterly for CCB Head Office and committees, and annually for ICAAP and the Recovery & Resolution Plan.

## 7.4. YEAR IN REVIEW

The Branch's liquidity profile has shown short-term resilience throughout the year, with LCR at 300.59% as at 31 December 2023. The portfolio of high-quality liquid assets (HQLA) remained stable from the prior reporting date. The Branch maintained LCR compliance in excess of both the internal buffers and regulatory requirements.

The NSFR demonstrates the Branch's funding stability and medium/long-term resilience. As at 31 December 2023, NSFR was reported at 129.83%, stable from prior reporting and compliant with regulatory and internal thresholds at the end of 2023.

The Branch has maintained sufficient levels of HQLA to address short-term funding needs throughout the financial year.

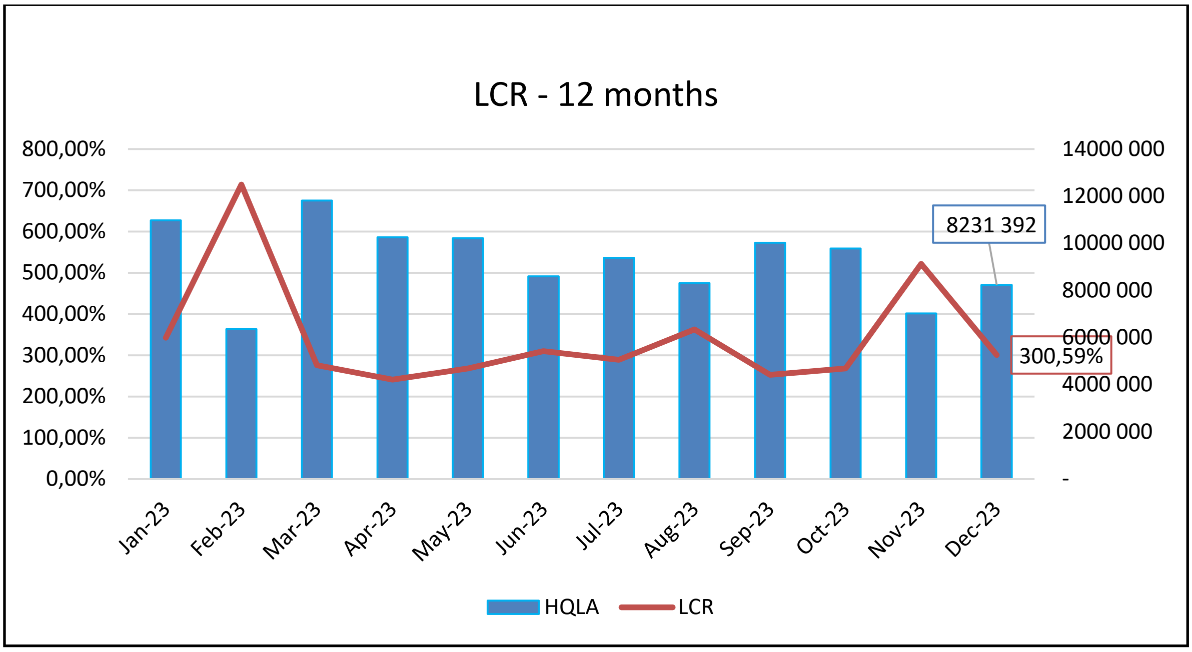


*Figure 10: LCR - 2023*

The Branch has maintained sufficient levels of available stable funding to address long-term funding needs throughout the financial year.

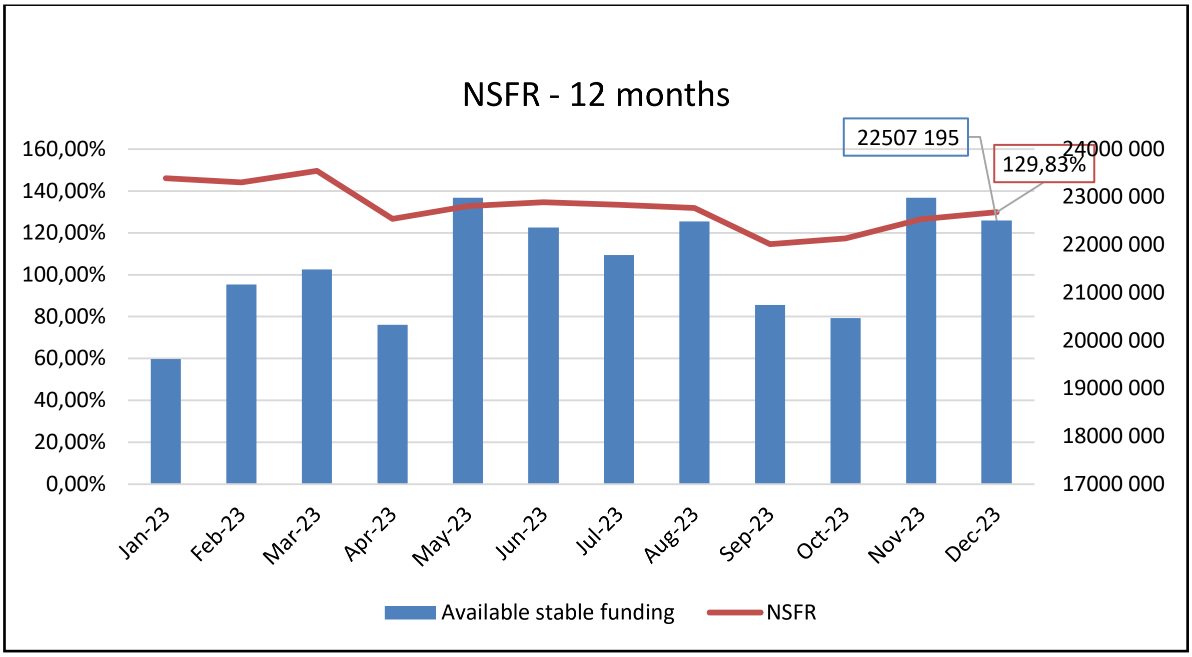


*Figure 11: NSFR - 2023*

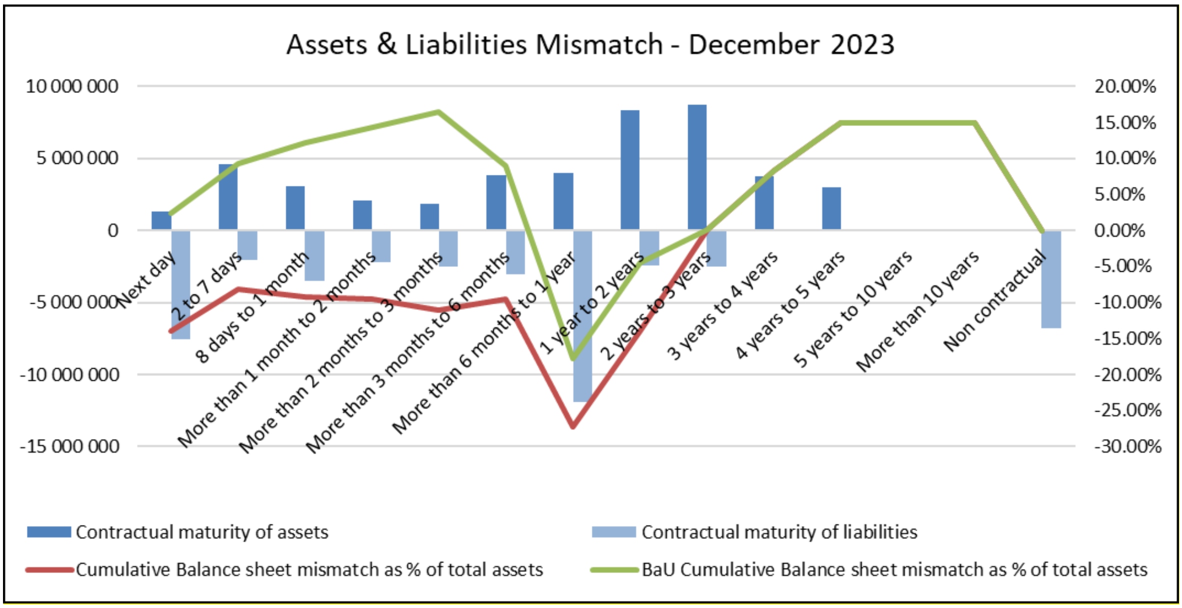

*Figure 12: ALM - Contractual Mismatch – 2023*

The above figure shows the contractual balance sheet mismatch between assets and liabilities, per time buckets and as of end of December 2023. The cumulative balance sheet mismatch is negative from next day up to 3 years. However, on a BaU basis, the cumulative mismatch is positive from next day up to 6 months. Survival horizon internal appetite was met consistently.

# 8. INTEREST RATE RISK IN THE BANKING BOOK

## 8.1. OVERVIEW

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 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.

The Revised Interest Rate Risk in the Banking Book (IRRBB) Framework was implemented from January 2023 and aligned to the Basel Committee on Banking Supervision (BCBS) and PA revised IRRBB standards. CCB-JHB has successfully implemented the regulatory reform and in this section, the new measures are detailed within the present section.

## 8.2. GOVERNANCE

The ALCO oversees interest rate risk in accordance with the Branch's 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.

Operationally, the Treasury function is responsible for the daily management of interest rate, risk per guidelines stipulated by the ALCO.

The new IRRBB model was finalised end of 2022, followed due governance and validation process and in use since January 2023 regulatory reporting. Model assumptions and documentation was presented at ALCO, outputs are reported monthly to the committee. Adjustments to IRR policy, procedure, modelling, reporting and risk appetite have all been performed.

## 8.3. RISK MANAGEMENT

Management of IRRBB is assigned to the Treasury department, which has been authorised by ALCO to hedge net interest rate exposures with CCB Head Office and the external market in accordance with the internal mandate.

To mitigate IRRBB:
- 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 but under 12 months are left unhedged up to an ALCO determined limit; and
- Interest rate swaps are utilized to hedge against the fixed-rate exposure on deposits with a tenor exceeding 12 months.

RMD monitors this risk through measures such as the net repricing mismatch, NII & EVE sensitivity, and stress testing. RMD also monitors the unhedged fixed deposit limit daily.

Sensitivity analysis are used to assess the effectiveness of the CCB-JHB interest policy. The sensitivity analysis on assets and liabilities is done on a monthly basis based on historic figures, both based on contractual and Business as Usual (BaU) repricing gap profiles. These sensitivity analyses impact are measured using both earnings at risk: Net Interest Income (NII)) and Economic Value of Equity (EVE).

The revised IRRBB framework implemented beginning of 2023 introduced currency specific scenarios for both NII and EVE. The sensitivity analysis is based on sensitivity of interest bearing financial instruments at statement of financial position date.

The risk is assessed, should market interest rates change, as:

- the loss in income (NII) as a percentage of the projected 12-months NII forecast; and
- the impact on EVE/maximum loss as a percentage of Tier 1 capital, commonly referred as the Supervisory Outlier Test (SOT).

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 IRS portfolio is assessed monthly.

## 8.4. YEAR IN REVIEW

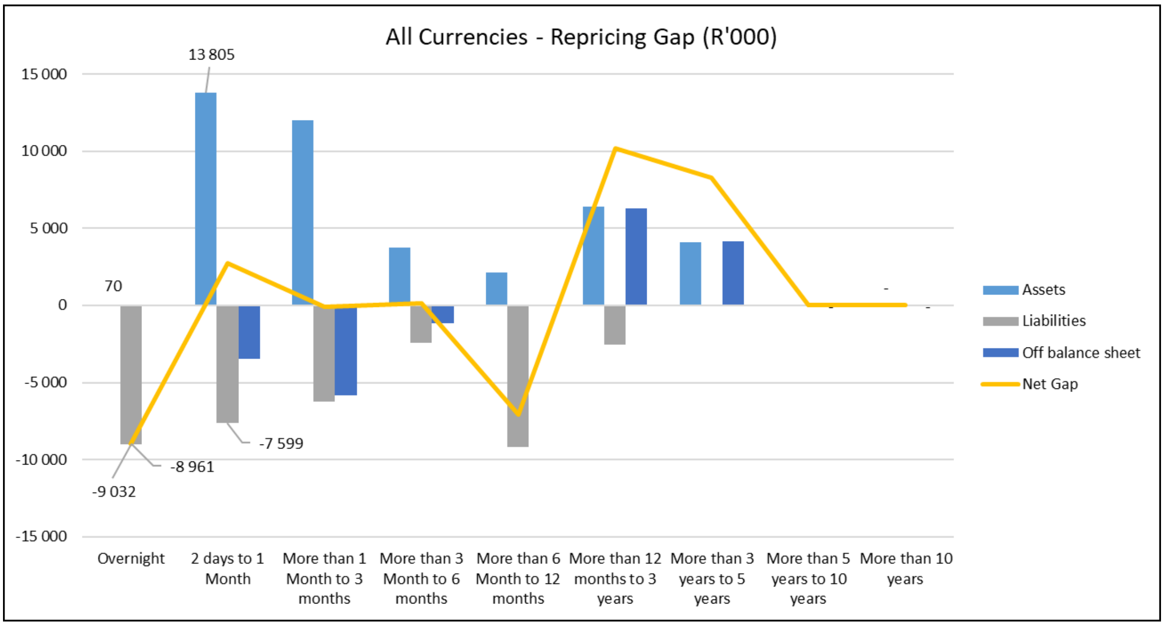


*Figure 13: Repricing Gap*

The repricing gap is closely monitored and reduced by using the IRS (off-balance sheet in the above graph). There are no major concerns as of December 2023.

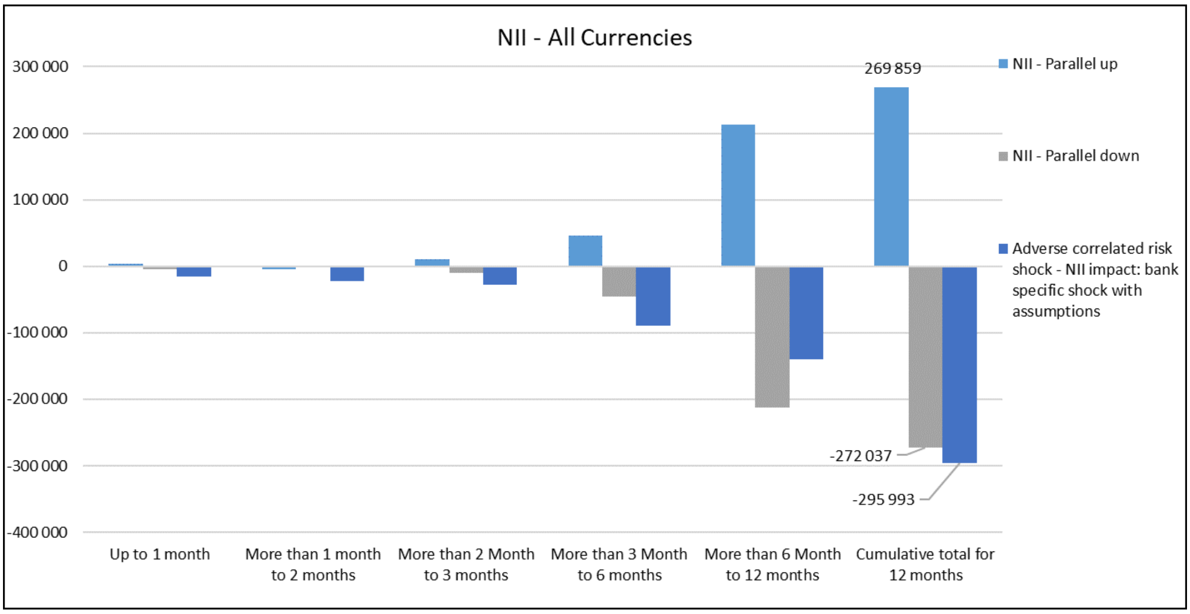


*Figure 14: Parallel and adverse correlated risk shocks on NII - December 2023*

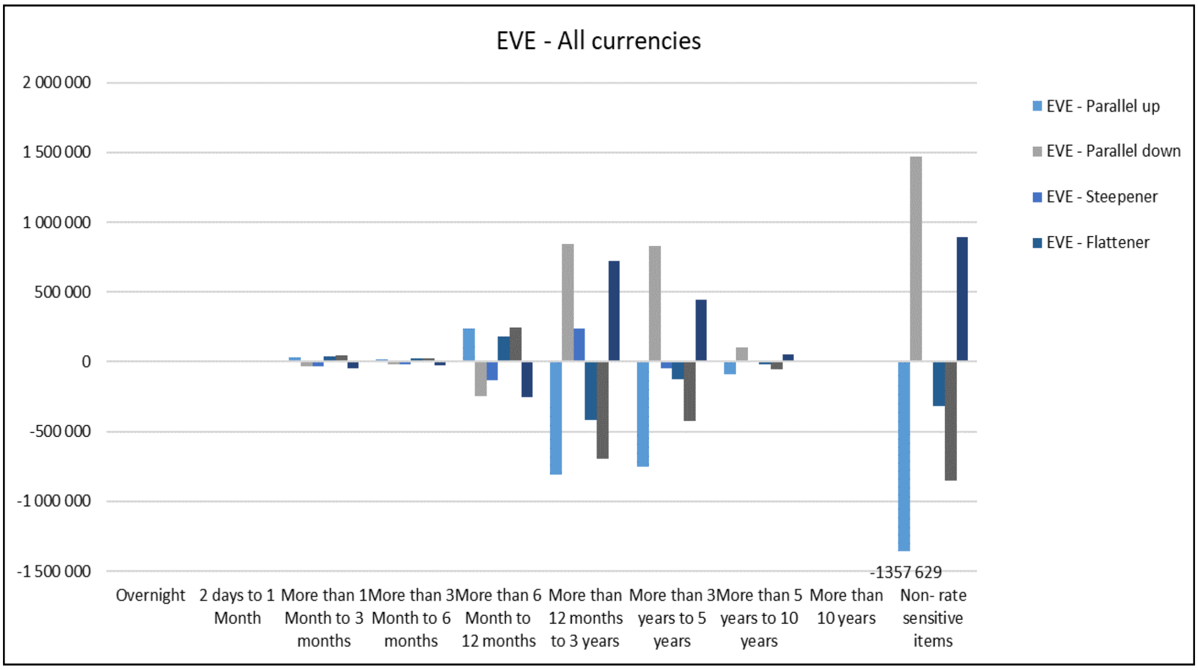


*Figure 15: EVE sensitivity – December 2023*

Both NII and EVE sensitivities remained within the Branch's appetite during 2023. As end of December 2023:

- the parallel rate down shock – NII impact – represented 48.30% of the 12 month forecasted NII;
- the adverse correlated risk shock – NII impact - represented 52.56% of the 12 month forecasted NII; and
- the maximum (loss) of EVE represented 20.34% of Tier 1 capital (SOT).

The sensitivities (NII and EVE) are high, the regulatory scenarios are however very severe, both in terms of applied increase/decrease of rates but also in terms of time lapse (immediate and not gradual for most of the scenarios). CCB-JHB monitors sensitivities and adapt interest rate risk strategy accordingly.

The material currencies at CCB-JHB are ZAR, USD, EUR and CNY.

The hedge relationship of the government bonds/term deposits and related IRS have proved to be highly effective throughout 2023.

# 9. MARKET RISK

## 9.1. OVERVIEW

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.

CCB-JHB has no securitisation exposure nor equity, credit default or commodities derivatives exposure.

CCB-JHB's interest rate derivatives are booked with CCB Head Office for hedging purposes (banking book) and does not attract regulatory capital.

CCB-JHB is preparing for the implementation of the Revised Market Risk Framework (encompassed within the FRTB Framework) and established regulatory requirements. Full implementation is expected from July 2025. Relevant applications have been submitted to the regulator with regard to the method for measuring market risk, the Sensitivity Based Method (SBM).

## 9.2. GOVERNANCE

The ALCO is responsible 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 CCB Head Office and local requirements. The committee reviews the market risk exposure monthly and ensures the effectiveness of the management process.

Operationally, the Treasury department manages market risk daily, with the RMD monitoring early warning indicators and current exposures. The Accounting department is responsible for regulatory reporting monthly, which forms part of the reporting.

As part of the new risk measurement approach for market risk, as per Prudential Communications, all ALCO members and senior management were trained and fully understand the revised framework. Model built followed a dual governance approval process (EXCO and AC) and fully operational.

## 9.3. RISK MANAGEMENT

The market risk capital requirement is calculated using the Standardised Approach as per the regulations and is driven by the net open foreign currency position held by CCB-JHB. These foreign currency positions are managed to reduce impact on capital requirement.

Treasury is restricted to trading in limited major currencies, ensuring that the Branch only trades in liquid markets.

All FX exposures are hedged within the CCB Head Office intra-day and overnight limits as well as the local open position limit. In addition, there are limits with regards to the maximum authorization for trades as stipulated by the Branch's delegation of authority. Market risk limits are set according to guidelines set out in the risk appetite statement.

Treasury manages the limits and the currency mismatch daily, while the RMD provides oversight of the exposures and monitors early warning indicators to anticipate market risk events.

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

FX risk mitigation strategy is deemed satisfactory and in line with CCB Group principles.

### 9.4. YEAR IN REVIEW

The Branch's market risk exposure (Net Open Foreign Currency Position) was well within the Branch's limits and risk appetite.

During 2023, the Branch has not detected market risk events that would have a significant effect on the Branch and this is despite the home currency volatility and current balance sheet structure and currency mismatches.

The new risk measure for market risk will introduce a market risk capital requirement for all FX derivatives, although the modelling and governance are finalised in Q1 2024, the new measure will only be discussed within next annual disclosures.

More information is found in quarterly Pillar 3 disclosures.

# 10. OPERATIONAL RISK

## 10.1. INTRODUCTION AND OVERVIEW

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 and skilled staff. Operational risk is an inherent risk in the ordinary course of business activity.

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.

## 10.2. GOVERNANCE

Operational Risk is managed within the EXCO approved operational risk appetite and any breaches of the appetite are escalated to the RCICC. An Operational Risk Forum (ORF) has been established to assist the RCICC to address operational risk in the Branch.

RMD establishes operational risk requirements across all departments and monitors these requirements accordingly.

## 10.3. RISK MANAGEMENT

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 income.

A single standardised approach will replace all existing approaches for the calculation of regulatory capital from July 2025. The Branch continues to ensure that adequate preparations are made to meet the implementation date, which includes, among other enhancements, a refined process for operational loss collection and reporting; a minimum regulatory capital requirement increase is expected, however the increase is not expected to have a material impact on capital requirements. The anticipated increase will be easily absorbed due to CCB-JHBs healthy capital position.

The Operational Risk Management Policy is embedded at all levels of the Branch, is supported by the robust risk culture. The policy is enhanced continually in line with regulatory developments, CCB Head Office, and Branch requirements.

Included in the policy are practices which facilitate the ongoing identification, assessment, mitigation, monitoring, and reporting of operational risk. To ensure efficiency in this regard during 2023, CCB-JHB launched the Operational Risk Management Procedure to support and further embed operational risk management practises in the Branch. The Branch's operational risk profile is reported regularly to the relevant Committees and Forums responsible for the oversight of operational risk. The Branch has also completed various assessments during 2023 which will support ongoing improvements of the management of operational risk.

Apart from the operational risk management tools illustrated below, the Branch also makes use of risk insurance covering liability and losses related to the Branch-owned buildings and contents, Branch- owned vehicles, legal risk, crime and civil liabilities, misconduct by Directors and Officers and employment practices.

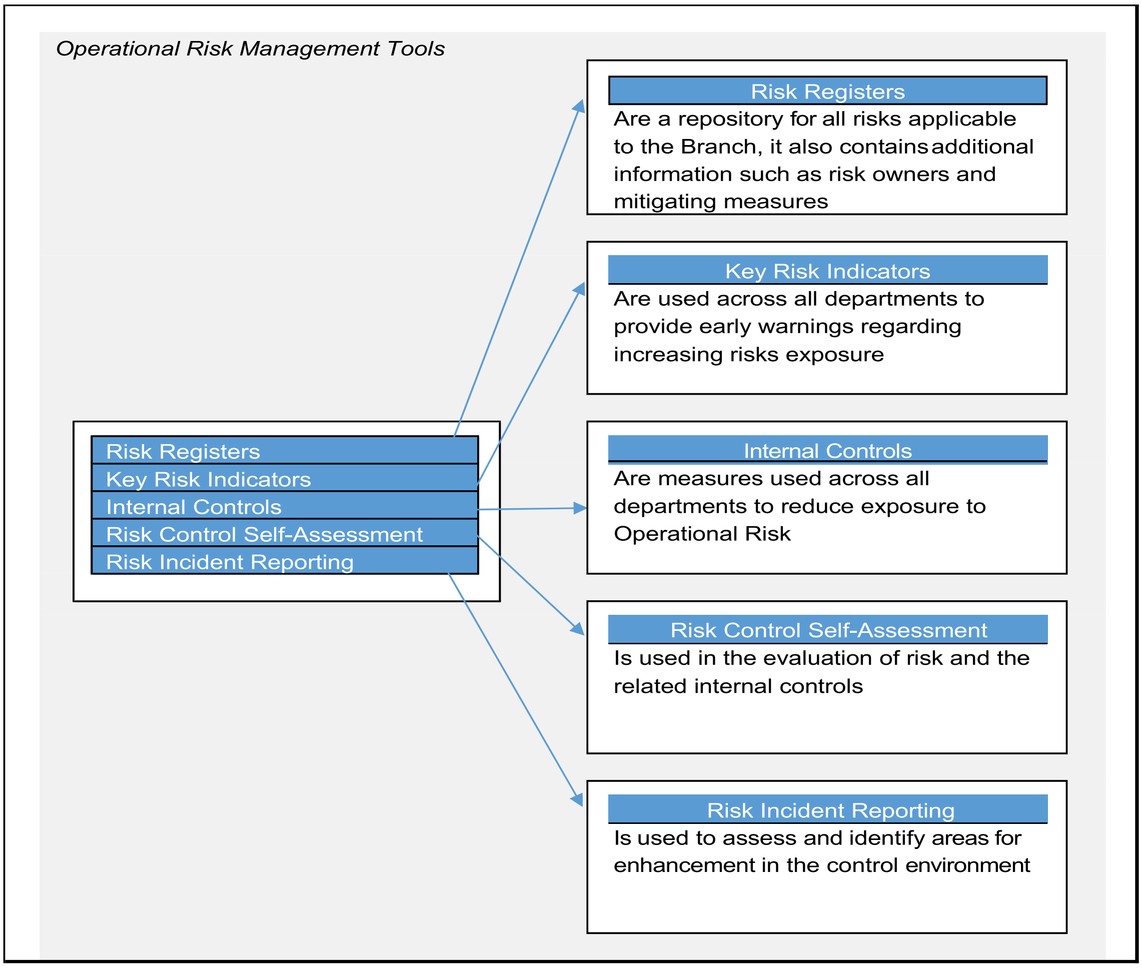


*Table 18: OR tools*

Key categories falling within the operational risk category, their management, policies, and committees are detailed below:

| | Business Continuity | Legal | Outsourcing |
|---|---|---|---|
| Management | • Disaster Recovery and Business Continuity Plan<br>• Office premises and generator maintenance programs<br>• Annual review of insurance requirements<br>• Annual DR-site review<br>• Controls to address possible IT system failures | • Review of applicable laws affecting or that could affect CCB-JHB<br>• General Terms and Condition signed with clients<br>• Service agreement signed will all employees<br>• Contracts/SLAs signed with all third parties<br>• Review of contracts and SLAs (in-house or external) | • Outsourcing arrangements involving material business activities and functions entered into are subject to appropriate due diligence, approval, and ongoing monitoring<br>• Material/Critical service providers identified and alternate service providers identified where possible<br>• Backups measures are established to reduce Third-Party Risk<br>• Enhanced procurement processes<br>• Legal review of contracts/SLAs (in-house or external) |
| Policies and Committees | • Business Continuity Management Policies (IT and PFM)<br>• Disaster Recovery and Business Continuity Plan<br>• RCICC<br>• BCM working group | • Legal contract review procedure<br>• RCICC<br>• REMCO | • Outsourcing Policy<br>• Centralised Procurement of Goods, Services and Works Policy<br>• EXCO<br>• RCICC<br>• Procurement Team meetings |
| | **Information Technology** | **Fraud and theft** | **Human Resources** |
| Management | • COBIT as baseline guidance to improve maturity ratings<br>• IT Risk Register, dedicated internal controls and KRIs<br>• Enhanced reporting and monitoring to RCICC<br>• Protection of information systems against unauthorised access, modification or use<br>• Maintain availability and integrity of IT systems<br>• Internal and external assessments for systems vulnerabilities (cyber risk testing) | • Internal controls<br>• 4 or 6 eyes processes for all transactions<br>• Independent Whistle Blowing facility<br>• Screening of employees before hiring<br>• User access policy and register<br>• Immediate revocation of users' rights and access to building when resigning | • Key-man risk mitigation process<br>• Succession planning/stand-in roster<br>• Verification of qualifications, debt record,criminal record and certifications<br>• Training for all employees are encouraged (in-house or external training)<br>• Personal development plans<br>• Salary benchmark studies |
| Policies and Committees | • Various IT policies (Data governance, cyber resilience, user data information Security etc., ... )<br>• RCICC<br>• IT Forum | • Fraud Risk & Whistle Blowing Policy<br>• Various HR policies<br>• RCICC | • Various HR policies (Leave, Remuneration, Disciplinary etc.,... )<br>• REMCO<br>• Transformation Forum |

*Table 19: OR sub-categories*

## 10.4. YEAR IN REVIEW

In 2023, the Branch continued to promote the application of operational risk management tools, strengthened collection, analysis, and reporting of internal operational risk events, and conducted internal assessments throughout the year. These efforts culminated in the launch of the Operational Management Procedure which further supports embedding operational risk across the Branch. CCB-JHB continued to improve the monitoring of operational risk via the regular review of Policies and Procedures, Key Risk Indicators (KRIs), and Internal Controls (ICs) in accordance with the operational risk appetite and business practices of the Branch.

All staff members at all levels of the Branch are provided with operational risk training to continually improve the risk culture within the Branch.

The Branch continually assesses and improves Business Continuity Management (BCM) practices; the Business Continuity Management Framework alignst to best practise standards, that being Business Continuity Institute's Good Practise Guidelines of 2018. To further bolster continuity improvement, the Branch performs reviews and testing of Business Continuity Plans the outcomes of which are reported at Committee level.

With increased instances of cyber related crimes and events on global level, the Branch continued to focus on the, enhancement of Information Technology practices which is vital to ensure a robust working environment safeguarding the quality of the customer experience. Additional information on operational risk management can be found in CCB-JHB's quarterly disclosure.

While all effort is made to reduce operational risk it cannot be avoided or mitigated in its entirety, the residual operational risk may result in the occurrence of operational risk events. Due to the appropriate levels of control monitoring, the Branch experiences a low frequency and severity of events. Effective and robust operational risk management has resulted in no material losses during 2023.

# 11. MODEL RISK

## 11.1. OVERVIEW

CCB-JHB makes use of models which are both financial and non-financial, including those covering regulatory, managerial, and accounting purposes. Models are often used for decision-making and/or reporting and are either in house developed, off-the-shelf-purchased, or third- party-developed, meeting specific requirements set by the Branch.

## 11.2. GOVERNANCE

Model risk is managed within RCICC, the department is managing overall model risk; from setting established minimum requirements via the Model Management Framework, to rating all existing models and reviewing main assumptions, their documentation, possible alternatives/backups and performing annual reviews.

A model/calculation tool inventory is maintained, which records the list of active models/calculation tools that are currently deployed within the Branch together with the respective owners and the review schedule.

A register of all models/calculation tools in use and which have been discontinued is maintained and annually reported to the RCICC.

Users who are experiencing issues must communicate the issues to the model/calculation tool validation team or external party. Any issues reported to the validation team must also be reported to the RCICC

## 11.3. RISK MANAGEMENT

Models and calculation tools are to be supported with comprehensive model documentation (including methodology, risk classification (low/medium/high), validation rules, and are assessed by applicable validator (Internal or third party based).

A fit-for-purpose assessment is conducted on all newly implemented models after the first two years of implementation and thereafter at least once a year or as stipulated in the specific model governance policy. Models are required to be back-tested before implementation and at least once a year thereafter or as defined in the model documentation.

A model inventory is maintained which lists the active models that are currently deployed within the Branch together with the respective owners and the review schedule.

Alternative plans are established to cater for all material models which would mainly consist of setting alternatives to perform modelling without making use of the primary model.

## 11.4. YEAR IN REVIEW

All models/calculation tools performed as intended and issues were escalated timely and corrective actions taken. Few enhancements were performed during 2023 and mainly related to further automation, built-in internal controls of existing models/calculation tools as per RDARR requirements.

Enhancements were made to IRRBB model (as part of the implementation to the revised framework), Hedge Accounting and PVA models to include all FVOCI instruments.

CCB-JHB has co-developed the following new risk calculation tool during 2023 addressing incoming regulatory reforms:

- FRTB – Market risk calculation tool – co-developed by in-house and Deloitte resources;
- BA-CVA risk calculation tool – co-developed by in-house and Deloitte resources; and
- Operational risk calculation tool.

# 12. REGULATORY AND CONDUCT RISK

## 12.1. OVERVIEW

CCB-JHB is licensed as a Branch of a foreign bank and is therefore governed by the provisions of the Banks Act and other applicable Financial Sector Regulation.

The landscape in which CCB-JHB operates is the financial services sector which is highly regulated. With the introduction of the Twin Peaks Model of regulation which is legislated in the Financial Sector Regulation Act, the bank has to ensure compliance with both Prudential and Conduct Standards.

CCB-JHB's Risk Appetite Statement defines the type and the level of conduct risk that CCB-JHB is willing and able to accept in pursuit of its strategic objectives by taking on sufficient risk to achieve its stakeholder expectations, but ensuring that it is protecting itself from the compliance risks associated with its pursuit of value.

The risk appetite defines the boundaries within which the business must operate and is directly linked to CCB-JHB's strategy:

*"CCB-JHB does not accept any non-compliance with core and high risk regulatory requirements and will not accept any compliance failures on core and high risk regulatory requirements that will lead to fines from the regulator (in China and/or South Africa); the compliance risk appetite is measured in terms of fines/penalties received for core and high risk regulatory requirements."*

Fostering a culture of compliance, as well as optimising relationships with regulators, warrants a multi-disciplinary approach that can only be effective once all the relevant role-players actively support the compliance system and its objectives. Therefore, the relations and communication channels between the different role-players must be set out in an appropriate structure.

CCB-JHB aims at minimising the risk of financial loss, or loss to reputation, the Bank may suffer as a result of its failure to comply with compliance rules and standards. CCB-JHB subscribes to a culture of responsible business conduct, fair treatment of customers, and avoidance of conflicts of interest.

## 12.2. GOVERNANCE

The format of CCB-JHB's compliance structure has been determined based on the following principles.

Executive Management is ultimately responsible for compliance with regulatory requirements and governance of the Bank.

RCICC, chaired by the General Manager and composed of senior representatives from across the Bank, provides a forum for considering important compliance matters. RCICC also ensures that compliance matters are coordinated within the Bank.

The Compliance Department is independent and reports directly to the General Manager of the Branch. The General Manager of CCB-JHB is appointed by CCB Head Office by means of a Delegation of Authority to lead, control and monitor the business of CCB-JHB and to provide effective corporate governance. The Compliance Department's role is to assist Heads of all departments in the management of compliance risk as compliance risk management is the responsibility of the first line of defence. The management of compliance risk forms part of the overall risk management framework of CCB-JHB. Due to the serious consequence for non-compliance, compliance risks must be controlled by all employees in the organisation.

The HODs are responsible for ensuring that all relevant employees are trained on legislative requirements which are applicable to their operational activities, in order to mitigate the risk of non-compliance which may expose the Bank to administrative sanctions and or regulatory fines. The Compliance Department is responsible for guiding and advising HODs in their training endeavours.

All CCB employees are responsible for the effective implementation of the Compliance Management Policy as the primary responsibility for complying with any regulatory requirement lies with all employees conducting the particular transaction or activity to which regulation applies.

The Compliance Department is required to be able to function adequately, independently and objectively. The Chief Compliance Officer is a senior executive officer of the bank and has the authority to communicate directly and freely in respect of any relevant matter, including decisions made by management which may be in conflict with legal or regulatory requirements, as well as to communicate directly and freely on her own initiative with the General Manager, members of EXCO, members of AC, the external auditors and CCB Head Office's Internal Control and Compliance Department.

## 12.3. RISK MANAGEMENT

The methodology employed by CCB-JHB is aligned to CCB-HO rules and the Generally Accepted Compliance Principles, as set out by the Compliance Institute of Southern Africa, (GACP). The methodology outlines a set of compliance tools and systems in place, which aids the three lines of defence to assess compliance risks and to report on the status of compliance with legislative requirements.

The compliance process is the basis for implementing a risk-based approach to compliance and encompasses compliance risk identification, compliance risk assessment, compliance risk management and monitoring together with appropriate reporting, tracking and advisory.

CCB-JHB is also registered as an accountable institution with the Financial Intelligence Centre (FIC) and therefore supports the objectives of global efforts to combat money laundering and terrorist financing through the "CCB-JHB Anti-Money Laundering, Countering the Financing of Terrorism and Countering Proliferation Financing Risk Management and Compliance Programme".

# 13. OTHER RISKS

## 13.1. BUSINESS AND STRATEGIC RISK

Business and strategic risks are influenced by the volatility of earnings (proportional to the size of the fixed cost base) and how quickly the cost base can be adjusted to changes in earnings. As a result, CCB-JHB assesses business risk from six basic sources:

- regional penetration into the Sub-Saharan African region;
- penetration into the South African market within the corporate environment;
- monetary policy decisions and the resultant impact on earnings capabilities;
- exchange rate volatility and resultant conversions/translation stress;
- regulatory framework and resultant restriction on business activities; and
- retention and acquisition of appropriate intellectual capital to sustain the Branch's strategy.

The Branch reviews the strategy and business model in conjunction with risk management constraints and consideration of its risk appetite. The strategy and business model also forms part of the mandate and guidelines for loans provided by the Branch. The review is conducted at least on an annual basis and is the responsibility of the EXCO.

The business model, funding strategy, investment strategy, and lending mandates can lead to potential increases in foreign exchange risk, interest rate risk, credit concentration risk and/or credit risk. Second-order effects are monitored and managed as part of overall risk management, at ALCO, CC or RCICC.

When assessing new products or services or any material regulatory project, business risk and strategy risk are reviewed as part of the overall risk assessment process. The approval process follows requirements stipulated in the "New Product and Services Approval Policy and Procedure".

## 13.2. REPUTATIONAL RISK

The Branch manages reputational risk through the Reputational Risk Policy and Procedure that is owned and administered by the RMD. The policy and procedure takes into consideration CCB Head Office requirements, Branch requirements, regulatory developments and "lessons learnt" from public events that may have occurred locally and globally.

It is the responsibility of every employee and representative to conduct his/ her business activities in a manner that protects and enhances the Branch's reputation. CCB-JHB has established an employee handbook, code of conduct, Ethics Policy, Conduct Risk Policy and compliance standards which constitute the reference framework for CCB Group's values, responsibilities, ethics, and compliance. Adherence to the principles in these documents protects employees from exposure to severe reputation risk.

The objective of Reputational Risk management is:

- to build a mechanism for reputational risk management;
- to establish a reputational risk management system with full coverage, clear definitions, well-assigned duties, and efficient coordination;
- to proactively and effectively prevent reputational risk occurrence;
- to respond to reputational risk events in the best way possible following pre-established guidelines and procedures; and
- to maintain the reputation of CCB-JHB and CCB Group as a whole.

However, should a reputational risk event occur, the Branch has a set policy and plan to mitigate the risk.

Material reputational risk events are to be escalated to the relevant committees, CCB Head Office as well as local and Chinese regulators where applicable.

During the year in review, the Branch did not experience any material reputational risk events.

## 13.3. ENVIRONMENT, SOCIAL AND GOVERNANCE RISK

### Introduction and objectives

While climate risk can affect all economic sectors, besides direct physical climate risks, there are also indirect risks such as the impact on clients/counterparts credit risk profile, reputational risks, litigation risks, financial risks, and so on.

CCB-JHB's goals are to:

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

### Risk Management

CCB-JHB has developed and issued an ESG Framework to address all aspects of ESG. This framework lays out CCB-JHB's overall principles and guidelines for managing, enhancing and improving ESG within the Branch.

The Branch has also established platforms to facilitate the implementation of the Green strategy of the Branch. This includes, among other items, a CO2 reduction plan to achieve neutrality within realistic and reasonable timeframe.

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.

CCB-JHB has provided few sustainable financing during 2023 and intends to increase its participation in achieving a more sustainable environment and economy in the years to come (medium to long-term goal).

# 14. REMUNERATION

## 14.1. CHINA CONSTRUCTION BANK CORPORATION (CCB) GROUP

CCB Group is committed to maintaining order and harmony in remuneration allocation and continuously improves the level of performance and remuneration management to serve the development of the whole Bank.

The Group's major allocation policies and other significant matters relating to remuneration management are reviewed by the nomination and remuneration committee under the Board. Material proposals relating to remuneration allocation are approved by the shareholders' general meeting and are reported to the competent authority of the State for approval and filing.

The Group establishes the principle of assessment and assignment:

- encouraging value creation;
- allocating the salary resources to operation institutions;
- optimising the incentive and guarantee policies for mainland China branch staff; and
- establishing special criteria for staff in branches and subsidiaries situated in remote countries.

CCB group has set rules and requirements related to deferred payment and performance-based remuneration for key positions. For further information, please refer to CCB Group website.

## 14.2. REMUNERATION POLICY – CCB-JHB

As a Branch of a foreign bank in South Africa, CCB-JHB's governance is driven by a delegation of authority from CCB Head Office to the General Manager who further sub-delegates such authority to the EXCO.

CCB Head Office acts as a nomination committee and formulates criteria and procedures to select and appoint Executive Management of overseas branches.

CCB-JHB identifies material risk takers as follows:

- staff whose professional activities have a material impact on its risk profile;
- staff who are responsible and accountable for the activities of the independent Risk, Compliance, and Internal Audit functions;
- EXCO members; and
- selected HODs.

CCB-JHB's Recruitment and Selection Policy sets out the recruitment process and fit and proper assessment of Executive Management and Heads of Departments. The General Manager has the authority to make offers of employment.

The Executive Management performance assessment process is initiated by CCB Head Office and the indicators are divided into four categories, of which are subdivided into sub-categories as per below:

| Ethics | | Performance | |
|---|---|---|---|
| Performance of position duties | Integrity | Duty Fulfilment | Synergy |

| Competence | | | Work Style | | |
|---|---|---|---|---|---|
| Professionalism | Organising Capacity | Learning & Innovation | Diligence & Dedication | Self-discipline & Anti-corruption | Compliance |

*Table 20: HR indicators*

CCB-JHB REMCO oversees the remuneration processes and considers and approves remuneration- related issues and proposals. The committee consists of Executive Management and the General Administration and Human Resources Department. The mandate of REMCO consists in:

- enabling development of remuneration policies and procedures;
- determining remuneration practices in terms of employee salaries and benefits;
- annual salary reviews;
- overseeing employee benefit structures;
- promotions;
- recruitment of critical positions;
- succession development;
- dismissals;
- performance management; and
- determining discretionary bonus allocations.

The remuneration policy ensures that principles such as transparency, confidentiality, fairness, market standards, and flexibility are following all applicable regulations and best practices. The policy further seeks to link performance with levels of remuneration with metrics including annual performance appraisals, alignment of job descriptions to key process areas, and key process indicators (reviewed when evaluating scores allocated to managers and employees). The remuneration policy is reviewed annually, no material changes were performed during in 2023.

The performance management policy sets out the requirement for performance appraisals for all employees along with the criteria, indicators, and weights used to measure performance. HO allocates Key Performance Indicators (KPIs) to CCB-JHB and different assessment criteria are used for Front, Middle, and Back offices. Remuneration incentive assessments (both local and HO KPIs) for Compliance and Risk employees are based on very specific criteria independent of the businesses they oversee. KPIs are reviewed annually and take into account current and future risks on which both individual and departmental performances can be measured. When setting/establishing KPIs for Executives, HODs and departments, risk management elements have an important weighting; the annual review allows dynamic assessment criteria including both existing risks, emerging risks.

Performance is rated A, B, C, or D symbols:

- A is proficient in business;
- B is competent with a good work ethic;
- C is special attention with average work ethic; and
- D is for incompetent or poor work ethic.

Criteria used for assessment are divided into:

- Quantitative criteria based on departmental KPI results achieved, individual KPI results achieved, and must-to-do list achievements; and
- Qualitative criteria based on leadership, coordination, time management, cooperation, and strong work ethic.

Other internal and external factors that influence remuneration are:

- the CPI (Consumer Price Index) as determined by the South African Reserve Bank;
- the employees' performance guided by the Bank's Performance Management Policy;
- market movements for affordability considerations; and
- other indicators such as market norms, skills shortage and so on.

CCB-JHB's areas of focus for the next few years is to align the reward performance values to behaviour values to:

- ensure that customers are treated fairly;
- create a safe working environment for all stakeholders; and
- to restructure the Remuneration policy to encourage and reward behaviours that support CCB-JHB's values.

The REMCO has commissioned Remchannel Salary Survey as external consultant in comparing market-related data to the current remuneration of employees.

## REM1: REMUNERATION AWARDED DURING THE FINANCIAL YEAR

| Rand amounts | Remuneration amount | | Senior Management |
|---|---|---|---|
| 1 | Fixed remuneration | Number of employees | 18 |
| 2 | | Total fixed remuneration (3 + 4) | **66,510,841** |
| 3 | | *Of which: cash-based* | 60,637,261 |
| 4 | | *Of which: other forms* | *5,873,580* |
| 5 | Variable Remuneration | Number of employees | 18 |
| 6 | | Total variable remuneration | **28,448,942** |
| 7 | | *Of which: cash-based* | *28,448,942* |
| 8 | **Total remuneration (2 + 6)** | | **94,959,783** |

*Table 21: REM1*

# 15. INDEX OF PILLAR 3 DISCLOSURE TEMPLATE

| SECTION AND TABLE | PILLAR 3 REQUIREMENTs | PAGES | COMMENTS |
|---|---|---|---|
| Overview of risk management key prudential metrics and RWA | | 4 | |
| OVA Bank risk management approach | ✓ | 4 | |
| Link between financial statements and regulatory exposures | | 14 | |
| LI1 Mapping of financial statement categories with regulatory frameworks | ✓ | 14 | |
| LI2 Sources of difference between regulatory exposure amounts and carrying values in financial statements | ✓ | 15 | |
| LIA Explanation of differences between accounting and regulatory exposure amounts | ✓ | 14-15 | |
| PV01 Prudent valuation adjustments | ✓ | 16 | |
| Capital management | | 19 | |
| Credit risk | | 23 | |
| CRA Qualitative information about credit risk | ✓ | 23 | |
| CRB Additional disclosure related to credit quality of assets | ✓ | 28 | |
| CRB Exposure by geographical, industry and residual maturity | ✓ | 25-26-27 | |
| CRB Impaired exposures by geographical and industry | ✓ | 25-26-27 | |
| CRB Age analysis | ✓ | 26 | |
| CRB Impaired and not impaired restructured exposures | ✓ | 30 | |
| CRC Credit risk mitigation | ✓ | 28 | |
| CRD Qualitative disclosures on banks' use of external credit ratings under the standardised approach for credit risk | ✓ | 23-24 | |
| CRE AIRB approach qualitative disclosure | ☒ | | No use of AIRB |
| Counterparty credit risk | | 31 | |
| CCRA Qualitative disclosure | ✓ | 31-32 | |
| Liquidity and funding risk | | 33 | |
| Interest rate risk in the banking book | | 36 | |
| Market risk | | 39 | |
| MRA Qualitative disclosure for market risk | ✓ | 39-40 | |
| MRB IMA qualitative disclosure | ☒ | | No use of IMA |
| Operational risk | | 41 | |
| Model risk | | 45 | |
| Regulatory and conduct risk | | 46 | |
| Other risks | | 48 | |
| Remuneration and compensation | | 50 | |
| REM1: Remuneration awarded during the financial year | ✓ | 52 | |
| REM2 Special payments | ☒ | | No special payments |
| REM3 Deferred remuneration | ☒ | | No deferred remuneration |

# 16. ABBREVIATIONS

| | |
|---|---|
| AC | Audit Committee/Amortised Cost (depending on context) |
| AFS | Annual Financial Statements; Available For Sale (depending on context) |
| ALCO | Assets and Liabilities Committee |
| ALM | Assets and Liabilities Management |
| AML/CFT/CPF | Anti-Money Laundering and Combatting the Financing of Terrorism and Countering Proliferation Financing |
| BaU | Business as Usual |
| BA-CVA | Basic Approach – Credit Valuation Adjustment |
| BCBS | Basel Committee on Banking Supervision |
| BCM | Business Continuity Management |
| BIA | Basic Indicator Approach |
| CAF | Combined Assurance Framework |
| CAR | Capital Adequacy Ratio |
| CBD | Corporate Banking Department |
| CC | Credit Committee |
| CCB-JHB | China Construction Bank – Johannesburg; the Bank or the Branch |
| CCF | Credit Conversion Factor |
| CCO | Chief Operating Officer |
| CCP | Central Counterparty Clearing House |
| CCR | Counterparty Credit Risk |
| CCyB | Countercyclical Buffer |
| CET1 | Common Equity Tier 1 |
| CFO | Chief Financial Officer |
| CoC | Close-out-Cost |
| CRM | Credit Risk Mitigation |
| CRO | Chief Risk Officer |
| CSA | Credit Support Annexure |
| CVA | Credit Value Adjustment |
| DF | Deal Forum |
| DGM | Deputy General Manager |
| EAD | Exposure At Default |
| EaR | Earning at Risk |
| ECAI | External Credit Assessment Institution |
| ECL | Expected Credit Loss |
| EL | Expected Loss |
| ESG | Environmental, Social and Governance |

| | |
|---|---|
| EVE | Economic Value of Equity |
| EXCO | Executive Management Committee |
| FECs | Foreign Exchange Contracts |
| FICA | Financial Intelligence Centre Act |
| FLDs | Front Line Departments |
| FV | Fair Value |
| FVOCI | Fair Value through Other Comprehensive Income |
| FX | Foreign Exchange |
| GACP | Generally Accepted Compliance Principles |
| GM | General Manager |
| HQLA | High-Quality Liquid Asset |
| HO | Head Office |
| HODs | Head of Departments |
| HR | Human Resource |
| HR&GA | Human Resource and General Administration |
| IBOR | Interbank Offered Rate |
| IC | Internal Control |
| ICAAP | Internal Capital Adequacy Assessment Process |
| IFRS | International Financial Reporting Standards |
| IRB | Internal Rating Based Approach |
| IRRBB | Interest Rate Risk in the Banking Book |
| IRS | Interest Rate Swaps |
| ISDA | International Swaps and Derivatives Association |
| IT | Information & Technology |
| ITF | Information & Technology Forum |
| KPI | Key Performance Indicators |
| KRI | Key Risk Indicator |
| LAR | Liquid Asset Requirement |
| LCR | Liquidity Coverage Ratio |
| LGD | Loss Given Default |
| LIBOR | London Interbank Offered Rate |
| LRP | Liquidity Recovery Plan |
| MM | Money Market |
| MOF | Management Operations Forum |
| MPU | Market Price Uncertainty |
| MtM | Mark-to-Market |

| | |
|---|---|
| NII | Net Interest Income |
| NOFCP | Net Open Foreign Currency Position |
| NPA | Non-Performing Asset |
| NPAT | Net Profit After Tax |
| NPL | Non-Performing Loan |
| NSFR | Net Stable Funding Ratio |
| OCI | Other Comprehensive Income |
| ORF | Operational Risk Forum |
| OTC | Over-The-Counter |
| PA | Prudential Authority |
| PD | Probability of Default |
| PoPIA | Protection of Personal Information Act |
| PSEs | Public Sector Enterprises |
| PVA | Prudent Valuations Adjustment |
| RAF | Risk Appetite Framework |
| RAS | Risk Appetite Statement |
| RCICC | Risk, Compliance and Internal Control Committee |
| REMCO | Remuneration Committee |
| RMD | Risk Management Department |
| RMF | Risk Management Framework |
| ROA | Return On Assets |
| ROE | Return On Equity |
| RRP | Recovery & Resolution Plan |
| RW | Risk-Weight |
| RWA | Risk-Weighted Asset |
| S&P | Standard and Poor's Global Ratings |
| SA | South Africa/South African |
| SA-CCR | Standardised Approach for Counterparty Credit Risk |
| SARB | South African Reserve Bank |
| SBM | Sensitivity-Based Methodology |
| SICR | Significant Increase in Credit Risk |
| SMEs | Small and Medium Enterprises |
| SOT | Supervisory Outlier Test |
| T1 | Tier 1 |
| ToR | Terms of Reference |
| YTD | Year-To-Date |