
Disclosure Report

China Construction Bank Corporation, Johannesburg Branch

Pillar 3 Annual Disclosure Report December 2021

”New Start

New Development

New Finance”

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

1. OVERVIEW

Introduction

The following information is compiled in terms of the requirements of the Banks Act 1990 (as amended) and Regulation 43 of the Regulations relating to Banks (“the Regulations”), whereby banks (including foreign branches) are obliged to 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 Branch of China Construction Bank Corporation (incorporated in the People’s Republic of China).

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

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

CCB-JHB’s business strategy is moderately expansionary with plans for growth over the next five years despite the current environment. Growth assumptions have been adjusted due to the COVID-19 pandemic.

The Executive Management and Executive Management Committee (EXCO) members 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.

The policy requires:

- that 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;
- the nature and extent of the information to be disclosed;
- the disclosure requirements;
- internal controls and processes; and
- independent review requirements.

In the execution of its governance roles and responsibilities CCB-JHB Executive Management and EXCO adopt a stakeholder inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the Branch.

Policies such as the Procurement policy, HR employee policies, Compliance and AML programmes, audit charter and terms of reference of the Audit Committee, as well as a number of procedure documents have been developed to ensure that there is clear governance on how stakeholder relationships should be approached and conducted in the organisation.

Financial position

As at 31 December 2021, the financial position of the Branch was as follows:

- Total assets R 41 777 638
- Total liabilities R 35 991 828
- Total equity R 5 785 810

Financial performance

As of 31 December 2021, the Branch reported a net profit after tax of R 455 757 and Operating revenue is R 851 693 which are in line with expectation.

2. OVERVIEW OF RISK MANAGEMENT, KEY PRUDENTIAL METRICS, AND RWA

2.1. BUSINESS ACTIVITIES AND RESULTANT RISKS

Products and Services	Sub-Products and Services	Market segment	Key Risks			Other Risks
Money Market	Call deposit	Financial Institutions (Banks, Asset Managers, and Insurance companies) PSEs Large Corporates	Interest Rate Risk			
	Fixed term deposit					
	Floating rate fixed deposits					
	Money Market deposits					
	Money Market repurchase transactions					
	Placements					
Foreign Exchange	Spot transaction	Corporates Banks	Credit Risk Counterparty Credit Risk	Currency Risk	Settlement Risk	Operational Risk
	Forward transactions					
	Swap transactions					
Fixed Income	RSA sovereign bonds	Own use Corporates Financial institutions	Credit Risk			
	RSA treasury bills					
	Corporate bonds	Central Bank Local Banks	Counterparty Credit Risk	Market Risk		
	Repurchase agreements					
Interest Rate	Interest rate swaps (IRS's)	CCB-JHB (hedging)	Interest Rate Risk	Counterparty Credit Risk		
Clearing & Settlement	Clearing and Settlement business	Financial Institutions (Banks, Asset Managers, and Insurance companies) PSEs Large Corporates CCB-JHB Staff				
	Enterprise Online Banking					
	Third-party payments					

Products and Services	Sub-Products and Services	Market segment	Key Risks				Other Risks
Financing	Syndication Loans	Financial Institutions PSEs Large and Medium Corporates Sovereigns	Credit Risk Country Risk Concentration Risk	Market Risk (collateral)	Settlement Risk	Operational Risk	Liquidity Risk Strategic Risk Reputational Risk Model Risk Climate Risk Regulatory and Conduct Risk
	On-lending loans						
	Bilateral Loans						
	Loans guaranteed by CCB domestic banks						
	Loans guaranteed by CCB overseas banks						
	Loans guaranteed by other banks						
	Project Financing						
	Export Credit						
	Guarantees						
	Cross border risk participation						
	Short Term Loans						
	Overdrafts						
	Club Loans						
	Cash backed/collateralised Loans						
Insurance backed loans							
Trade Finance	Import Letter of Credit	Large, Medium, and Small corporates	Credit Risk and Country Risk				
	Standby Letter of Credit						
	Export Letters of Credit						
	Import Collections						
	Export Collections						
	Aval of Bills of Exchange						
	Confirmation of Export L/C's						
	Forfaiting						
	Entrusted payments						
	Refinancing						
	Discounting						

2.2. CCB-JHB RISK PROFILE

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

- Credit risk;
- Counterparty Credit Risk (CCR);
- Market risk;
- Operational risk (including property, people, IT, and Cybersecurity risks);
- Liquidity risk;
- Interest Rate Risk on the Banking Book (IRRBB);
- Depositors 'concentration risk;
- Reputational risk;
- Business and Strategic risk;
- Country risk;
- Credit Concentration risk;
- Compliance risk (including AML/CFT/CPF);
- Conduct risk and financial crime;
- Solvency risk;
- Business Continuity risk;
- Epidemic / Pandemic risk;
- Model risk;
- Outsourcing risk;
- Legal risk;
- Environment, Social and Governance (ESG) / Climate risk;
- Valuation risk; and
- Other risks (including but not limited to data quality risk and collateral risk).

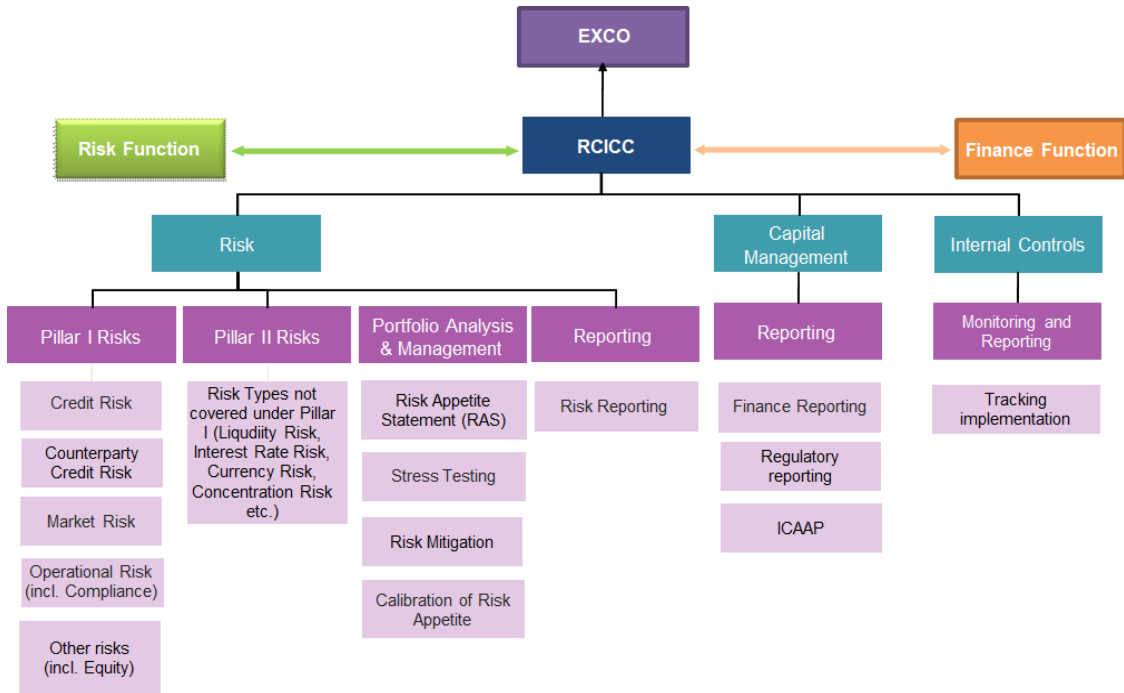
The risks above are presented in detail within this document. For ease of reference, some risks are grouped.

The CCB-JHB risk profile can be summarised as follows:

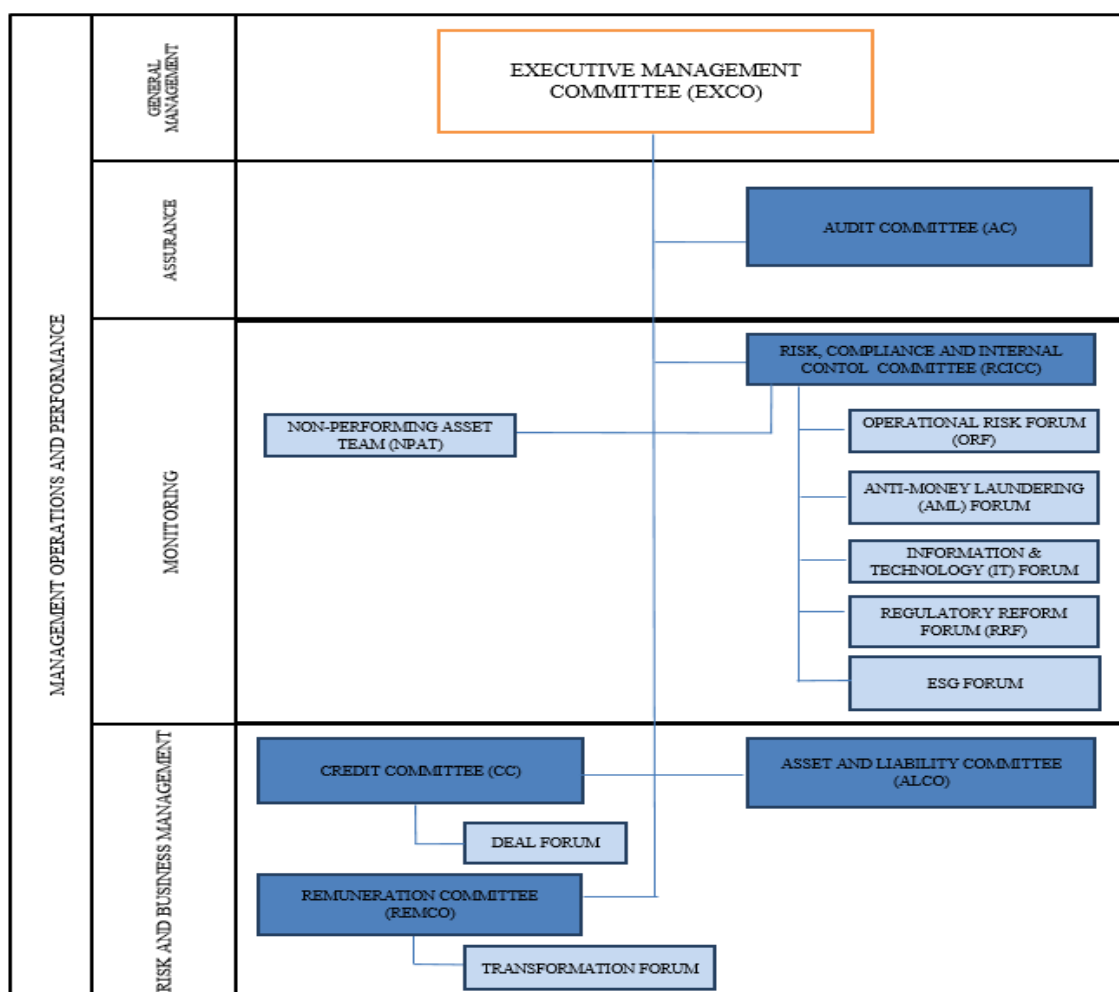
Growth and Returns	ROE 7,70% 2020: 6,45%	ROE Target >5,15%	CCB-JHB performed well in 2021 due to the positive impact of shortage of ZAR on the local market affecting positively the Treasury SWAP business; positive impact of IRS hedges; and, decrease of credit impairments (repayments/no further sovereign downgrade). Initial 2021 profit forecast was lower due to global and local economic uncertainties and higher forecasted credit impairments.
	Profit growth 37% 2020: 60%	None	
Solvency	Capital Adequacy 48,27% 2020: 39,29%	Capital Adequacy Target > 14%	CCB-JHB manages capital aligned to its strategy. The PA relief measures (decrease of Pillar 2A requirement and possibility of using the capital conservation buffer) did not impact CCB-JHB capital management. CCB-JHB operated at a high CAR and LR. The decrease of credit demand contributed to an overall decrease of capital demand. The Branch's returns contributed to a small but steady increase of qualifying capital via profit appropriation.
	CET1 47,19% 2020: 38,22%	CET1 Target > 10%	
	T1 47,19% 2020: 38,22%	T1 Target > 12%	
	Leverage 13,62% 2020: 13,19%	Leverage Target > 4,5%	
Liquidity	LCR 335% 2020: 229%	LCR Minimum regulatory requirement 80%	CCB-JHB liquidity remained aligned to its strategy. Market liquidity was stable over 2021. The SARB relief measures in terms of LCR triggered a review of CCB-JHB's internal appetite and adjustment. CCB-JHB operated at high LCR and NSFR, above internal requirements. This is mainly due to the HQLA holdings (above prescribed requirements and increased during 2021) and improved liquidity risk profile.
	NSFR 210% 2020: 181%	NSFR Minimum regulatory requirement 100%	
Exposure per risk type	Credit Risk	NPLs 0,00% 2020: 0,03%	The overall Financial Institutions and Large Corporates credit demand remained low in 2021 and contributed to a steady decrease of credit RWA. Few deals matured in H1 2021 and financing opportunities remained scarce during 2021. Credit demand was still affected by the pandemic (3rd and 4th waves) and this despite some pockets of growth in specific sectors and vaccination rollout. CCB-JHB credit portfolio is performing with no counterpart defaulting in 2021. The Branch continued to make recoveries over its NPL during 2021 and remaining amount was written off in Q3 2021. Credit impairments decreased (scheduled and early repayments), no further sovereign downgrade or deterioration of the economy affected impairment levels.
		Credit Loss Ratio 0,00% 2020: 0,46%	
	Market Risk (Currency Risk)	Net Open Foreign Currency Position 2021: USD 0.56 million / ZAR 8.89 million Limit: USD 2.8 million / ZAR 44.7 million	CCB-JHB operates under a restricted net open foreign currency limit. Only major currencies are exchanged. FX exposures are hedged (exceptions are to be approved by ALCO).
Interest Rate Risk in the Banking Book	Net Interest Income sensitivity Down 200 bps -R 89 million 2020: R42 million Up 200 bps R 125 million 2020: R119 million	CCB-JHB maintained its IRRBB hedging strategy. CCB-JHB continued to benefit from low interest rates. CCB-JHB has prepared for the adoption of the revised Interest Rate Risk in the Banking Book framework (from June 2022).	

2.3. **RISK MANAGEMENT GOVERNANCE**

The Risk, Compliance and Internal Control Committee (RCICC), constituted as a sub-committee of the EXCO, has delegated responsibility for the assessment of the quality, integrity, and reliability of the Bank’s risk management:



Other committees and forums are established to support risk management across CCB-JHB and the architecture is detailed below:



The frequency and mandate of each committee and forum is detailed below:

Committee	Frequency	Mandate
Executive Management Committee (“EXCO”)	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. EXCO also performs an overview of Corporate Governance and approves EXCO level policies and procedures. EXCO is the final approval of sub-committee decisions in terms of material matters. EXCO is ultimately responsible for the annual financial budget and financial accounts.
Risk, Compliance and Internal Control Committee (“RCICC”)	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”)	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”)	Monthly / 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”)	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.

Committee	Frequency	Mandate
Remuneration Committee (“REMCO”)	Quarterly / upon request	The Remuneration Committee’s (REMCO) main roles are to: <ul style="list-style-type: none"> • Determine, agree and develop CCB-JHB’s policy in terms of remuneration; • Ensure performance management is fair and transparent; and • Appoint/dismiss department heads, subject to HO final approval.
Management Operational Forum (“MOF”)	Monthly	Established to enable an analysis of internal frontline departments (Treasury, Corporate Banking, and Cape Town) KPI targets; discuss frontline departments’ current and prior month operations; discuss the progression of capital expenditure and operating expenditure.
Operational Risk Forum (“ORF”)	Upon request	The purpose of the ORF is to assist the RCICC with matters relating to operational risk and monitoring the implementation thereof.
Regulatory Reform Forum (“RRF”)	Quarterly / upon request	To improve identification, monitoring, and reporting of all aspects related to Regulatory Reform affecting CCB-JHB, in respect of implementation, systems and training requirements, regulatory requirements, and recommending best practices and assisting RCICC for ultimate decision making
AML Forum (“AMLF”)	Quarterly or upon request	To ensure CCB-JHB conducts its businesses in conformity with high ethical standards; adheres to relevant laws and regulations, and complies with the relevant bank policies and procedures to achieve high anti-money laundering standards.
Information and Technology Forum (“ITF”)	Every two months / upon request	To improve identification, monitoring, and reporting of all aspects related to IT Risk in respect of projects, data application, parameter management, Risk Data Aggregation and Risk Reporting (RDARR), and assisting RCICC with ultimate decision-making.
Transformation Forum	Upon request	Discuss CCB-JHB transformation strategy and plan discussions ensuring equal opportunities in line with the Employment Equity Act and promoting economic development and efficiency in the workforce based on the Broad Based Black Economic Empowerment Act.
Safety and Security Forum	Upon request	To discuss safety operations; employee safety; property and facilities related supervision of outsourced safety and security providers; safety inspection; anti-fraud; and safety incident reporting and procedure.
ESG Forum	Quarterly	The forum assumes responsibility for the implementation of the Green strategy of the Branch
Deal forum	Upon request	Front line departments submit to the forum for an initial high-level assessment of the desirability of pursuing credit transactions or deals.

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

Three lines of defence		
First line of defence	Second line of defence	Third line of defence
<p>Primary Risk Owner: Head of Business</p> <p>Ensure that the front line departments and support functions act in accordance with mandates, policies, and procedures</p> <ul style="list-style-type: none"> Identify key risks to own business Specify and implement appropriate risk management processes and internal controls Specify and implement early warning measures, as well as associated reporting and management processes Implement corrective actions, as required Participate in formulating risk management strategies Ensure all staff understand their responsibilities concerning daily business and risk management Report all-risk incidents as soon as discovered to RMD 	<p>Foundation of risk governance: Committees, RMD and Compliance</p> <p>Independent oversight and monitoring risk and compliance across departments</p> <p><u>Committees</u></p> <ul style="list-style-type: none"> Take ownership of and maintain risk governance frameworks Specify risk appetite in line with the strategy Approve risk and compliance-related policies <p><u>RMD</u></p> <ul style="list-style-type: none"> Implement risk appetite, framework, and policies Challenge risk profile through review of risk assessment and measures, evaluation of risk management processes, and monitoring of corrective actions and mitigation Manage deployed functions departments Joint performance assessment to the business unit according to risk management and issues Joint performance assessment remuneration of deployed risk function staff <p><u>Compliance</u></p> <ul style="list-style-type: none"> Facilitate the development, approval, and maintenance of CCB-JHB's Compliance manual, charter, methodology and policy Ensure consistency of approach and practice throughout CCB-JHB. Entrench the culture of compliance in CCB-JHB such that any incident of non-compliance can be identified in a timely manner Provide a central point of reference and expertise to compliance-related matters and advice on policy and strategic decisions that have compliance implications Ensure the monitoring of regulatory and reputational risk in line with CCB as well as industry standards Ensure effective co-operation and interaction with all role players Submit detailed and summarised reports on areas covered, findings, and appropriate recommendations. 	<p>Independent Views: Audit (internal and external auditors)</p> <p>Provide independent assurance of the adequacy and effectiveness of implementing policies and procedures</p> <ul style="list-style-type: none"> Evaluate the development and implementation of policies of the relevant department Review the integrity, accuracy, and completeness of risk reports and other business reports Follow-up on implementation of audit recommendations and resolving audit findings

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 across the Bank which forms CCB-JHB's Risk Management Framework (RMF).

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

The risk function is responsible for:

- Independent oversight of the Bank's risks on behalf of CCB HO including risk identification, monitoring, reporting, mitigation, and management of all material risks;
- The Risk Appetite Framework (RAF) and Risk Appetite Statement (RAS) monitoring and reporting;
- The Operational Risk Framework and operational risk monitoring and reporting;
- The Stress Testing Framework, conducting stress testing process unless stated otherwise (delegated to other departments) and validating stress testing models (for all departments);
- The CCB-JHB Recovery Plan and specific risk-related contingency plans;
- The Capital Management Framework and CCB-JHB's Internal Capital Adequacy Assessment Process (ICAAP);
- The Risk Data Aggregation and Risk Reporting (RDARR) Framework and related implementation and monitoring;
- The Model Management Framework and Policy and related monitoring, model validation, and identifying acceptable backups;
- Non-performing asset management;
- The New Product and Services Approval Policy and process for both regulatory and non-regulatory projects;
- Consolidated Plan in terms of Business Continuity Management – monitoring of Branch-wide business continuity testing;
- Assisting with communicating to the Regulator on all risk related topics and review all public risk disclosures (as per international and local requirements); and
- Working with all functions within the Bank and all lines of defence to identify, monitor, mitigate, report, and provide oversight of all material risks and emerging risks.

The credit approval function is responsible for:

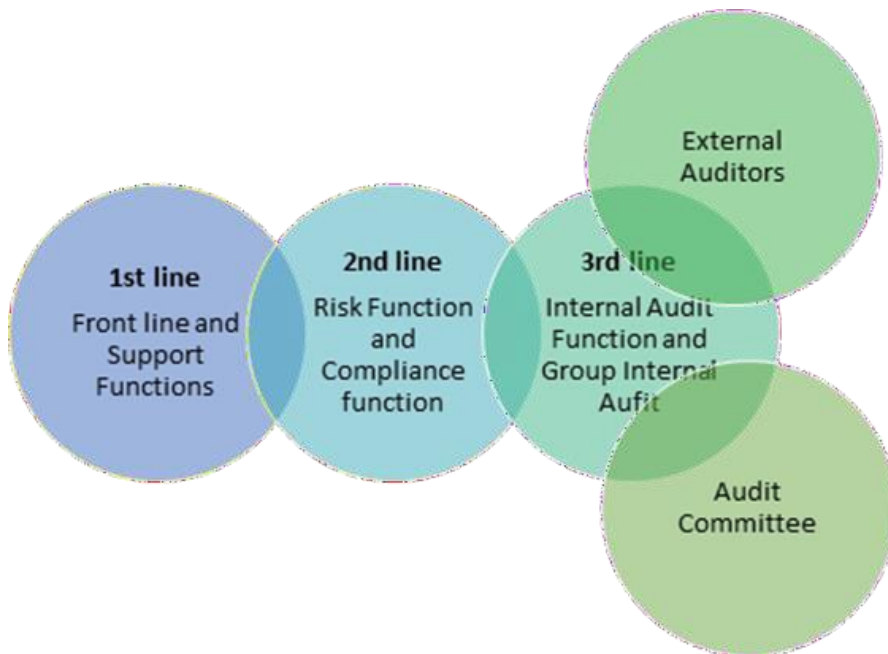
- The day-to-day management of credit risk;
- Validating internal ratings submitted by Front Line Departments (FLDs);
- Providing risk review opinion for both local and HO credit applications;
- Carrying out credit assessments and continuous monitoring;
- Performing post-loan management;

- Reviewing and recommending performing loan classification to RCICC; and
- Suggesting loan provision levels via IFRS9 stage classification.

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 assurance 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:



2.5. RISK MEASUREMENT APPROACHES

CCB-JHB measures supervisory capital requirements using the following approaches:

Risk Type	Risk Measurement Approach
Credit Risk	Standardised Approach
Counterparty Credit Risk	Standardised Approach (SA-CCR)
Market Risk	Standardised Approach
Operational Risk	Basic Indicator Approach (BIA)
Other Assets	Standardised Approach

Credit risk capital requirements are calculated using the Standardised Approach (as per Basel 3) and mainly rely on regulatory risk-weight ratios per asset class and Prudential Authority (PA) approved ECAI's external ratings. Internal ratings are used for credit granting and monitoring purposes, HO reporting, and credit impairments (since IFRS9 implementation).

More details on the different risk measurement approaches are presented in the risk-specific sections below (sections 5, 6, 9 and 11).

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; a summary of the main functions are presented in the table below:

Risk management systems	
Head-Office core banking system	<ul style="list-style-type: none"> - General Ledger system - Client profile system/clients database - Client transactions system - Credit & Country limits monitoring - Risk monitoring and reporting tool
Middle and Back office system	<ul style="list-style-type: none"> - Booking Bank deals/Bonds - Performing End of Day process to reconcile authorised and captured deals
Front end Treasury system	<ul style="list-style-type: none"> - Bank deals - Foreign Exchanges Swaps, Interest Rate Swaps, etc. - Treasury Limit monitoring - Containing modified and deleted deals
Head-Office Reporting system	<ul style="list-style-type: none"> - Reporting system linked to Head-Office core banking system - Generating automated reports - Generating ad hoc reports as per specific request

Electronic Information Solutions	- Market data
Credit rating application	- Credit rating applications - Credit rating model - Credit rating reviews
External Rating database	- Database for external rating
Regulatory reporting platform	- Regulatory reporting - Monitoring prudential requirements - Preparing risk reporting - Extract data for risk reporting
AML systems	- Screening of Swift payment messages - Name screening - Transaction monitoring - KYC, risk rating and enhanced due diligence

2.7. Risk Reporting

Clear reporting lines and escalation channels have been 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 (if applicable);
- 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 of which is expected to enhance risk management and decision-making processes.

The Branch embarked on achieving compliance and adopted a practical and fit-for-purpose approach, despite the challenges posed by the pandemic. The Branch continues to make progress and remains committed to achieving compliance. CCB-JHB benefits from CCB Head Office and local management support (Information Technology Department (ITD), FLDs, and support functions).

The Operational Risk Forum (ORF) assists RCICC in preparing and monitoring progress related to RDARR implementation. This forum assists Executive Management and Department Heads in understanding the requirements of the different principles and stakeholder's expectations.

Internal Audit is mandated to review compliance with RDARR by identifying possible gaps and making recommendations in line with industry best practice to improve overall compliance status of CCB-JHB with the principles.

2.9. RISK AND COMPLIANCE CULTURE

Risk and Compliance culture is based on ethical leadership, transparent flow of information, reporting integrity, and Treating Customers Fairly (TCF) principles. CCB-JHB subscribes to the following principles:

- in addition to the existing RCICC and other risk-related committees, risk management forums have been introduced to encourage discussions between Front Line Departments, support functions, Compliance and RMD;
- there is no tolerance for any unethical behaviour. Unethical behaviour would lead to a disciplinary process which may result in dismissal;
- risk and compliance management frameworks, policies, and procedures are communicated and made available to all staff. Compliance and RMD assists all departments where doubt/confusion related to a specific risk process may exist;
- the risk and compliance management strategy is reviewed annually and communicated to Executive Management and Department Heads. The implementation of the risk and compliance strategy is measured and monitored;
- all staff must report risk incidents via the CCB-JHB intranet platform and risk incidents are then investigated. Staff reporting risk incident are neither blamed nor victimised;
- a whistle blowing policy is in place and the process is outsourced to ensure independence and impartiality;
- a fit and proper test is applied for key risk roles (before hiring and periodic assessments thereafter); and
- various risk and compliance training is conducted during the year 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 correct 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 that the Branch must operate within to be successful.

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

- 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 and CCB Head-Office requirements at all times.

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

The RAS is reviewed regularly, during the ICAAP, after setting annual strategy, 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 and prudential ratios while maintaining a sustainable business in a forward-looking manner, including severe but plausible economic stresses specific to CCB-JHB's portfolio and risk profile.

The business strategy, overall capital planning process, and risk appetite have been incorporated into CCB-JHB's base case capital forecasts, which have been subject to stress testing to analyse the effect of various stress situations.

Stress testing at CCB-JHB takes the form of scenario analysis and/or sensitivity analysis, explained below which are used to assess the impact on prudential regulatory requirements and profitability:

- Stress Testing Scenario: refers to performing multiple sensitivity analyses at the same time, looking at the variables (and their interdependencies) that affect the Branch's:
 - o CAR;
 - o Leverage Ratio;
 - o other prudential ratios; and
 - o overall performance.

Here, most of the sensitivity analyses are combined to form a scenario. By changing a combination of these factors, the Branch 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:
 - o the overall CAR and Leverage Ratio;
 - o financial indicators; and
 - o overall performance metrics of the Bank.

The CCB-JHB stress testing framework defines the process of:

- Identifying and defining potential extreme adverse future economic scenarios, which should be severe yet plausible;
- Linking projected budget and financial results, capital supply and demand to stress scenarios;
- Measuring the sensitivity of risk portfolios to changes in the economic variables associated with the defined stress scenarios;
- Setting of the Branch's risk tolerance concerning capital and liquidity;
- Comparing the results of the stress testing to board-approved risk appetite levels and taking management actions should the results of the stress tests exceed risk appetite; and
- Facilitating the development of management actions to mitigate the impact of stresses.

3. LINK BETWEEN FINANCIAL STATEMENTS AND REGULATORY EXPOSURES

The present disclosure refers to CCB-JHB only, there are no other entities (subsidiary or sub-branches) under the scope of consolidation. Consolidation of all CCB Group entities is managed at the Group level.

L11 – 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:				
			Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitisation framework	Subject to the market risk framework	Not subject to capital requirements or subject to deduction from capital
Assets							
Cash and cash equivalents	716,085	451,615	451,615	-	-	263,208	-
Loans and advances to banks	19,625,874	19,890,861	19,890,861	-	-	17,263,444	-
Loans and advances to customers	2,953,523	2,953,523	2,953,523	-	-	2,277,732	-
Derivative financial instruments	73,875	73,875	-	73,875	-	47,385	-
Interest - bearing securities	18,176,680	18,176,680	18,176,680	-	-	11,229,071	-
Investment in associate	-	-	-	-	-	-	-
Other assets	2,062	6,093	-	-	-	141	-
Deferred taxation asset	61,472	61,472	-	-	-	-	61,472
Right of use assets	4,548	-	-	-	-	-	-
Property, plant and equipment	163,519	163,519	-	-	-	-	-
Total assets	41,777,638	41,777,638	41,472,679	73,875	-	31,080,981	61,472
Liabilities							
Deposits from banks	14,601,272	14,601,272	-	-	-	12,563,423	14,601,272
Deposits from customers	20,547,748	20,547,748	-	-	-	1,642,677	20,547,748
Derivative financial instruments	778,707	778,707	-	778,707	-	142,993	-
Provisions	26,377	-	-	-	-	-	-
Tax payable	437	437	-	-	-	-	437
Other liabilities	32,445	63,664	-	-	-	17,747	63,664
Lease liabilities	4,842	-	-	-	-	-	-
Total liabilities	35,991,828	35,991,828	-	778,707	-	14,366,840	35,213,121

The variance between the financial statements and the regulatory consolidating is due to the classification of asset and liability classes. However, the totals remain the same. 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.

L12: Main sources of differences between regulatory exposure amounts and carrying values in financial statements

	a	b	c	d	e
	Total	Items subject to:			
		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)	41,777,638	41,472,679	-	73,875	31,080,981
2. Liabilities carrying value amount under regulatory scope of consolidation (as per li1)	-	-	-	778,707	14,366,840
3. Total net amount under regulatory scope of consolidation	41,777,638	41,472,679	-	(704,832)	16,714,141
4. Off-balance sheet amounts (*)	930,591	465,296	-	-	-
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 (**)	-	(1,894,289)	-	929,660	-
10. Exposure amounts considered for regulatory purposes	42,708,229	40,043,686	-	224,828	16,714,141

(*) 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 December 2021 while in Column B it is a monthly average (December 2021); 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.

Prudent valuation

Fair value is the price that would be received (when selling an asset) or paid (to transfer a liability) in an orderly transaction between market participants at the measurement date, i.e. an exit price.

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

Fair value is only used for OTC derivatives, namely Foreign Exchange (FX) derivatives and Interest Rate Swaps (IRS). No other instruments are carried at fair value.

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 observable inputs.

CCB-JHB relies on valuation systems that are partly designed and maintained by CCB Head Office.

External audit places reliance on the Information Technology general controls of systems used in the valuation process.

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 level, 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.

PV01: Prudent valuation adjustments

		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:	-	-	-	-	-	-	-	-
2	Mid-market value	-	-	9,642	-	-	9,642	-	9,642
3	Closeout cost	-	-	-	-	-	-	-	-
4	Concentration	-	-	-	-	-	-	-	-
5	Early termination	-	-	-	-	-	-	-	-
6	Model risk	-	-	-	-	-	-	-	-
7	Operational risk	-	-	-	-	-	-	-	-
8	Investing and funding costs	-	-	-	-	-	-	-	-
9	Unearned credit spreads	-	-	-	-	-	-	-	-
10	Future administrative costs	-	-	-	-	-	-	-	-
11	Other	-	-	-	-	-	-	-	-
12	Total adjustment	-	-	9,642	-	-	9,642	-	9,642

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 methodology was changed during 2021, moving from the simplified approach to the core approach as CCB-JHB no longer qualifies for using the simplified approach.

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 is limited to the FX Swap book. It was assessed that only Market price uncertainty (mid-market value) PVA adjustment is to be performed, the table below provides explanations for this adjustment and other adjustments not being retained.

The total PVA amount is deducted from CET1.

PVA adjustments	Definition	Conclusion
Market price uncertainty	Market Price Uncertainty (MPU) refers to the valuation uncertainty of a valuation exposure arising from uncertainty of a valuation input	The following conditions are met: — the institution has firm evidence of a tradable price for a valuation exposure; or — a price can be determined from reliable market data based on a liquid two-way market MPU arises from sources of market data (mainly exchange rates and currencies curves) indicating some valuation uncertainty. The whole methodology, assumptions and PVA calculation are documented and performed monthly.
Close-out cost	The valuation uncertainty of a valuation exposure arising from uncertainty in the exit price of the valuation position	Due to firm evidence of a tradable price, the Close-out Cost is deemed to be equal to zero
Model risk	Further adjustments, to take into account valuation model risk, arise due to: — the potential existence of a range of different models or model calibrations; — the lack of a firm exit price for the specific product being valued; — the use of an incorrect valuation methodology; — the risk of using unobservable and possibly incorrect calibration parameters; or — the fact that market or product factors are not captured by the core valuation model	The Model Risk adjustment is deemed to be equal to zero for the FX Swaps book, shared by CCB, the model is simple and no model risk is arising for the valuations that were taken into consideration
Unearned credit spread	Adjustment to consider the valuation uncertainty in the adjustment necessary to include the current value of expected losses due to counterparty default on derivative positions, including the valuation uncertainty on credit valuation adjustments (CVAs)	The Unearned Credit Spreads adjustment is deemed to be equal to zero for the FX Swap book, shared by CCB, being the trades very short dated (less than 3M) and either internal or with counterparties with good credit rating
Investing and Funding costs	Adjustment to reflect the valuation uncertainty in the funding costs that would be factored into the exit price for a position or portfolio	The Investing and Funding costs adjustment is deemed to be equal to zero for the FX Swap book, shared by CCB, calculation of the funding costs associated with the FX Swap trades are negligible
Concentrated Positions	Adjustment over and above mid-market price and closeout costs that would be required to get to a prudent exit price for positions that are larger than the size of positions for which the valuation has been calculated	The Concentrated Positions adjustment is deemed to be equal to zero for the FX Swap book, shared by CCB, as the FX portfolio doesn't have very large exposures
Future Administrative Costs	Adjustment to account for the administrative costs and future hedging costs over the expected life of the exposures for which a direct exit price is not applied for the closeout costs	The Future Administrative Costs adjustment is deemed to be equal to zero for the FX Swap book, shared by CCB, as the administrative costs and future hedging costs over expected life are negligible with the instruments being very short-dated
Early Termination	Adjustment to take into account the potential losses arising from contractual or non-contractual early terminations of customer trades that are not reflected in the valuation under normal market conditions	The Early Termination adjustment is deemed to be equal to zero for the FX Swap book, shared by CCB, as early termination is observed in more long-dated financial products
Operational Risk	Adjustment to take into account the potential losses that may be incurred as a result of the operational risk related to valuation processes	The Operational Risk adjustment is deemed to be equal to zero for the FX Swap book, shared by CCB, based on the nature of the portfolio (short dated vanilla instruments)

4. CAPITAL MANAGEMENT

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 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 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.

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.

4.1. CAPITAL ADEQUACY AND LEVERAGE

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

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

And considers:

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

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

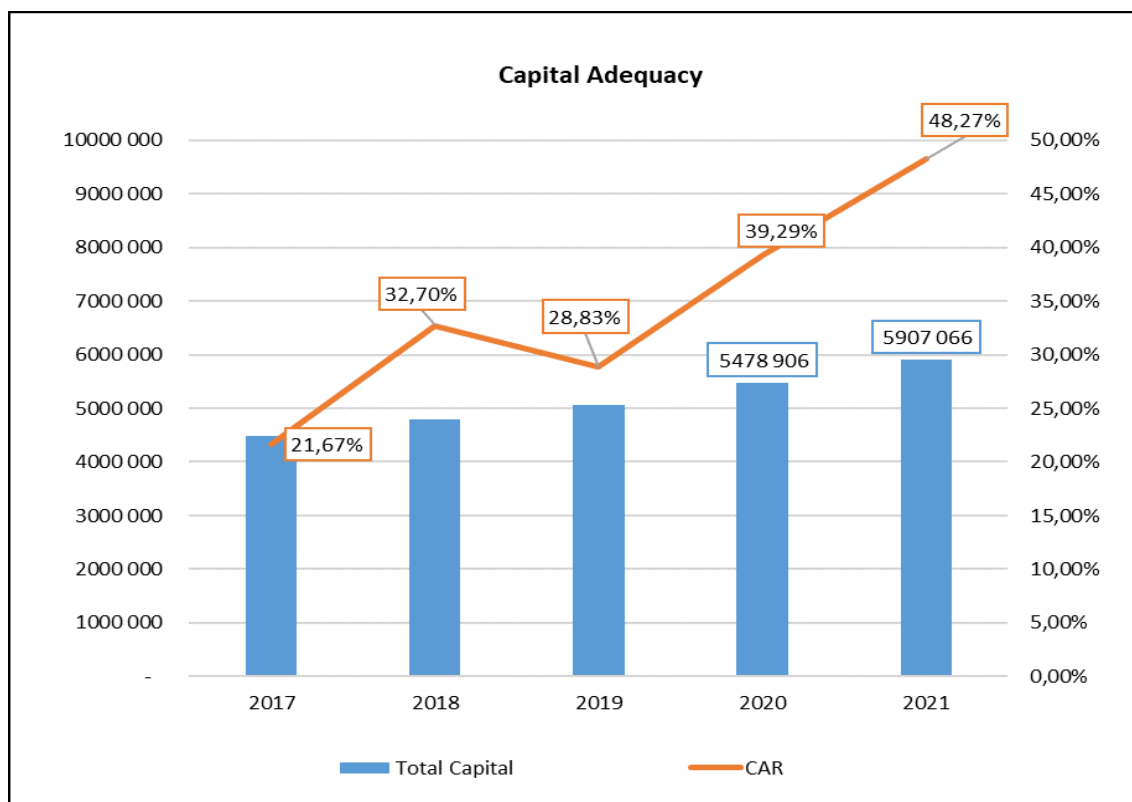
- Paid in capital amount (investment from CCB Group) qualifying as CET1 capital;
- Retained earnings accumulated since the Branch's creation qualifying as CET1 capital;
- General allowance for credit impairments qualifying as T2 capital; and
- Regulatory adjustment as prescribed by the Regulator.

There are no other capital instruments currently held at CCB-JHB. Any other capital instrument would require approval from the CCB Head Office.

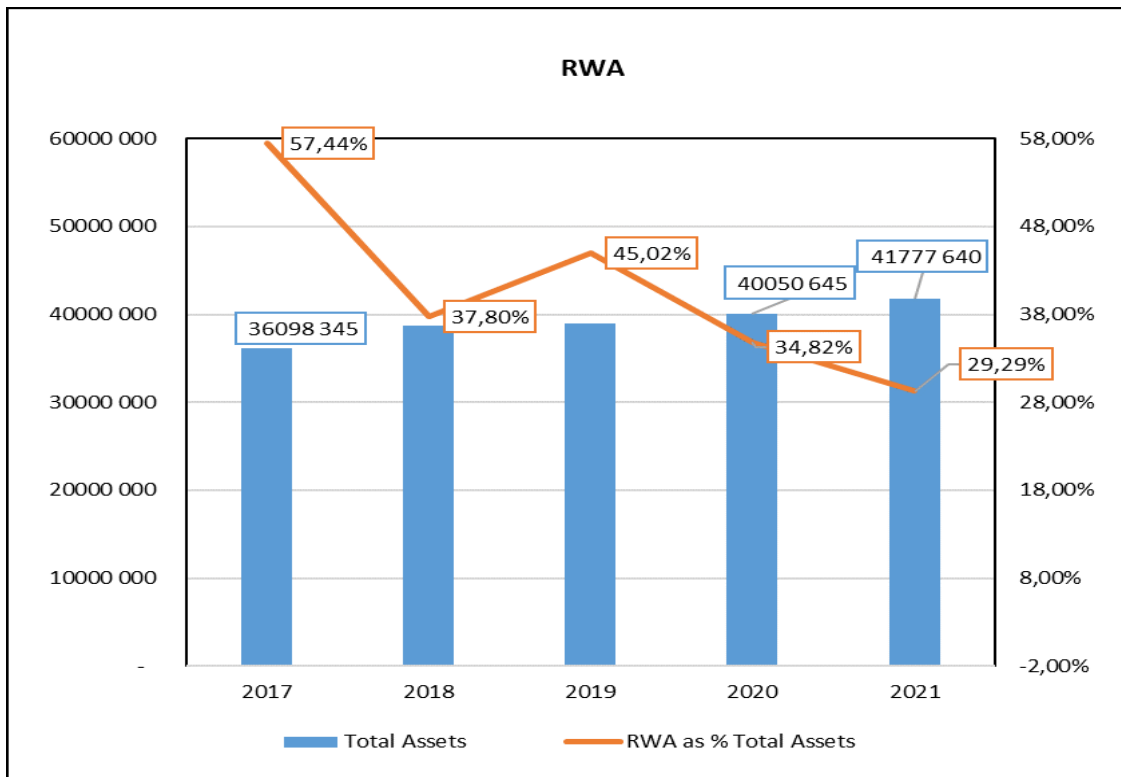
CCB JHB has high-quality capital with almost all of its capital consisting of CET1 capital. This capital is well-suited to absorb losses and retain value under stressed conditions. There have been no material changes in the capital structure of CCB-JHB following the capital injection in 2016.

CCB-JHB quantifies and holds capital against risks that are specified in the minimum requirements from Pillar 1 as per the Banks Act and Regulations thereto; those risks include credit, counterparty credit, market, operational, and other risks (there is currently no equity risk exposure).

Five years' review



The capital adequacy ratios have increased mainly due to a combination of the small but steady increase of capital supply and the decrease of capital demand. The decrease in capital demand is attributed to loans maturing, early repayments (H1 2021), a decrease in exposure to large local and international corporates, which was partially offset by an increase in exposure to banks, short term placements or other financing attracting lower regulatory capital requirements.





From an RWA perspective, at comparable balance sheet size, the average risk-weight ratio continued to decrease and is mainly explained by a change in asset structure over the years:

- an increase in local Government Bonds and Treasury Bill holdings to meet prudential liquidity requirements;
- an increase in medium and short-term banking credit exposure;
- a decrease in large corporate loans due to a challenging economic environment, exacerbated by the COVID-19 pandemic.

4.2. SUPPLY OF CAPITAL

	2021	2020
	R'000	R'000
Tier 1 capital	5 775 317	5 329 191
<i>Branch capital</i>	3 385 642	3 385 642
<i>Retained earnings</i>	2 400 169	1 944 410
<i>Regulatory Adjustments</i>	-10 494	-861
Tier 2 capital	131 749	149 715
<i>General allowance for credit impairment</i>	131 749	149 715
Total regulatory capital	5 907 066	5 478 906

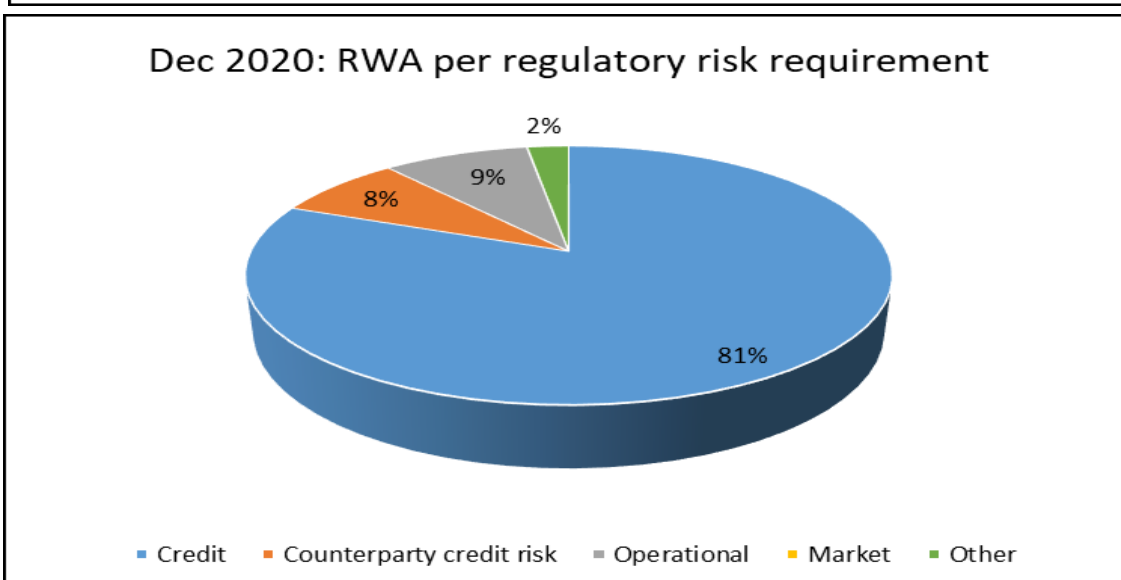
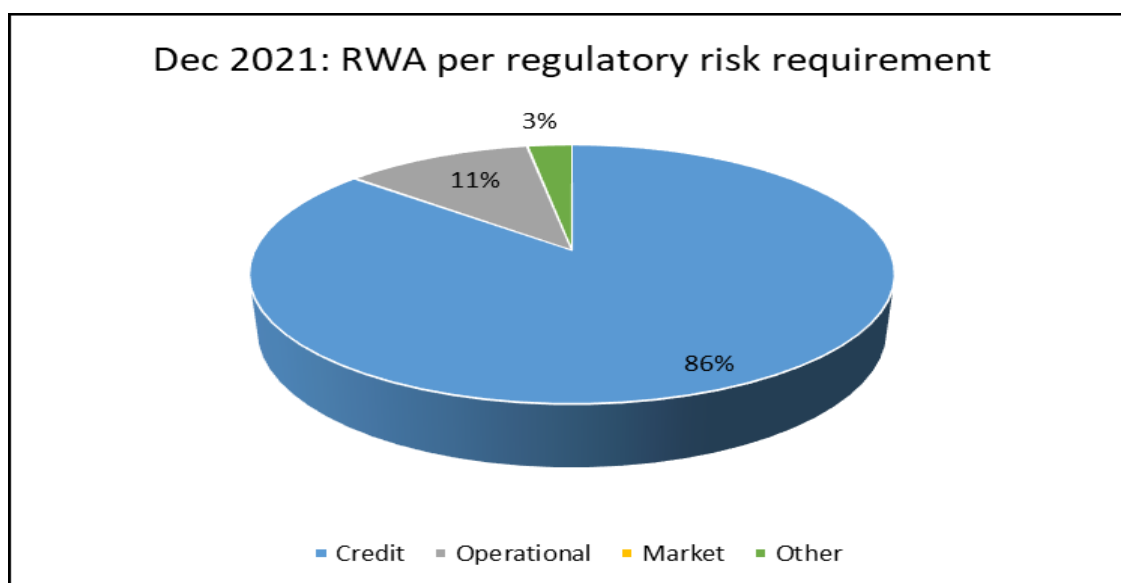
Capital levels drivers - 2020 to 2021

CET1		Increases of retained earnings over 2021, no repatriation is performed Increases of profitability due to: - shortage of ZAR on the local market affecting positively the Treasury SWAP business; - positive impact of IRS hedges; and - decrease of credit impairments (repayments/no further sovereign downgrade) Increases of PVA deduction from capital (negative impact but offset by increased specified above) (see PVA section)
T2		Decrease of credit impairments (see above)

CCB-JHB CET1 represents 97.8% of total capital.

CCB-JHB capital level is assessed as adequate to support the Branch's medium to long-term strategy while implementing Basel IV reforms.

4.3. DEMAND FOR CAPITAL



CCB-JHB's RWA profile has been mostly stable over 2021 with credit representing over 85% of total capital requirements. One notable change is the Counterparty Credit Risk decreasing and explained below. The main drivers are summarized in the below table:

Risk drivers - 2020 to 2021		
Credit	↓	Decrease due to scheduled and early repayments Decrease due to COVID-19 pandemic negatively affecting credit demand (continuing in 2021) Decrease due to asset mix structure Decrease due to counterparts external ratings mix
Counterparty Credit	↓	Decrease due to increased intragroup FX business (no capital requirement) and decreased FX business with local counterparts Appreciation of ZAR towards USD at the end of 2021 which negatively impacted replacement cost, and hence capital requirements IRS portfolio is not subject to CCR due to being contracted with Head Office
Operational	↑	Mechanical increase due to gross operating income increase (three last years basis)
Market	=	Market risk remains very low due to restricted open foreign currency position and traded currencies
Other	=	No notable change

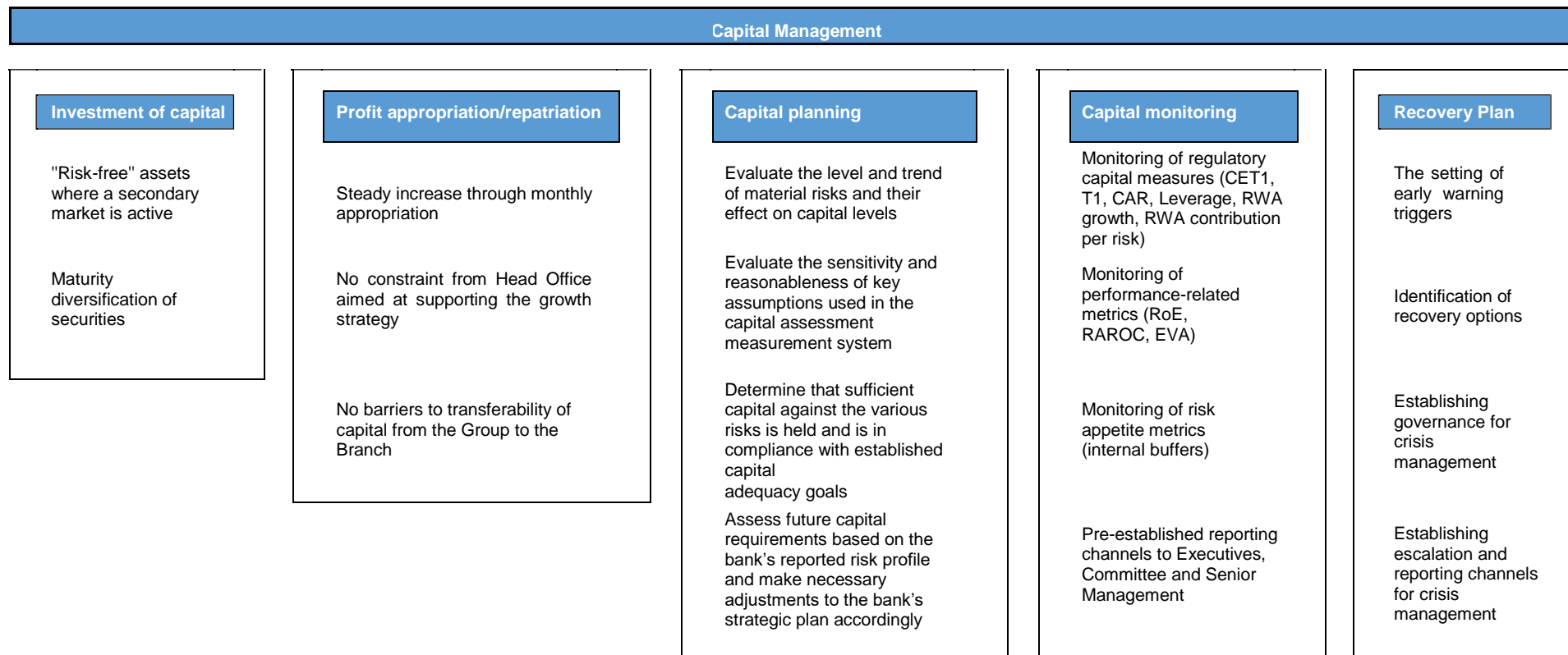
OV1: Overview of RWA

R' 000		a	b	c
		Risk –weighted assets		Minimum capital requirements
		31 December 2021	30 September 2021	31 December 2021
1	Credit risk (excluding counterparty credit risk)	10,698,231	11,282,693	1,123,314
2	Of which: standardised approach (SA)	10,698,231	11,282,693	1,123,314
3	Of which: foundation internal ratings-based (F-IRB) approach	-	-	-
4	Of which: supervisory slotting approach	-	-	-
5	Of which: advanced internal ratings-based (A-IRB) approach	-	-	-
6	Counterparty credit risk (CCR)	10,419	2,277	1,094
7	Of which: standardised approach for counterparty credit risk	10,419	2,277	1,094
8	Of which: Internal Model Method (IMM)	-	-	-
9	Of which: other CCR	-	-	-
10	Credit valuation adjustment (CVA)	5,920	1,293	622
11	Equity positions under the simple risk weight approach	-	-	-
12	Equity investments in funds - look-through approach	-	-	-
13	Equity investments in funds - mandate-based approach	-	-	-
14	Equity investments in funds - fall-back approach	-	-	-
15	Settlement risk	-	-	-
16	Securitisation exposures in the banking book	-	-	-
17	Of which: securitisation internal ratings-based approach (SEC-IRBA)	-	-	-
18	Of which: securitisation external ratings-based approach (SEC-ERBA), including internal assessment approach	-	-	-
19	Of which: securitisation standardised approach (SEC-SA)	-	-	-
20	Market risk	8,892	6,961	934
21	Of which: standardised approach (SA)	8,892	6,961	934
22	Of which: internal model approaches (IMA)	-	-	-
23	Capital charge for switch between trading book and banking book	-	-	-
24	Operational risk	1,360,732	1,196,118	142,877
25	Amounts below thresholds for deduction (subject to 250% risk weight)	153,680	176,488	16,136
26	Floor adjustment	-	-	-
27	Total (1+6+10+11+12+13+14+15+16+20+23+24+25+26)	12,237,874	12,665,830	1,284,977

4.4. 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.



4.5. ICAAP

The Internal Capital Adequacy Assessment Process (ICAAP) document is developed in conjunction with 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 the Branch's 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 process, reviews 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.

4.6. ECONOMIC CAPITAL

The concept of economic capital differs from regulatory capital in the sense that regulatory capital is the minimum capital the regulator requires a registered bank to maintain while economic capital is the best estimate of required capital that CCB-JHB uses to manage its risks.

CCB-JHB defines economic capital as another complementary view of a bank's condition by aggregating economic capital needs, inclusive of any risk diversification benefits and capital cushions for model risks, cyclicity, or other factors, and compares it to the available financial resources.

Internal / ICAAP buffer sets a buffer, above the regulatory capital requirement and is set by EXCO. The buffer is assessed annually during the ICAAP. The determination of the internal buffer is dependent on capital planning, stress testing process, and risk assessment (of all risks while regulatory capital only focuses on Pillar 1 risks).

In addition, a specific CCB Head Office warning level buffer is maintained above the internal / ICAAP buffer and used as an early warning trigger for internal reporting and Recovery Plan decision-making purposes.

4.7. STRESS TESTING

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.

CCB-JHB stresses Pillar I risks (credit, counterparty credit, market, and operational risks) and the main Pillar II risks identified within the CCB-JHB Risk Management Framework to be material.

Scenarios are discussed and approved at the ALCO. RMD performs the stress testing and presents the results to the RCICC.

4.8. RECOVERY PLAN

The Recovery Plan (RP) 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 RP when considering its current ability to recover from severe stress:

- measures to reduce risks;
- restore financial strength;
- 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 of the RP;
- 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.

5. CREDIT RISK

5.1. CREDIT RISK MANAGEMENT

Introduction and definition of Credit Risk

Credit risk is defined as the risk that a borrower will not fulfil its contractual obligations for payment of amounts owing, when due. The Branch's credit risk 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 customer 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.

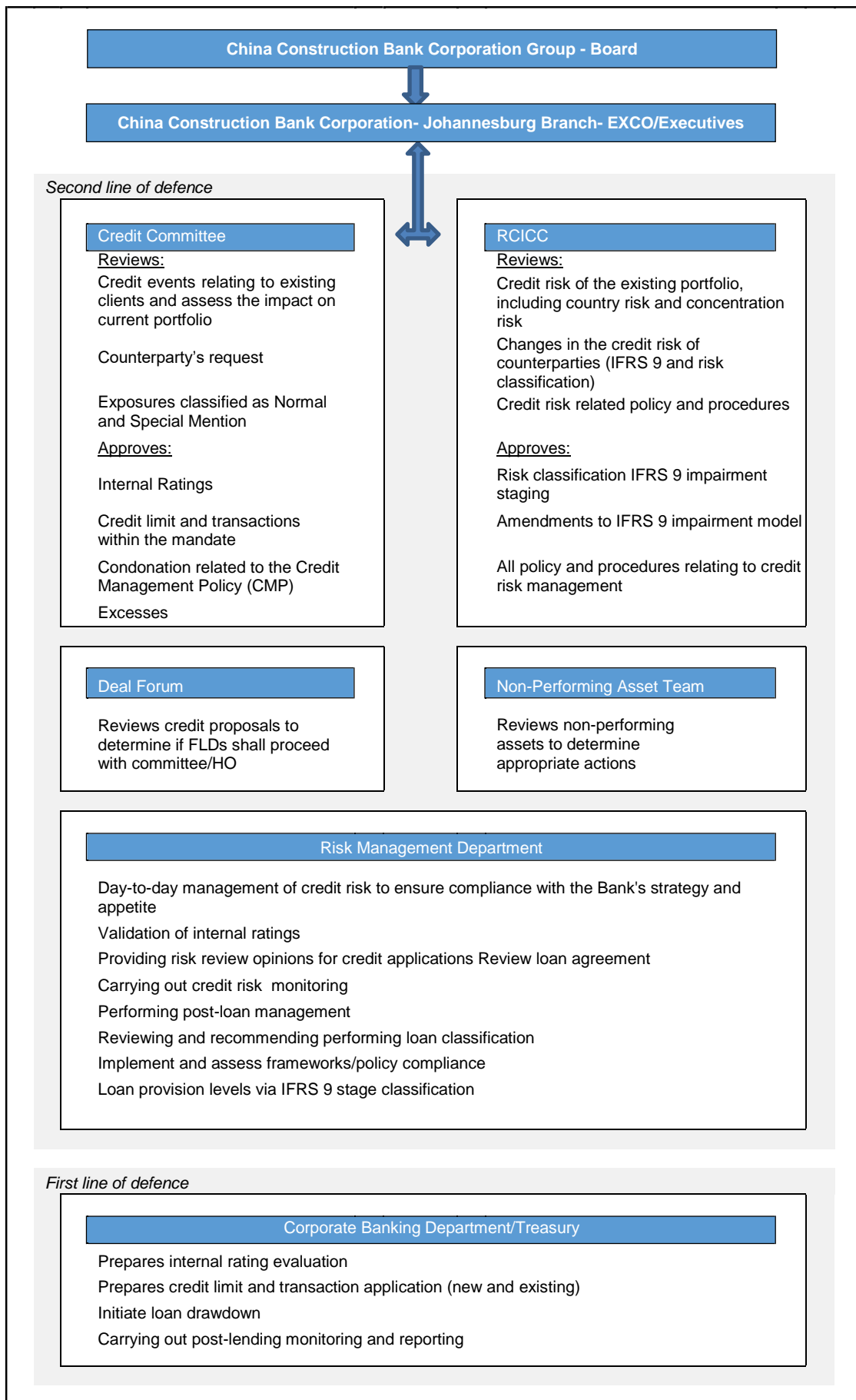
As per the current business model and CCB-JHB's core business, the Bank's primary exposure to credit risk arises through its loans and advances to financial institutions and large corporates. The amount of credit exposure in this regard is represented by the carrying amounts of the financial assets on the statement of financial position. The 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, letters of credit, and guarantees.

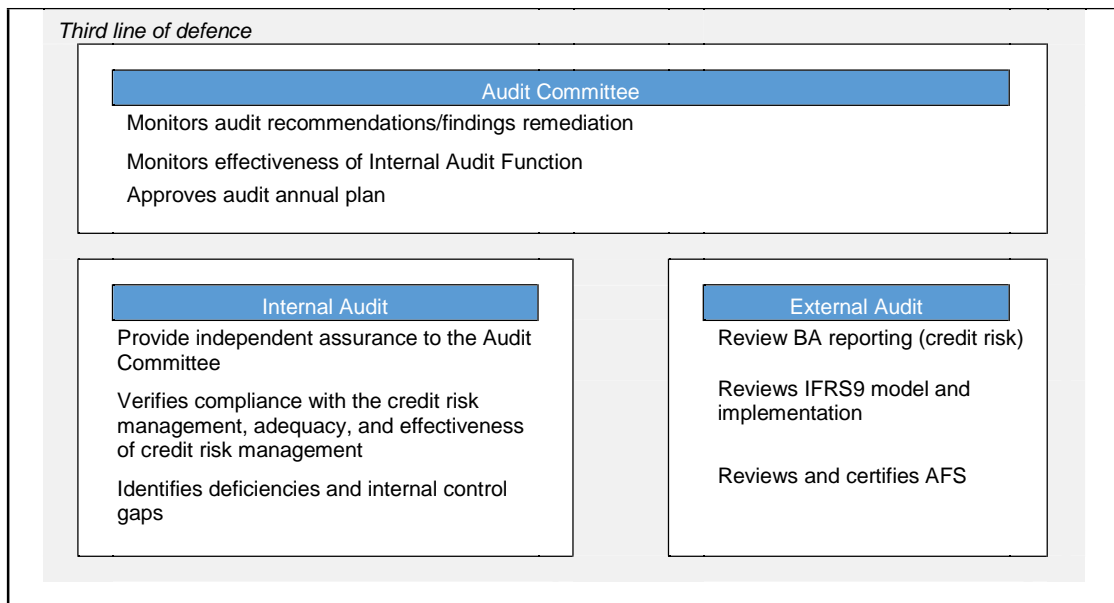
Governance

Credit risk is under the governance structure of the RCICC and the CC.

The RCICC monitors credit risk of the existing loans and advances portfolio, including country risk and concentration risk; and is responsible for IFRS 9 impairment processes (model approval, staging, and documentation).

The CC is the independent approval authority of credit facilities, and it exercises its authority within limits and other parameters delegated by CCB Head Office. Approval of credit facilities for banks and other financial institutions, and country limits for cross-border activities, is centralised in CCB Head Office. The voting members of the Credit Committee are independent of the front line departments and the decisions are required to be unanimous for all proposed transactions.





The Branch recognises a “Three Lines of Defence” approach across the bank’s operations. Different business units are responsible to identify, manage, control, report and challenge risks including credit risk.

The Corporate Banking Department (CBD), Treasury Department (TD) and the Cape Town sub-branch are the front-line departments within the Bank. FLDs are responsible for identifying and managing risks that arise from CCB-JHB’s banking activities and processes.

The Chief Risk Officer (CRO) who is the head of RMD is responsible for coordinating the Branch’s risk management approach. RMD is the independent department that carries out daily risk management for the RCICC and the CC under the management of the CRO.

RMD is responsible for managing all categories of risks comprehensively through internal requirements, risk reporting standards, and responsibilities across the Branch.

RMD and Compliance Department report directly to the General Manager. According to the Risk Management Framework, risk control and compliance are the second line of defence to provide direction and oversight for risk and compliance. As the Compliance Department is the primary point of contact for the Regulator, RMD relies on the Compliance Department for awareness regarding directives, guidance notes, and circulars issued by the regulator and therefore the two departments are in regular communication.

Both internal auditors and external auditors constitute the third line of defence. RMD interacts with both internal and external auditors throughout the entire auditing period. RMD interacts with the internal auditor during the scoping phase to ensure all areas of concern are included in the scope. RMD also ensures the information provided to the internal auditors is accurate and comprehensive and the remediation of the audit findings is carried out following the requirements.

5.2. MEASUREMENT AND MANAGEMENT OF CREDIT RISK

From a regulatory capital requirement point of view, CCB-JHB is currently using the Standardised Approach for measuring credit risk. This approach is based on 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.

Credit Risk Assessment

The Branch's credit risk appetite is determined under the Branch's Risk Appetite Framework and Policy which also identifies the Branch's target market. This also follows 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 that have been supported by the DF undergo a further assessment which includes the following:

- Assessment of the counterparty's internal credit rating
 - Counterparty internal credit ratings are initiated by the front-line departments (FLD), reviewed and validated by the RMD, and approved by the CC.
 - The process of assigning an internal credit rating to a counterparty is guided by the Credit Management Policy and Procedure.
- Assessment of the counterparty's external credit rating
 - Under the guidance of the Credit 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 Fitch Ratings Inc. external ratings. 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 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.
 - Below is the different type of limits used at CCB-JHB:

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
	Industry limits	NA
Country limits	Per country	NA

Before submission to the CC, all credit proposals are independently assessed by the RMD and a risk review opinion from the department 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.

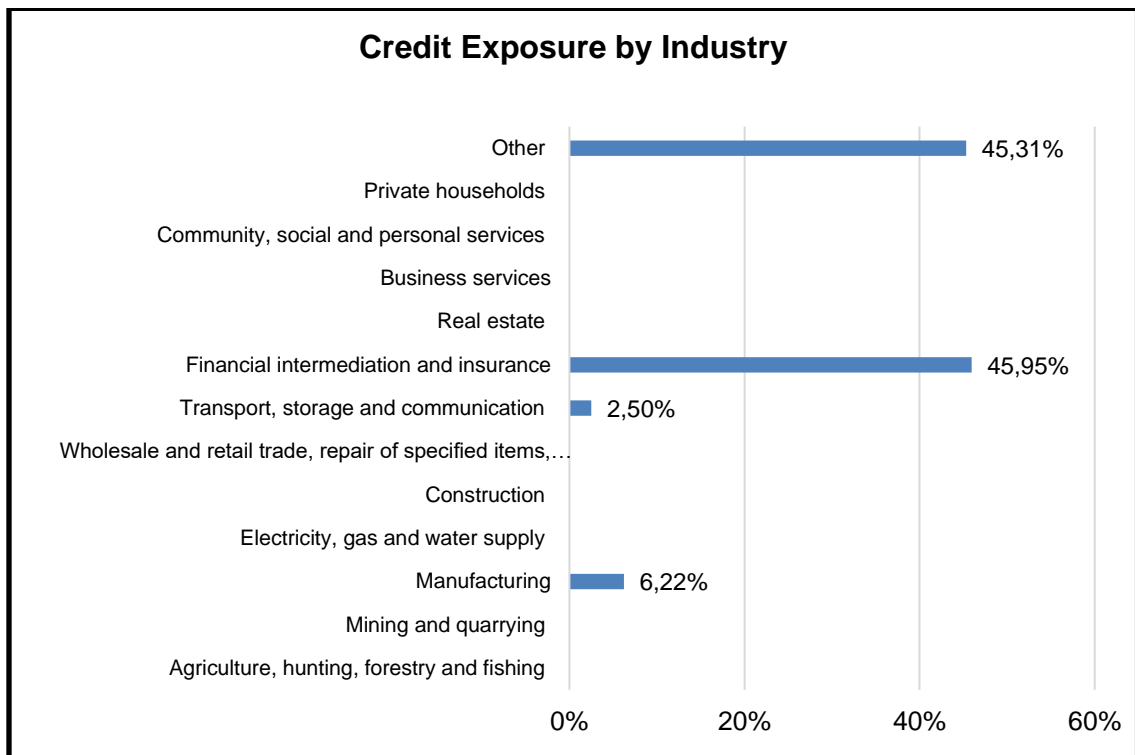
Repayments are monitored daily to identify any overdue exposure.

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 mitigants.

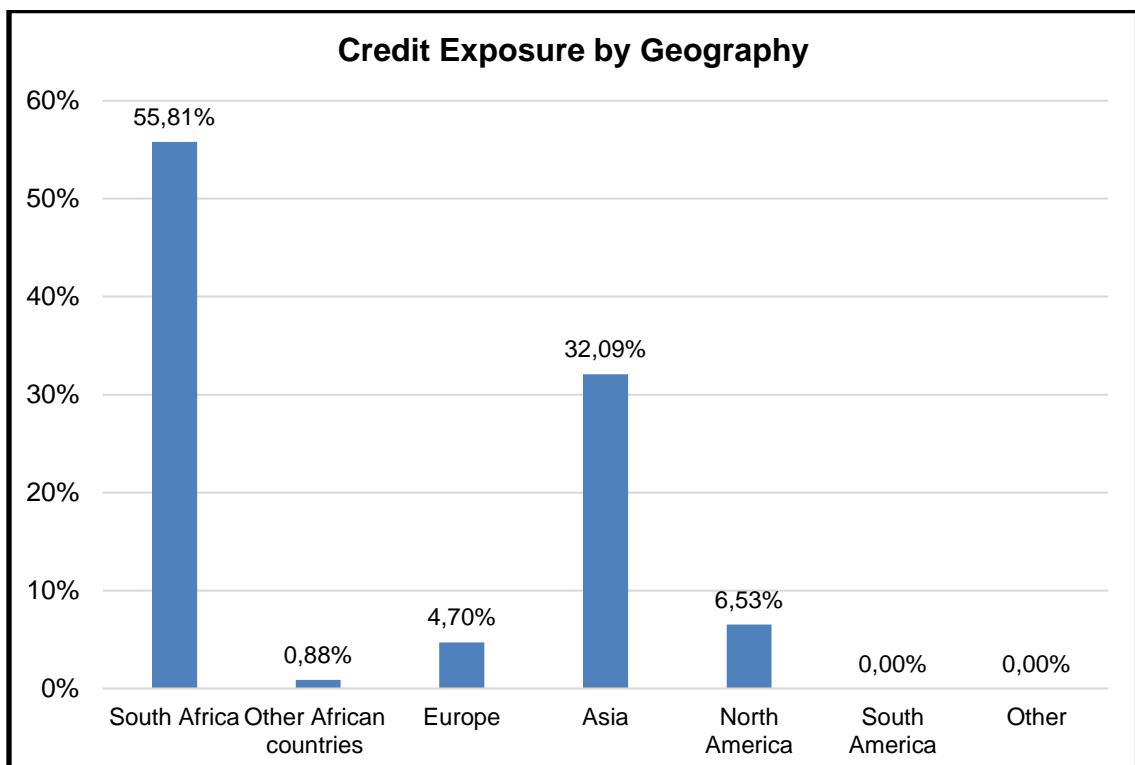
Quarterly and annual reviews of the counterparty’s risk profile are conducted by FLDs to determine any change in the counterparty’s risk profile. The annual reviews are subject to an independent assessment by the RMD and fall under the authority of the CC.

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.

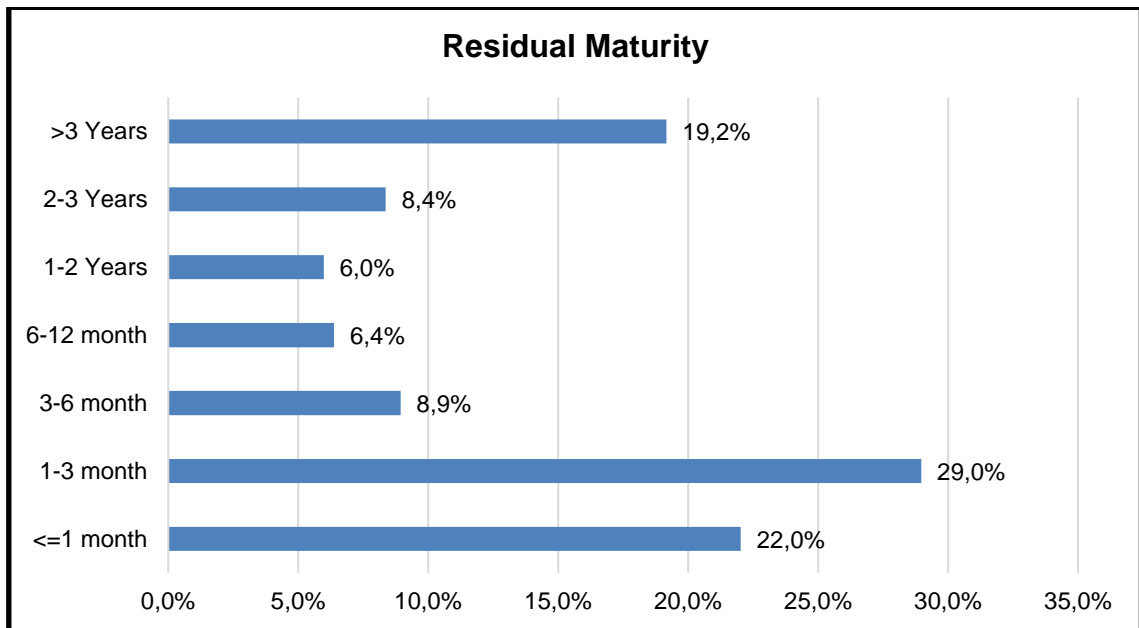
Credit exposure by industry, geography, and residual maturity is broken down in the following graphs:



Note: Other refers to exposure to sovereigns and mainly includes South African Government Bonds and Treasury Bills.



Note: The increase exposure to Asia is in line with CCB-JHB strategy and mainly relates to exposure to China.



RWA is broken down by region and industry in the following table:

<u>Overview of RWA</u>	<u>(R000's)</u>
<u>China Construction Bank Johannesburg Branch</u>	<u>31-Dec-21</u>
Geographical	Total risk-weighted exposure
South Africa	2 954 554
Other African countries	352 021
Europe	1 604 475
Asia	3 601 754
North America	2 027 087
South America	0
Other	0
Industry	
Agriculture, hunting, forestry and fishing	-
Mining and quarrying	-
Manufacturing	2 385 481
Electricity, gas and water supply	-
Construction	-
Wholesale and retail trade, repair of specified items, hotel	-
Transport, storage and communication	853 000
Financial intermediation and insurance	7 301 411
Real estate	-
Business services	-
Community, social and personal services	-
Private households	-
Other	-

Shortly after the pandemic erupted and in order for the Branch to assess continuously whether there has been a change in the clients' credit risk, an enhanced credit risk monitoring report was introduced. It allows the Branch to capture all related information about existing clients from different dimensions including but not limited to the SENS announcement, media news, industry news, related industry news, client communications, upcoming repayment interest payment/principal repayment, and so on. This information is independently reviewed and assessed by the RMD. CCB-JHB was able to obtain information of any changes relating to its clients so that appropriate actions could be taken to mitigate risk or to provide sufficient impairments.

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 2021, 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. The Branch had one default loan exposure which was written off during the period (September 2021); the amount written off was R 3 045 945.88; this had no impact on the income statement as the amount was fully impaired. The exposure related to a real estate company in South Africa.

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. This approach requires the provision of credit losses rather than incurred losses. ECLs are calculated with three main components: the probability of default (PD), loss given default (LGD), and exposure at default (EAD).

Below is an illustration of the ECL calculation workflow:

$$\text{Expected Credit Loss} = \text{PD} \times \text{EAD} \times \text{LGD}$$

PD is derived from the internal rating model. For an exposure that is in Stage 1, 12-month PDs are used, and lifetime PD is used for an exposure that is in Stage 2. Both EAD and 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 which is in line with IFRS 9 requirements. 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

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 figures below set out the mapping of the current credit risk definitions to the IFRS 9 stages:

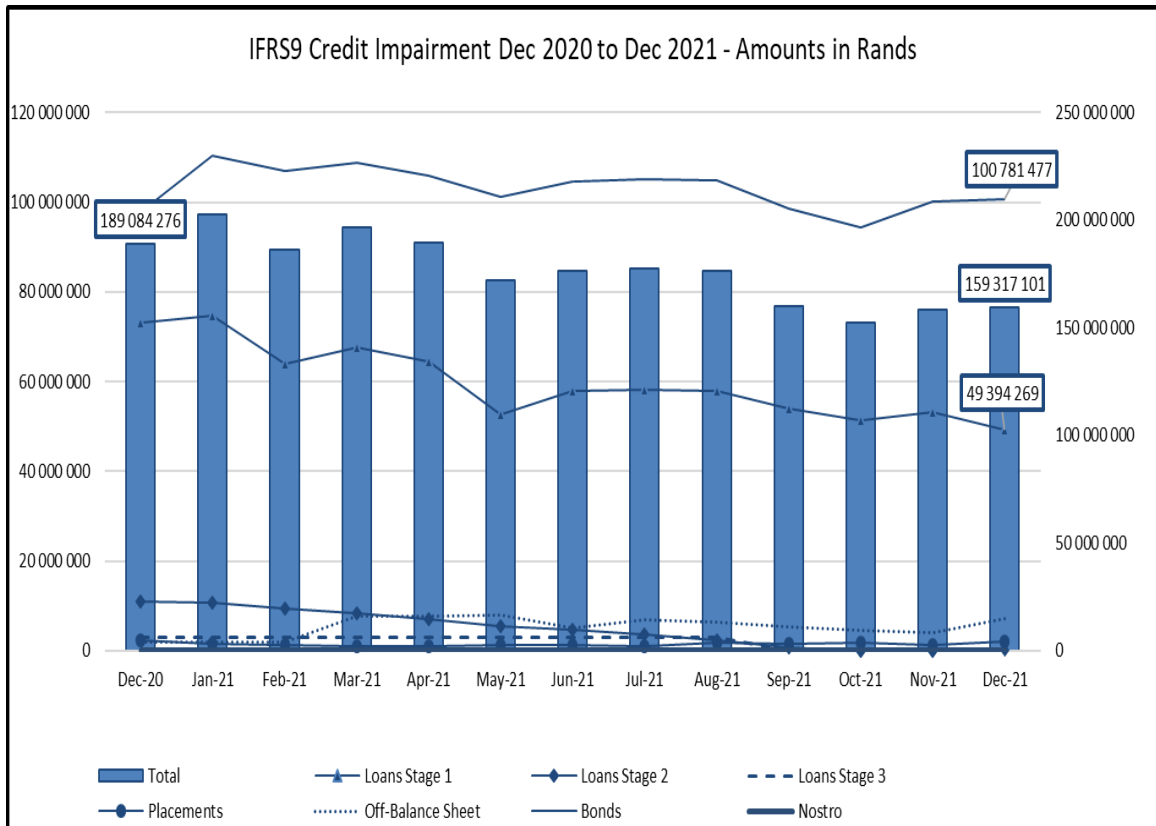
	Stage 1	Stage 2	Stage 3
Criteria	<p>Normal – provided that the exposure is not more than 30 days past due;</p> <p>Watchlist – provided that the exposure is not more than 30 days past due; and</p> <p>Exposures that are not subject to the notching criteria.</p>	<p>Normal – those exposures which are more than 30 days past due;</p> <p>Watchlist – those exposures which are more than 30 days past due;</p> <p>Special Mention; and</p> <p>Exposures whose internal credit rating is downgraded as per the quantitative notch downward criteria.</p>	<p>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;</p> <p>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;</p> <p>Doubtful – those exposures which are more than 90 days past due;</p> <p>Loss – those exposures which are more than 90 days past due; and</p> <p>Exposures that have been restructured due to financial distress.</p>

The IFRS 9 impairment model was reviewed during 2021. The predicted economic growth rate for 2021 was found to reflect strong growth, therefore assumptions were lowered. The model was updated to ensure the level of impairment was adequate under the uncertain economic environment caused by the pandemic. The updates included the following parameters update:

- GDP growth forecast amendments for the 2021 year
- Base, bull and bear assumptions for credit index range; and
- Methodology change for calculating the bear and bull case scenarios.

Downturn LGD continued to be used as the Covid-19 Pandemic also had an effect on the 2021 financial year.

The impairment of the Branch has reduced from R189m in December 2020 to R160m in December 2021 despite a management overlay (increase) to incorporate possible further SA sovereign downgrade. 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.



Restructured exposures definition

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

Restructured credit exposure is defined as a credit exposure that is 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 2021.

Year in review

The outlook for 2021 was initially based on renewed lockdown restrictions at the beginning of the year, subdued economic demand, reduced export earnings, threats to the debt-to-GDP and the resumption of load shedding. There was some recovery by the end of H1, albeit the pandemic uncertainty remained. This, together with the unrest and riots experienced earlier in H2, slowed the recovery momentum. As the vaccination rate improved and lockdown restrictions were eased, recovery regained momentum. This was also supported by favourable commodity prices.

CCB-JHB's lending portfolio remain concentrated in the financial sector, overall credit risk remained stable, aligned to its risk appetite and CCB-JHB suffered no losses. The Branch did write-off a long standing non-performing asset and this was in line with regulatory guidelines.

CCB JHB continues to actively monitor counterparties, by performing media reviews and constant engagement with its counterparties.

6. COUNTERPARTY CREDIT RISK

Introduction and Overview

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

Derivative financial instruments used by the Branch include Interest Rate Swaps (IRS) and Foreign Exchange Contracts (FX). IRS transactions are solely booked for hedging purposes while FX transactions are booked for hedging and funding purposes.

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

- CCR calculated based on the new Standardised Approach (SA-CCR) since January 2021 (previously using the Current Exposure Method (CEM)); and
- Credit valuation adjustment (CVA), which is the difference between the risk-free portfolio value and the true portfolio value that takes into account the possibility of counterparty's default; in other words, CVA is the market value of the counterparty credit risk. The CVA measure was introduced with Basel III and the Branch adopted the Standardised CVA calculation with prescribed risk-weight ratios based on external ratings (ECAIs).

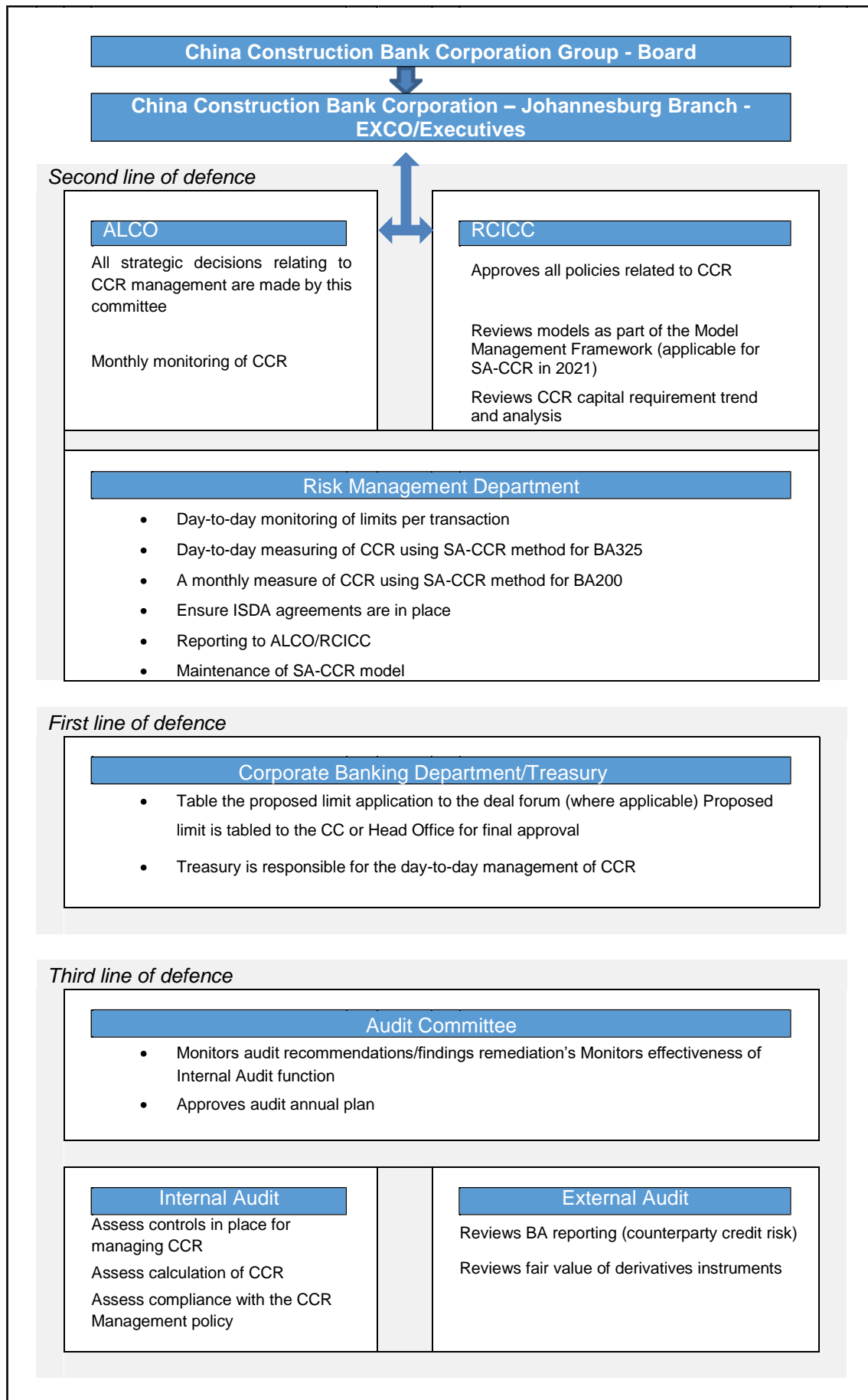
CCB-JHB conducts Over-The-Counter (OTC) derivatives transactions with clients that have an allocated limit (with the exception of cash cover transactions) and all OTCs are booked as bilateral agreements. CCB-JHB had no exposure to Central Counterparty Clearing House (CCP).

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

CCB-JHB is actively preparing for the implementation of the revised Credit Valuation Adjustment (CVA) Framework and established regulatory requirements as per the PA's Fundamental Review of the Trading Book (FRTB) roadmap. Full implementation is expected from January 2024 (reporting from January 2023, capital requirement from January 2024), expected change of regulatory capital requirement is assessed as low and CCB-JHB's capital supply is well suited to absorb the change of methodology.

Governance

The governance is as follows:



Risk Management process

CCB-JHB has established pre and post-transaction measures to manage CCR which consists of the following:

- CCB Head Office credit lines including counterparty credit risk arising from derivatives; the limit system will automatically reject a deal that is above the counterparty's allocated limit to prevent a counterparty limit breach;
- Restrictions on the type of derivatives CCB-JHB can use;
- FX derivatives are mainly contracted with the "Big Five South African Banks" which have a relatively low probability of default and are highly regulated;
- CCB-JHB has a diversified list of counterparties with signed ISDA agreements, allowing CCR to be spread and diversified across counterparties;
- ISDA agreements are established with every counterparty that CCB-JHB trades OTC derivatives with. The agreements are signed at CCB Head Office level. ISDA agreements set out the overarching terms between the parties to engage in OTC derivative transactions;
- Automated cash collateral warnings (system driven), RMD notifies FLDs to request additional collateral when necessary;
- CCR daily calculation to monitor levels and trends; and
- The Treasury department monitors exchange rates daily and will report any material appreciation of a major currency (USD or ZAR) to closely monitor 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.

There is currently no collateral requested or posted to other banks for OTC derivatives, a downgrade of CCB-JHB (CCB Group) would thus not trigger any additional posting of collateral.

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.

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

		As at December 2021					
		Replacement cost	Potential future exposure	EEPE	Alpha used for computing regulatory EAD	EAD post CRM	RWA
R'000 At 31 December 2021							
1	SA-CCR	-	160,591		1.4	224,828	10,419
2	Internal Model Method (for derivatives and SFTs)			-	-	-	-
3	Simple Approach for credit risk mitigation (for SFTs)					-	-
4	Comprehensive Approach for credit risk mitigation (for SFTs)					-	-
5	VaR for SFTs					-	-
6	Total N1						10,419

Note: the information provided in line 1 is based on SA-CCR.

		As at December 2020					
		Replacement cost	Potential future exposure	EEPE	Alpha used for computing regulatory EAD	EAD post CRM	RWA
R'000 At 31 December 2020							
1	Current Exposure Method	531,779	249,304		1.40	781,083	690,121
6	Total N1	531,779	249,304			781,083	690,121

Note: the information provided in line 1 is based on the CEM, no other method was applied in December 2020.

CCR2: CREDIT VALUATION ADJUSTMENT (CVA) CAPITAL CHARGE

		As at December 2021	
		EAD post CRM	RWA
R'000 At 31 December 2021			
Total portfolios subject to the advanced CVA capital charge		-	-
1	(i) VaR component (including the 3x multiplier)		-
2	(ii) Stressed VaR component (including the 3x multiplier)		-
3	All portfolios subject to the Standardised CVA capital charge	10, 419	5, 920
4	Total subject to the CVA capital charge	10, 419	5, 920

		As at December 2020	
		EAD post-CRM	RWA
R'000 At 31 December 2020			
Total portfolios subject to the advanced CVA capital Charge		-	-
1	(i) VaR component (including the 3x multiplier)		-
2	(ii) Stressed VaR component (including the 3x multiplier)		-
3	All portfolios subject to the Standardised CVA capital charge	690,121	392,108
4	Total subject to the CVA capital charge	690,121	392,108

The nominal value and volume of derivatives are not materially different from 2020 and the main parameter affecting RWA is the ZAR volatility to USD which led replacement cost to be negative as of December 2021 (hence nil for capital requirement calculation). 2021 has been marked by high volatility of the Rand, given the short-term maturity of the FX portfolio, appreciation of the ZAR usually only affects CCR capital requirements over a short period (from a week to a month).

CVA capital requirement is based on CCR EAD using SA-CCR from January 2021, the change of methodology (for EAD calculation) has only a minor impact on CVA capital requirement; the main change (decrease from 2020 to 2021) is explained by the fact that the counterparties used for OTC derivatives are mainly intragroup/intergroup, for which no CVA capital requirement is imposed. RWA is calculated using ECAs rating and regulatory mapping (standardised approach), no CVA capital requirement is required for CCB Group exposure.

7. LIQUIDITY AND FUNDING RISK

Introduction and Overview

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

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.

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

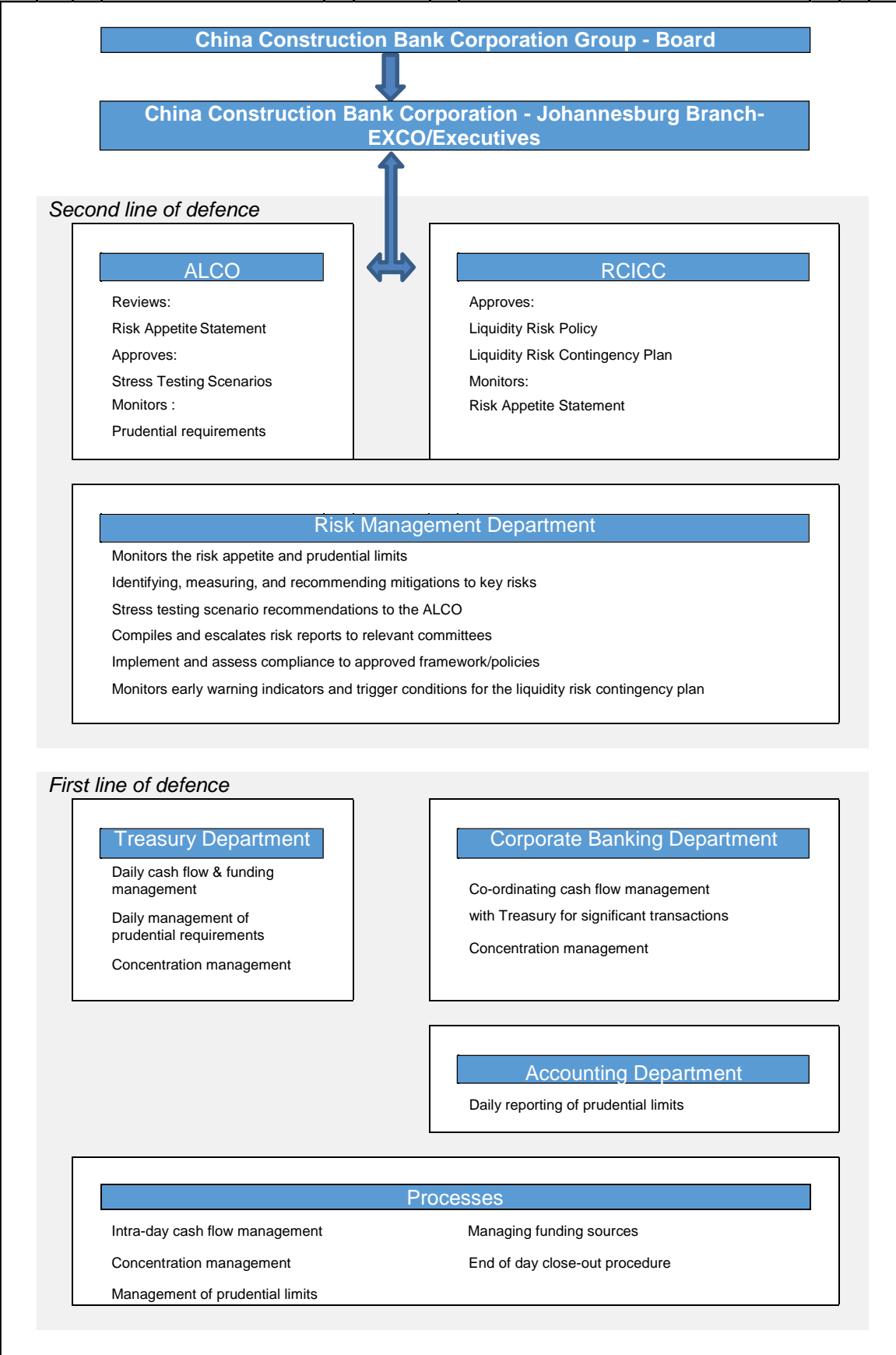
The Branch's funding is constituted of CCB Head Office, interbank, institutional, and corporate funding. The majority of the Branch's USD funding and long-term funding is sourced intra-group, comprising of CCB Head Office and other CCB branches. The strategy is to diversify funding from sustainable sources to build a profile that enables the Branch to achieve its strategic objectives efficiently and reduce reliance on CCB Head Office funding.

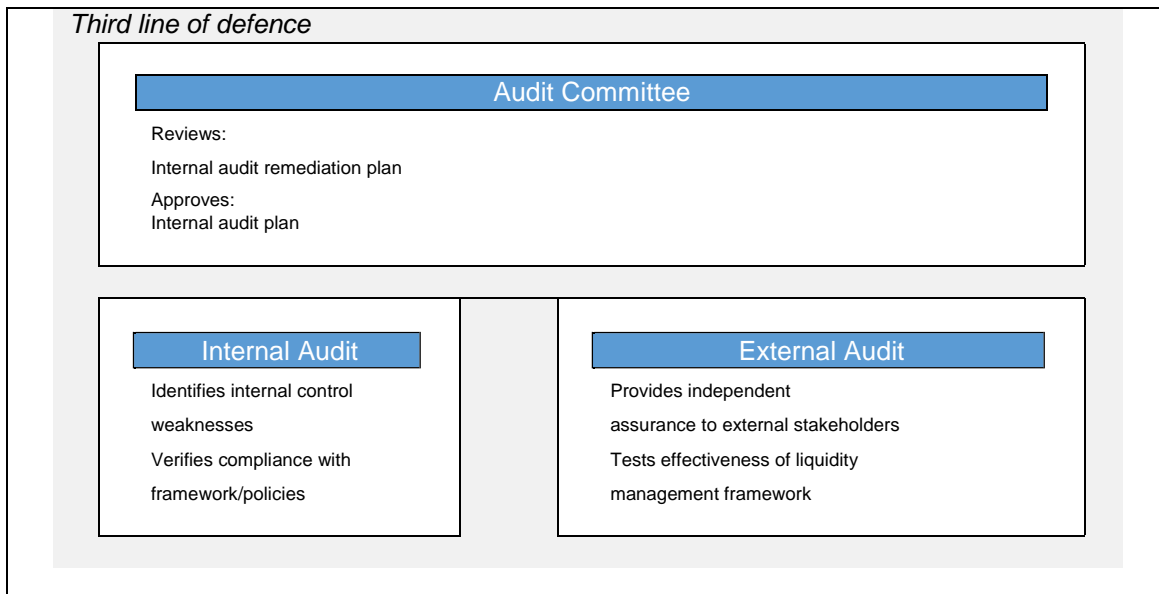
Governance

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 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 Internal Audit function conducts regular audits of the Treasury department and the effectiveness of ALCO in the execution of its mandate. The frequency and scope of the audit are determined by the Branch's Audit Committee.





Risk Management Process

The Branch's sources of High-Quality Liquid Assets (HQLA) include 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.

Monitoring of liquidity mismatches from a contractual, business as usual, and cumulative basis is conducted by RMD and reported to ALCO monthly and RCICC quarterly. 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 committees monitor the concentration of funding to adequately diversify the source of funding and liquidity resilience. Any issues of concern or changes in strategy are discussed at ALCO where proposals are reviewed and adjudicated.

The Accounting Department reports the 60/40 and intra-group limits daily to ensure compliance with all prudential requirements. In addition, 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 HQLA and ensures that the Branch supports its assets with a longer contractual funding profile.

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 Plan. Parameters utilized in stress testing scenarios are reviewed by ALCO annually.

Liquidity Recovery Plan (LRP)

The Liquidity Recovery Plan documents a range of recovery options available in response to an idiosyncratic or market-wide shock (or a combination of both) affecting the Bank's liquidity risk. These shocks may result in an inability to access normal sources of liquidity in the market.

The recovery options are aligned to the nature, size, and business of CCB-JHB and mainly consist of:

- enhancing monitoring and reporting of prudential ratios and/or dedicated metrics;
- special ALCO (ad-hoc basis) and/or increased frequency of ALCO;
- review growth targets and new business strategy;
- reducing selected exposures/commitments;
- calling upon CCB Group support; and
- selling pre-selected assets taking into account prudential requirements and reputational risk.

A combination of the above management actions should be considered as opposed to a single action.

The RMD closely monitors the early warning indicators in anticipation of market risk events that may trigger the LRP.

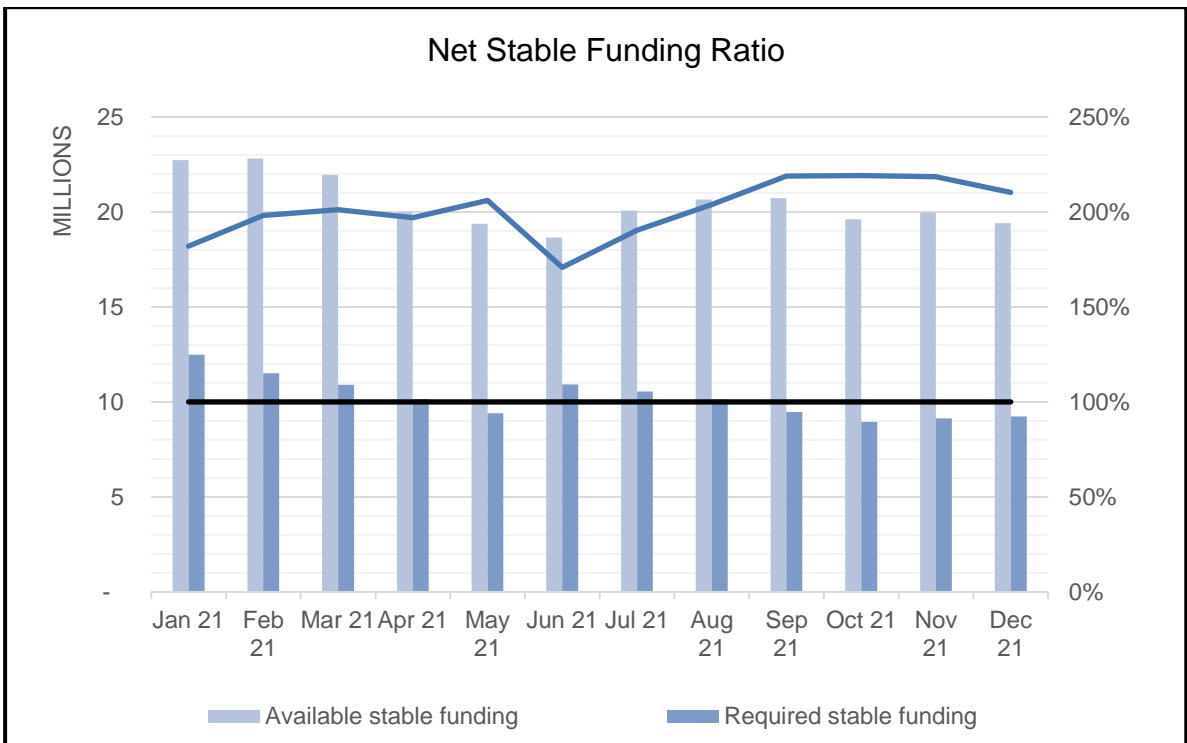
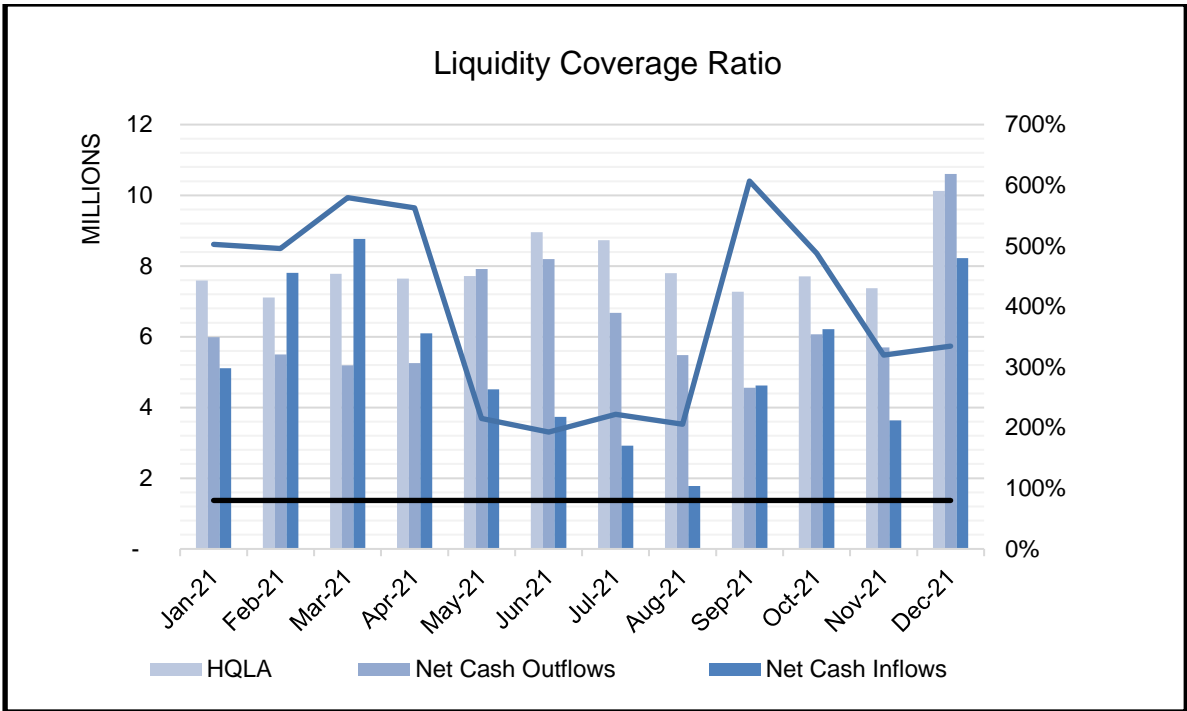
Year in review

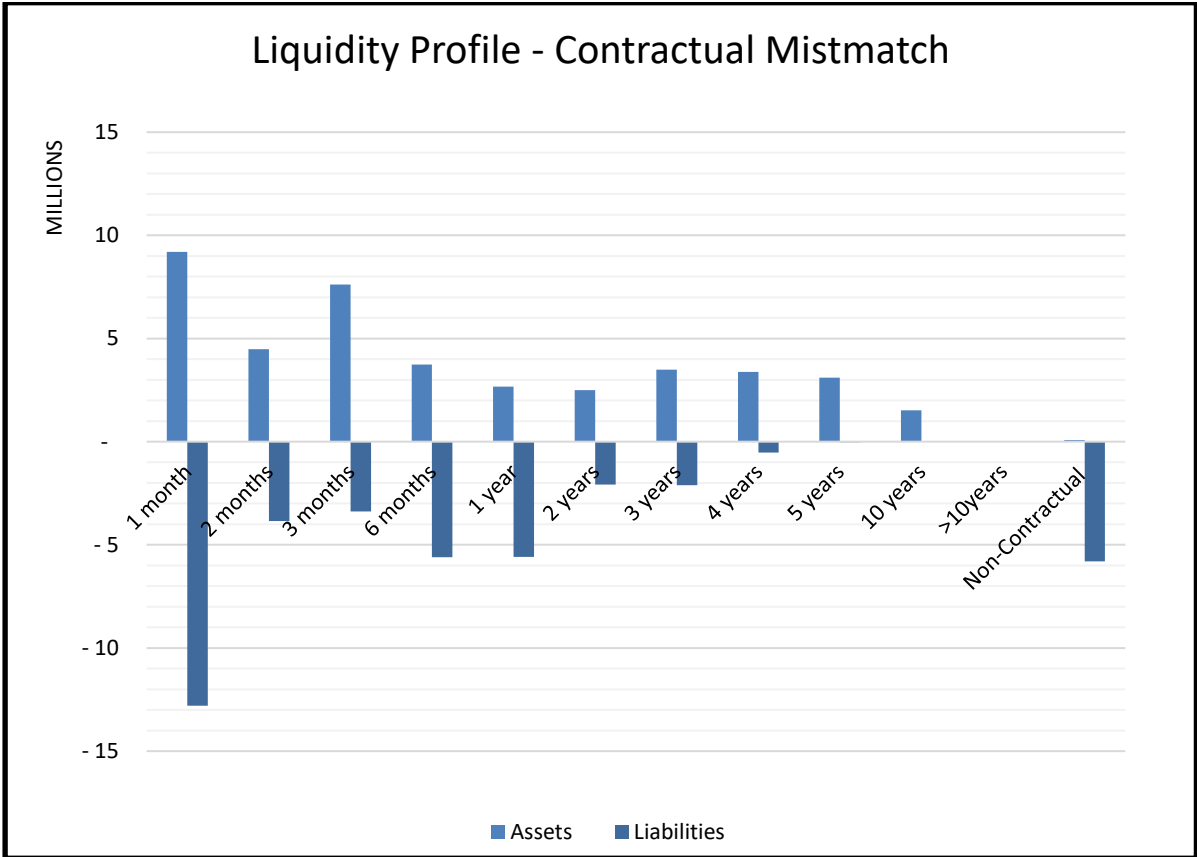
Despite the pandemic, the Branch's liquidity position remained resilient with sufficient HQLA and long-term stable funding. This is evidenced by the LCR and NSFR consistently exceeding the prudential limits throughout the financial year. As of 31 December 2021, the LCR was reported at 335% while NSFR was 210%.

Maintaining a strong liquidity position has been a priority given the adverse effects of the pandemic. The Branch has maintained sufficient levels of HQLA to address short-term funding needs, as indicated by the LCR consistently exceeding the prudential limits throughout the financial year. As of 31 December 2021 the LCR was reported at 335%, a 46% increase from prior year. The improvement in LCR is as a result of an increase in HQLA.

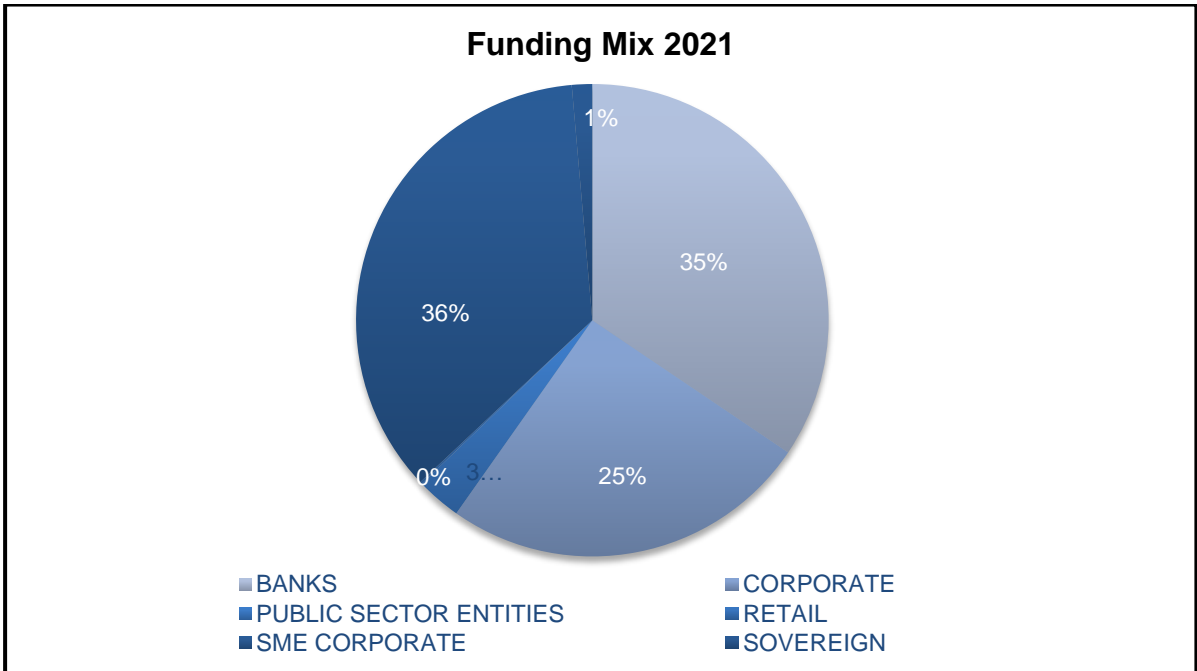
The Branch's NSFR, an indicator of the Branch's ability to attain stable funding, was reported at 210% at year-end. This represented a 16% increase from prior year, mostly attributed to an increase in available stable funding.

In 2021 the PA issued Directive 8 of 2021 to withdraw the temporary LCR relief measure, as markets have started to recover from the economic strain of the pandemic. The Branch is prudently managing its liquidity and will adjust its internal LCR appetite accordingly.

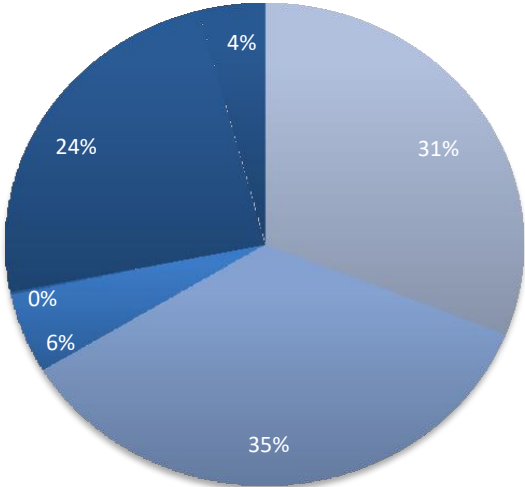




The funding mix has remained relatively stable from prior year, with a slight increase in corporate, sovereign and financial institution funding. Corporate funding (SME and Corporate) remained the major source of funding, with financial institutions also proving to be a significant contributor.



Funding Mix - 2020



- BANKS
- CORPORATE
- PUBLIC SECTOR ENTITIES
- RETAIL
- SME CORPORATE
- SOVEREIGN

8. INTEREST RATE RISK IN THE BANKING BOOK

Introduction and Overview

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

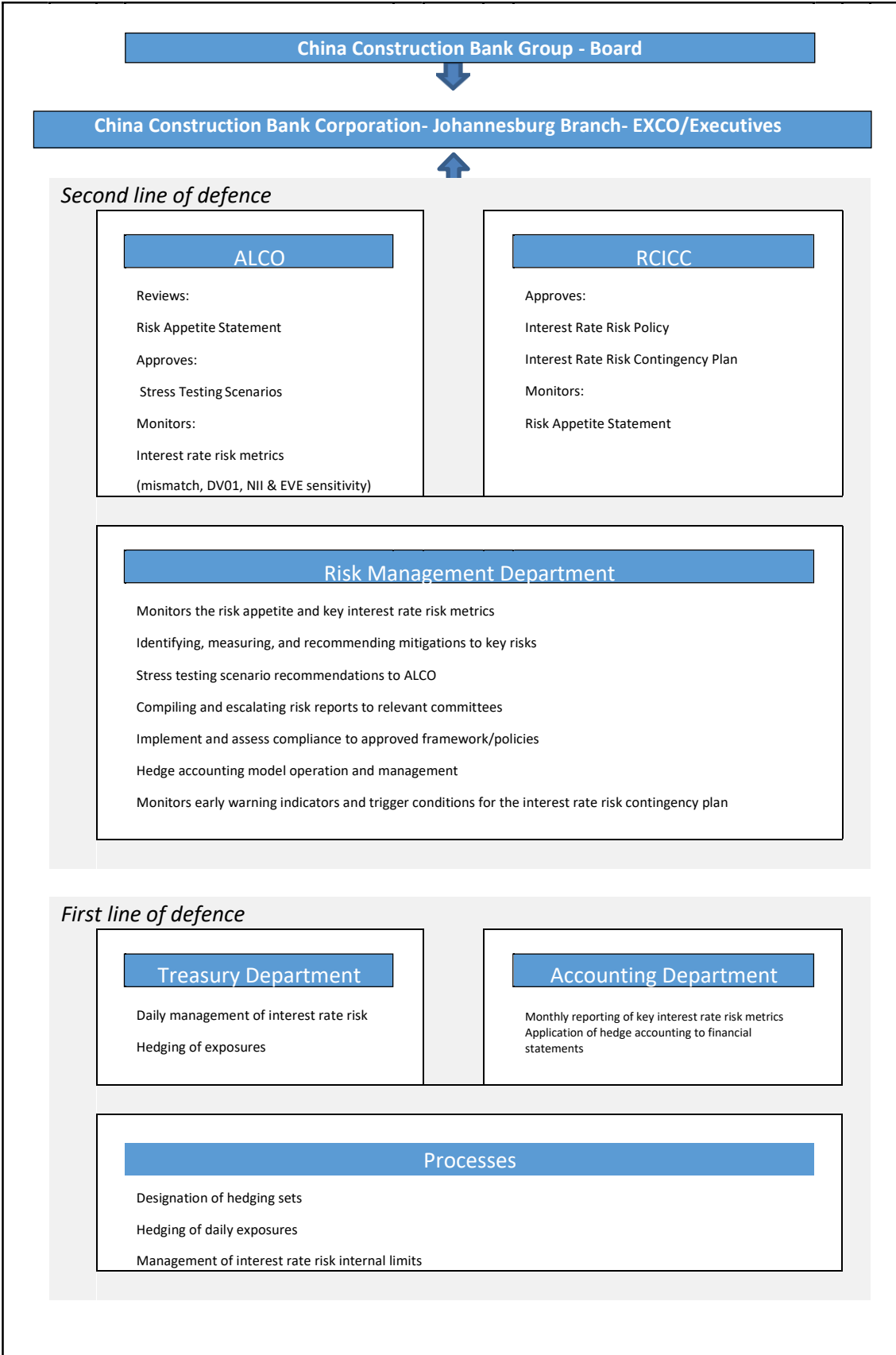
The Branch aims to maintain a balance sheet profile with natural interest rate risk offsets. In cases where there are no natural offsets, interest rate risk is hedged using appropriate derivatives which can affect CCB-JHB's income statement. In mitigation, the Branch has implemented fair-value hedge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

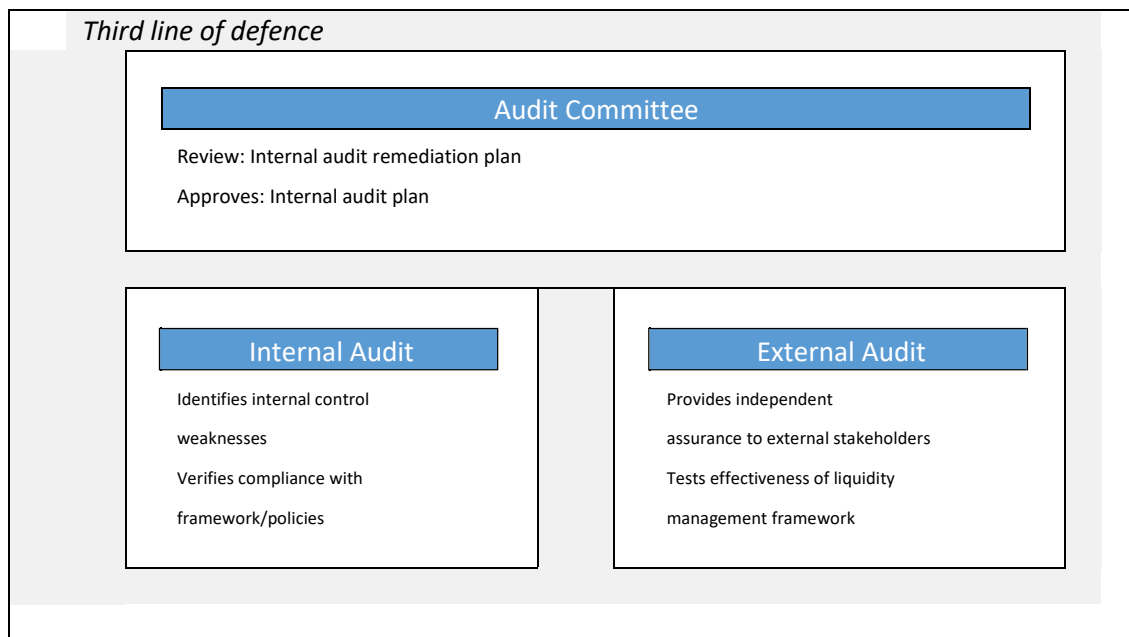
Market and regulatory reforms

- Interbank offer rate reform (IBOR)
 - The Branch has prepared for the replacement of benchmark interest rates (LIBOR) with alternate risk-free rates (such as the Secured Overnight Financing Rate (SOFR) for dollar or Sterling Overnight Index Average (SONIA) for the pound). Appropriate adjustments will be applied to the Branch's contracts which are directly impacted (of which tenor extends beyond change of reference rate) to ensure economic equivalence on transition.
- Revised Interest Rate Risk in the Banking Book (IRRBB) Framework
 - In compliance with the Basel Committee on Banking Supervision (BCBS) and PA revised IRRBB standards, CCB-JHB has prepared for the implementation of the revised IRRBB Framework; full implementation is expected from June 2022, there is no concern regarding CCB-JHB's capacity in meeting stipulated requirements.

Governance

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





Risk Management Process

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 are left unhedged up to an ALCO determined limit.

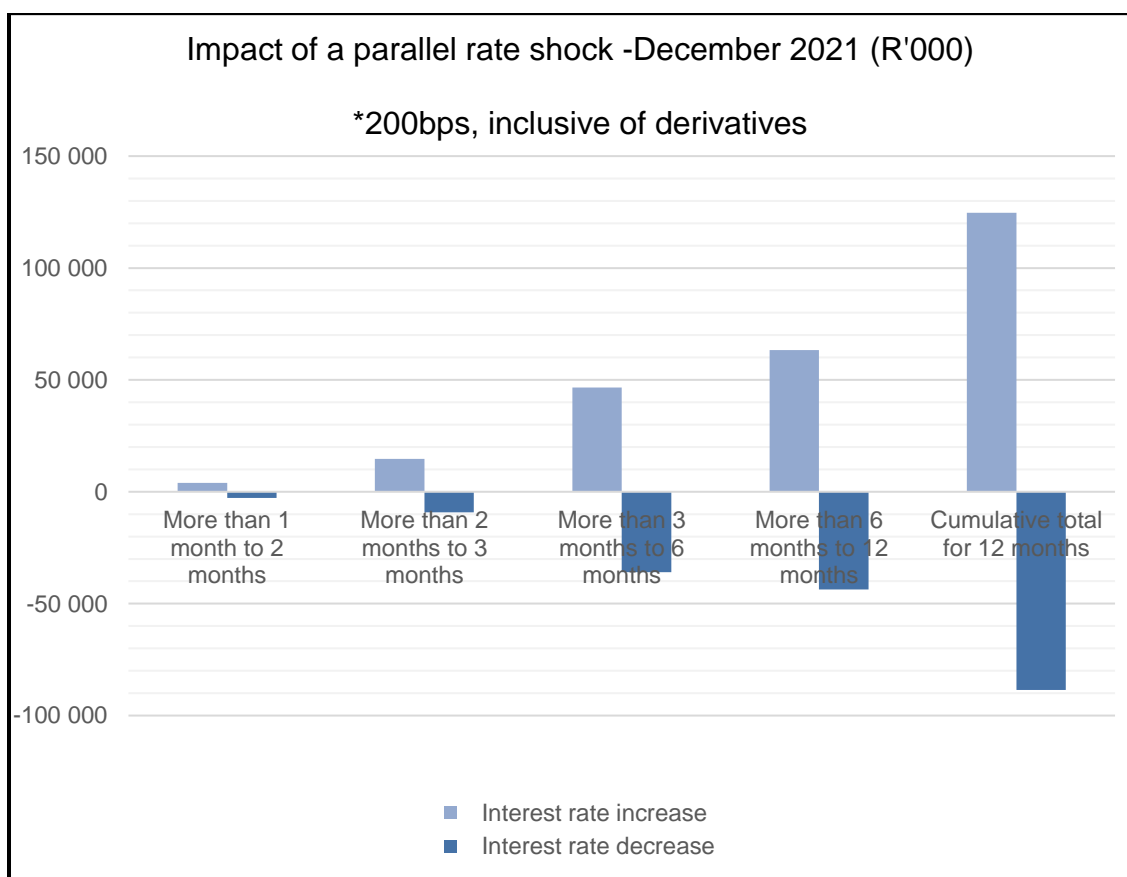
RMD monitors this risk through measures such as the net repricing mismatch, NII & EVE sensitivity, DV01, and stress testing. RMD also monitors the unhedged fixed deposit limit set by the ALCO daily. IRRBB is reported to ALCO monthly; the committee evaluates the strategy on an ongoing basis and takes appropriate steps to mitigate this risk.

Hedge effectiveness of the IRS portfolio is assessed on a monthly basis and reported to ALCO as part of hedge accounting procedures. The hedge relationship of the government bonds and interest rate swaps has proved to be highly effective in 2021.

Year in review

Due to the significant decrease in interest rates in response to the pandemic to support the economy, prepayments continued into early 2021. The Branch managed to replace these assets in order to mitigate prepayment risk. As monetary policy is starting to normalise, the Branch has seen a notable reduction in prepayments in H2 2021.

The NII and EVE sensitivity, under the current IRRBB framework (+200 bps across all currencies), remained well within the Branch's appetite and the hedging strategy remained highly effective.



With the Revised IRRBB framework, NII and EVE sensitivity will be run using the new six prescribes scenarios from mid-2022.

9. MARKET RISK

Introduction and Overview

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

As the Branch does not hold trading book exposures, the risk is limited to banking book exposures.

The Branch's exposure to market risk primarily stems from positions resulting from the facilitation of client flows in foreign exchange and money markets. This mainly consists of foreign exchange risk, as the Branch utilises ZAR funding to fund USD assets, limited in nature due to strict internal limits in respect of open foreign currencies positions.

CCB-JHB has no trading book exposure.

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

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 has no securitisation exposure.

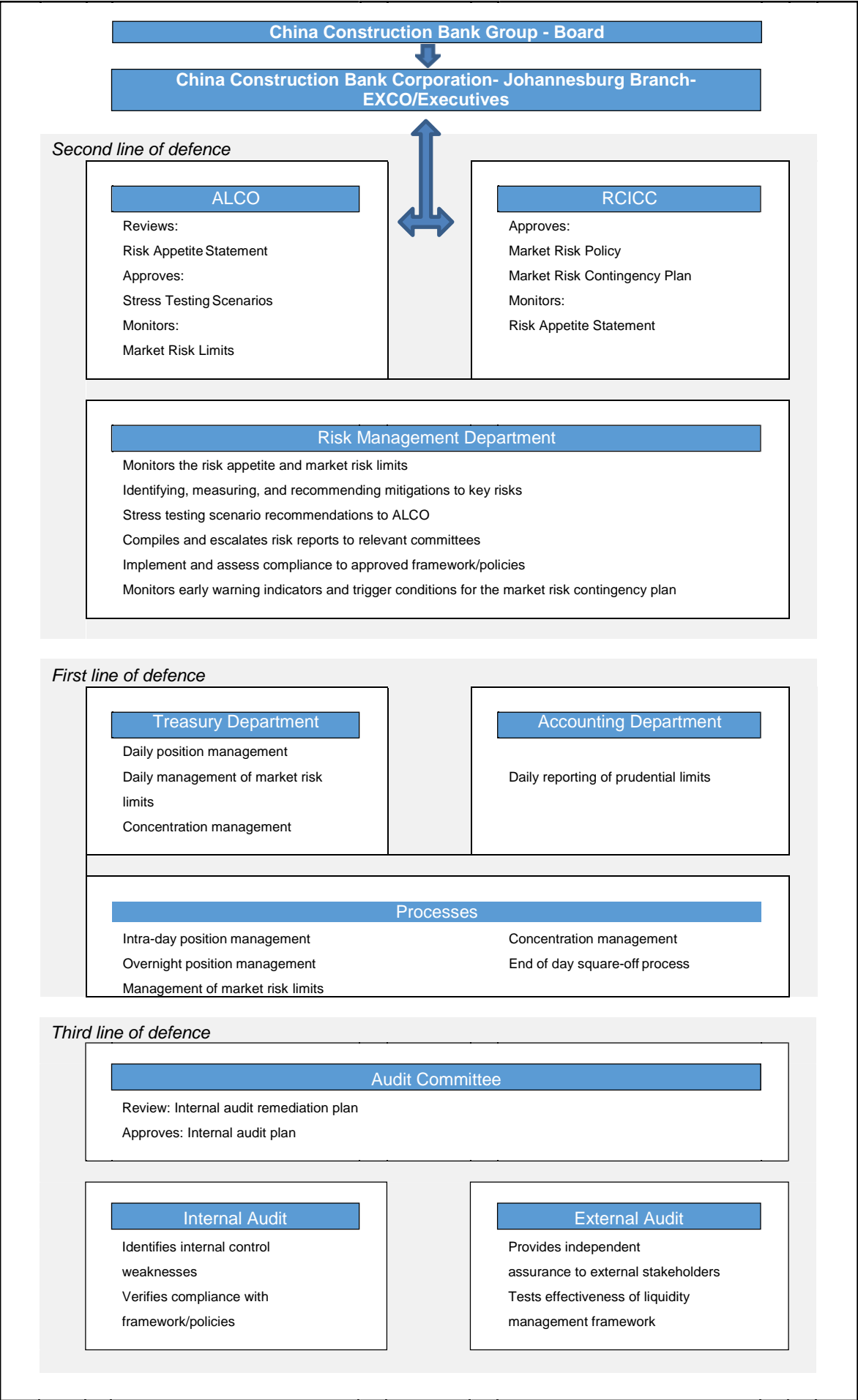
The market risk capital requirement is calculated using the Standardised Approach as per the regulations and is driven by the net open foreign currency position held by CCB-JHB. It is considered immaterial to the total regulatory capital requirements as the Branch has a restricted open position limit.

CCB-JHB is actively preparing for the implementation of the revised Market Risk Framework (encompassed within the FRTB framework) and established regulatory requirements as per the PA's FRTB roadmap for 2022 and 2023. Full implementation is expected from January 2024. The expected change of the regulatory capital requirement is assessed as low and CCB-JHB's capital supply is well suited to absorb the change in methodology.

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 to the ALCO and the RCICC on a monthly and quarterly basis respectively.



Risk Management Process

To manage this risk, all FX exposure is 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.

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.

Market risk limits are set according to guidelines set out in the risk appetite statement. Current market conditions, as well as stressed market conditions, are taken into account when setting and reviewing the limits. The Branch has a dedicated policy and contingency plan to ensure there is a formal process for recognition and authorisation for risk excesses incurred.

In mitigation of the risks emanating from the facilitation of client flows, exposures are hedged as part of the end-of-day procedures with the aim of squaring-off positions. Treasury is restricted to trading in limited major currencies, ensuring that the Branch only trades in highly liquid markets to mitigate market liquidity risk.

The hedging strategy is reviewed annually at the ALCO. FX risk mitigation strategy is deemed satisfactory and in line with CCB Group principles.

Year in review

The Branch's market risk exposure (Net Open Position) was well within the Branch's limits and risk appetite. The risk was well managed as there were no adverse events in the year under review and this is despite the current environment and home currency volatility, attributed to effective controls.

10. MODEL RISK

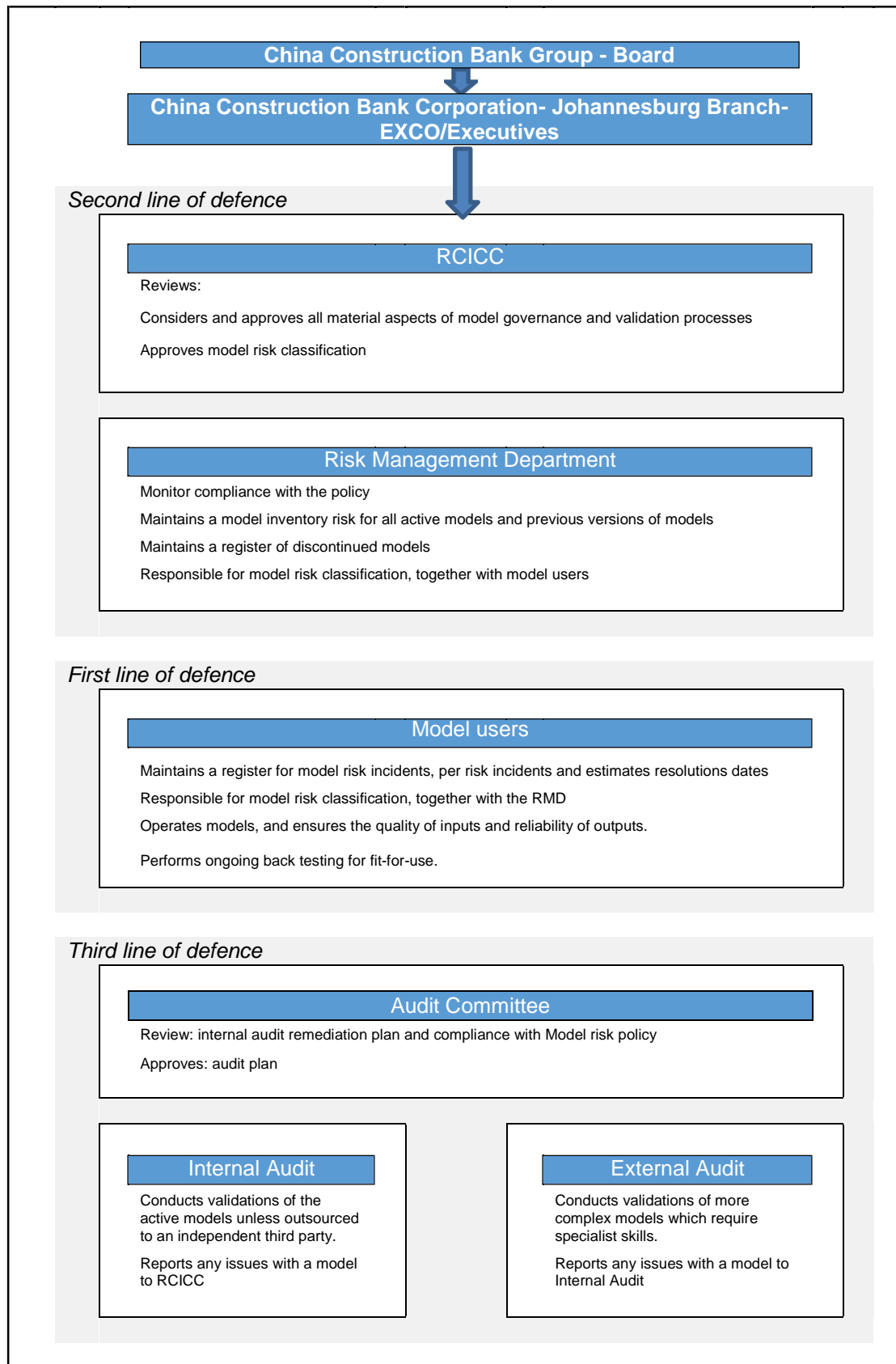
Introduction

A model is defined as a quantitative method or framework that uses statistical, economic, financial, mathematical, and other theoretical techniques and assumptions to transform input data into qualitative outputs.

Model Risk is defined as the potential loss an institution may incur, as a consequence of decisions that could be principally based on the output of internal models, due to errors in the development, implementation, or use of such models.

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.

Governance



Management of Model risk

Models are supported with comprehensive model documentation (including methodology, risk classification (low/medium/high), validation rules, and applicable validation team (internal or third party based)).

The validation process requires approval from the RCICC.

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. OPERATIONAL RISK

Introduction and Objectives

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

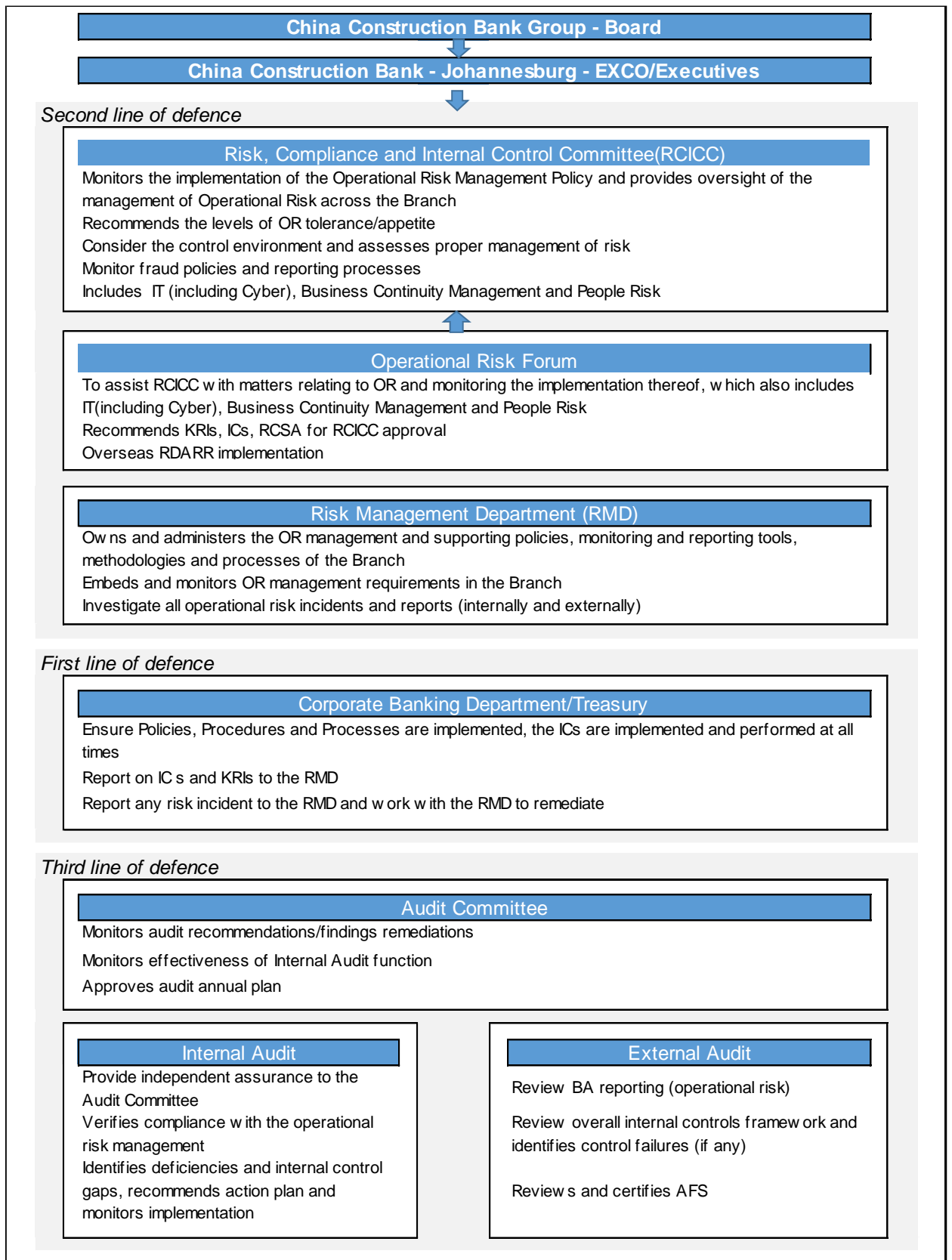
Operational Risk can cause financial loss, reputational loss, loss of competitive position, or regulatory sanctions. Such risk can be minimised by the implementation of adequate infrastructure, controls, systems, and appropriately trained and skilled staff. Operational risk is an inherent risk in the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

Structure and 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.

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



Measurement of Operational risk

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. As part of the Basel III Reforms, the Basel Committee has announced revisions to the calculations of capital requirements for operational risk, the most notable inclusion is a historic operational risk loss component.

A single standardised approach will replace all existing approaches for the calculation of regulatory capital from January 2023. 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, the increase is expected to be low and capital supply well suited to absorb the change of methodology.

Management of operational risk

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

Included in the policy are practices and processes which facilitate the ongoing identification, assessment, mitigation, monitoring, and reporting of operational risk. The Branch's operational risk profile is reported regularly to the relevant Committees and Forums responsible for the oversight of operational risk in the Branch. CCB-JHB will further assess and review its operational risk framework during 2022 to meet "Directive 9/2021: Directive on Principles for the sound management of Operational Risk – established international standards" requirements.

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.

Operational Risk Management Tools

- Risk Registers
- Key Risk Indicators
- Internal Controls
- Risk Control Self-Assessment
- Risk Incident Reporting

Risk Registers
Are a repository for all risks applicable to the Branch, it also contains additional information such as risk owners and mitigating measures

Key Risk Indicators
Are used across all departments to provide early warnings regarding increasing risks exposure

Internal Controls
Are measures used across all departments to reduce exposure to Operational Risk

Risk Control Self-Assessment
Is used in the evaluation of risk and the related internal controls

Risk Incident Reporting
Is used to assess and identify areas for enhancement in the control environment

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

	Business Continuity	Legal	Outsourcing
Management	<ul style="list-style-type: none"> Disaster Recovery and Business Continuity Plan Office premises and generator maintenance programs Annual review of insurance requirements Annual DR-site review Controls to address possible IT system failures 	<ul style="list-style-type: none"> Review of applicable laws affecting or that could affect CCB-JHB General Terms and Condition signed with clients Service agreement signed with all employees SLAs signed with all third parties Review of SLAs (in-house or external) 	<ul style="list-style-type: none"> Outsourcing arrangements involving material business activities and functions entered into are subject to appropriate due diligence, approval, and ongoing monitoring Material/Critical service providers identified and alternate service providers identified when possible Backups measures are established to reduce Third-Party Risk Enhanced procurement process depending on cost Legal review of SLAs above given threshold (in-house or external)
Policies and Committees	<ul style="list-style-type: none"> Business Continuity Management Policies (IT and PFM) Disaster Recovery and Business Continuity Plan RCICC BCM working group 	<ul style="list-style-type: none"> Legal contract review procedure RCICC REMCO 	<ul style="list-style-type: none"> Outsourcing Management Policy Procurement Policy EXCO RCICC Procurement Team meetings
	Information Technology	Fraud and theft	Human Resources
Management	<ul style="list-style-type: none"> COBIT as baseline guidance to improve maturity ratings IT Risk Register, dedicated internal controls and KRIs Enhanced reporting and monitoring to RCICC Protection of information systems against unauthorised access, modification or use Maintain availability and integrity of IT systems Internal and external assessments for systems vulnerabilities (cyber risk testing) 	<ul style="list-style-type: none"> Internal controls 4 or 6 eyes processes for all transactions Whistle Blowing process Screening of employees before hiring User access policy and register Immediate revocation of users' rights and access to building when resigning 	<ul style="list-style-type: none"> Key-man risk mitigation process Succession planning/stand-in roster Verification of qualifications, debt record, and certifications Training for all employees is encouraged (in-house or external training) Personal development plans Salary benchmark studies
Policies and Committees	<ul style="list-style-type: none"> Various IT policies (Data governance, cyber resilience, user data information Security etc., ...) RCICC IT Forum 	<ul style="list-style-type: none"> Fraud Risk & Whistle Blowing Policy RCICC 	<ul style="list-style-type: none"> Various HR policies (Leave, Remuneration, Disciplinary etc.,...) REMCO Workplace Forum

Operational risk events

While all effort is made to reduce operational risk it cannot be avoided or mitigated completely, the residual operational risk may result in the occurrence of operational risk events. Due to the appropriate levels of control monitoring, the Branch experienced low frequency and low severity of events. The immaterial losses were further minimized by proactive responses and further enhancement of the internal control environment where required. The investigation and reporting of such events is performed by the RMD and submitted to Executive Management and the PA monthly.

Year in review

During 2021 the Branch continued to promote the continued application of operational risk management tools, strengthened collection, analysis, and reporting of internal operational risk events, and conducted internal assessments of selected key areas. The Branch 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 also improved Business Continuity Management (BCM) practices which included enhanced contingency and disaster recovery planning as well as enhanced pandemic response mechanisms which improved the Branch's overall resilience and response capabilities to emergencies. CCB-JHB will further assess and review current operational resilience and align to operational resilience international standards during the course of 2022, as per "Directive 10/2021 - Directive on Operational resilience – established international standards" requirements.

In response to the COVID-19 Pandemic, the Branch implemented all applicable regulatory and medical guidance. As the health and safety of staff are paramount, remote working and rotations were implemented, where all staff members were provided the tools and capabilities to work from home. As part of the switch to remote working conditions, the Branch also enhanced Information Technology practices to ensure a safer working environment whether onsite or offsite while also safeguarding the quality of the customer experience. Additional information on operational risk levels can be found in CCB-JHB's quarterly disclosure for December 2021 . Remote working and staff rotation continued during 2021 with controlled gradual increase of staff working from the office.

12. REGULATORY AND CONDUCT RISK

Introduction and Objectives

Regulatory risk is the risk that financial institutions do not comply with applicable laws and regulations or supervisory requirements or the exclusion of provisions of relevant legislation from operational procedures.

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.

CCB-JHB operates in a highly regulated sector. With the introduction of the Twin Peaks Model of regulation under the Financial Sector Regulation Act, the bank has to ensure compliance with both Prudential and Conduct Standards.

The lead regulators of the bank are the South African Reserve Bank (SARB), including the Prudential Authority, the Financial Intelligence Centre (FIC) and Financial Sector Conduct Authority (FSCA). CCB-JHB deals with its regulators openly and cooperatively in a transparent and informed communication process.

Compliance Risk is the risk of loss of income, reputation, penalties, fines, civil claims, and/or loss of authorisation by the regulators, which would jeopardise the business of CCB-JHB.

CCB-JHB has committed to an integrity-based performance model that protects and enhances its corporate value and reputation. CCB-JHB recognises the essential role that compliance with applicable legal, regulatory, and supervisory requirements plays in the governance and sustainability of its business.

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.

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

- having adequate resources available to ensure proper compliance monitoring;
- function adequately, independently, or objectively;
- ensure that no conflict of interest exists with other internal control departments;
- report issues of non-compliance to the EXCO and the RCICC in a timely manner;
- have direct access to the General Manager; and
- liaise directly with the regulator.

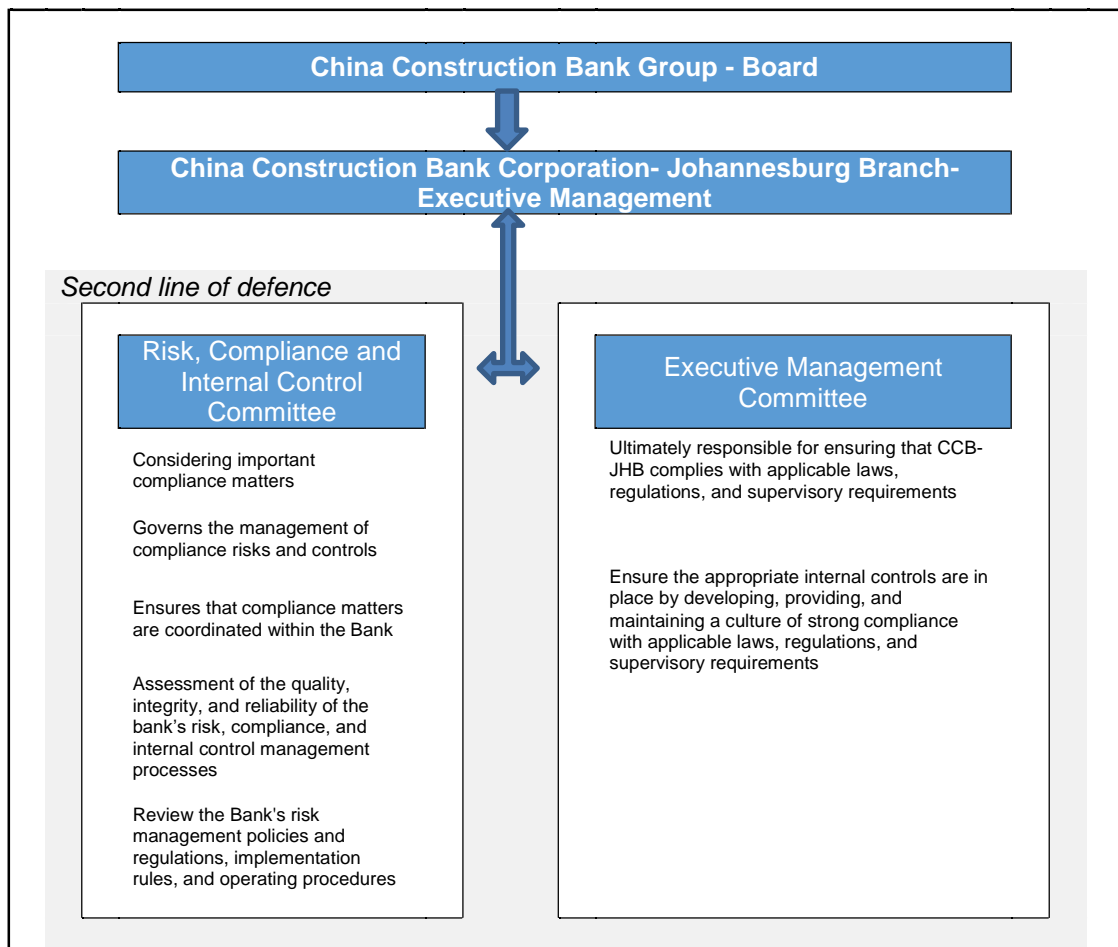
CCB-JHB aims at minimising the risk of financial loss, or loss to reputation, the Bank may suffer as a result of its failure to comply with compliance rules and standards. CCB-JHB subscribes to a culture of responsible business conduct, fair treatment of customers, and avoidance of conflicts of interest. As a Branch of an international banking group, CCB-JHB strives to maintain the highest ethical standards in carrying out its business activities. CCB-JHB, therefore, commits to conduct its business in accordance with the letter and spirit of applicable legal and regulatory requirements in South Africa and internationally.

CCB-JHB endeavours to act honestly and fairly, with due skill, care, diligence, and in the interests of all clients in all business activities and operations as well as to uphold the integrity of the financial markets and act fairly in a situation of conflicting interests.

Structure and Governance

Executive management is ultimately responsible for creating an ethical environment from the top down wherein the business of the Branch is to be conducted with the Compliance and Risk Management departments acting as second lines of defence.

The Compliance Department is independent of the business activities of the Bank and is managed by the Chief Compliance Officer (CCO) and has a direct reporting line to the General Manager.



Compliance Department

Facilitate the development, approval, and maintenance of the CCB-JHB's Compliance manual, charter, and policy

Secure the commitment of the Executive Management for the application of these standards and ensure consistency of approach and practice throughout CCB-JHB in compliance with compliance standards

Ensure that an effective compliance presence exists in all parts of CCB-JHB such that any incident of non-compliance can be identified in a timely manner

Provide a central point of reference and expertise to compliance-related matters and in particular advise on CCB-JHB's policy and strategic decisions which might have compliance implications

Ensure the monitoring of regulatory and reputational risk in line with CCB as well as industry standards and norms

Ensure effective co-operation and interaction with all the role players within the compliance process

Submit detailed and summarised reports on areas covered, findings, and appropriate recommendations for improvement to its respective clients and executive management. Continue to build relationships with and to assist the regulators by being the point of contact between CCB-JHB and the regulators on compliance issues

Internal Audit

The Internal Audit function of CCB assumes the supervisory responsibility for compliance;

Supervise the performance of the management responsibility of Compliance Department;

Regularly assess the effectiveness of compliance management;

Give feedback to Compliance Department in a timely manner.

Risk Management Department

Day-to-day management of all risks to ensure compliance with the Bank's strategy and appetite

Organise and implement the roles and responsibilities of employees in terms of Risk Management and assume responsibility for quality and efficiency thereof

Risk Management personnel are responsible for implementing specific work on risk management within their scope of duties

First line of defence

Front Line and support departments

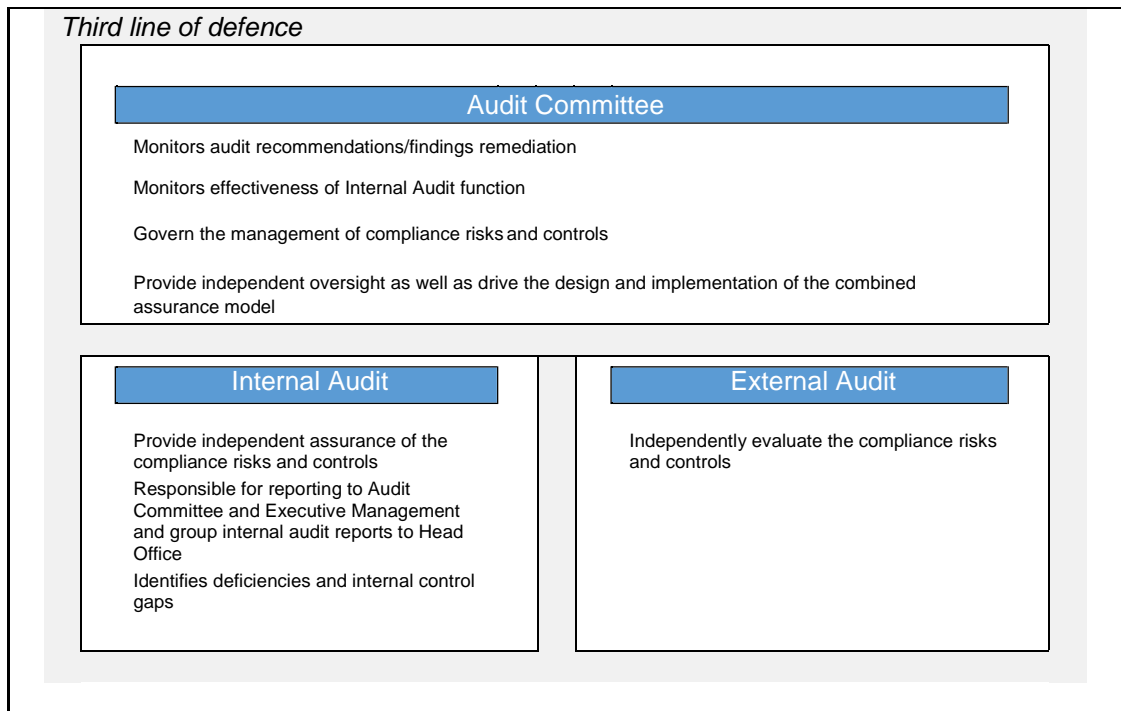
Understand their compliance roles and responsibilities

Create and apply internal controls

Respond to risks that their work and interactions may present

Keep the compliance function informed of any regulatory inspections and/or correspondence received so that the appropriate focus is afforded to the matter concerned

It is the responsibility of all employees to comply with the statutory, regulatory, and supervisory requirements. These responsibilities are reflected in job descriptions and key performance areas.



Management of regulatory and conduct risk

The methodology employed by the Compliance Department is in line with the Generally Accepted Compliance Practice (GACP) framework as provided by the Compliance Institute of Southern Africa. The Compliance Department has a set of compliance tools and systems in place which aid the function to assess compliance risks and to enable the bank to be aware of the status of compliance with legislative requirements.

Compliance risk monitoring is performed to determine the level of compliance within the Bank, the implementation of dedicated controls, and adherence by the business. Monitoring aims to provide Executive Management and relevant committees with the ongoing assurance that business processes are being conducted within the prescripts of the law and to highlight any deficiencies that may result in financial or reputational damage.

The establishment of the Compliance function originates in Section 60A and Regulation 49 of the Banks Act 94 of 1990, and Section 42A (2) of the Financial Intelligence Centre Act 38 of 2001. The principles, standards, and guidelines recommended by the Compliance Institute of South Africa are also applied wherever appropriate to ensure adherence to both regulatory and supervisory requirements. CCB-JHB takes cognizance of compliance best practice guidelines and standards as outlined by the King IV Code on Corporate Governance and certain industry codes and standards as well as compliance requirements as per applicable South African and International legislation and CCB policies on a global standard.

CCB-JHB is committed to maintaining high standards of integrity, professionalism, and ethical behaviour in all its relationships.

The Banks Act 94 of 1990 is the legislation of utmost impact to CCB-JHB and as part of ensuring compliance with it the compliance function is responsible for notifying the SARB timeously when

it becomes aware of any reportable offenses, including:

- breach of fiduciary duty;
- market abuse or financial fraud within CCB-JHB;
- any act that has or could damage the reputation of CCB-JHB;
- any act that has or could result in CCB-JHB contravening any ethical code; and
- any money laundering activity CCB-JHB was involved in and which was not identified promptly or reported.

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 and Countering the Financing of Terrorism and Countering Proliferation Financing Risk Management and Compliance Programme”.

Additional significant areas of compliance risk include conflicts of interest (COI) and market abuse for which the “Conduct Risk Framework” has been implemented.

The “Conduct Risk Framework” sets out internal controls for the management of conduct risk to ensure that CCB-JHB conducts its business in a manner that prioritises the fair treatment of financial customers as well as legislated market conduct which deals with the management of market abuse through legal guidelines on market manipulation, insider trading and market rumours.

Group business practices are also implemented within CCB-JHB ensuring that employees act in the best interests of the Bank and clients at all times; these include confidentiality controls, procedures, and controls for authorised representatives of the Bank, mechanisms for information barriers for sensitive information, and disclosure mechanisms. Employees suspected of market abuse are also subject to CCB-JHB’s internal disciplinary investigations over and above any possible criminal or civil implications.

Employees are to adhere to the “CCB-JHB Code of Conduct” and “Ethics Policy”. All communications via e-mails or phone conversations are recorded, access to social media communication and access to systems is controlled by both IT and the Security Officer.

Year in review

During 2021 the Branch continued to implement the risk-based monitoring plan to improve the monitoring of compliance risk.

All staff members at all levels of the Branch were provided with training according to the approved training plan to continually improve knowledge, skill, and compliance culture within the Branch.

The Branch continued to improve its internal policies and procedures to ensure continued compliance with all regulatory requirements, several new processes were implemented and created in line with the protection of personal information, new banking conduct standards and over the counter derivative provider standards, disclosure requirement changes as well as regular updates and improvements of its anti-money laundering and terrorist financing policies and procedures.

The Branch underwent internal and external reviews of its anti-money laundering and terrorist financing processes and systems which provided satisfactory results. The Branch also implemented several system enhancements to ensure more efficient internal control in terms of monitoring and screening of transactions.

The Branch continued to implement all necessary COVID-19 pandemic regulatory responses to ensure a smooth transition under all prudential, conduct, and employee relation regulations.

During the year, no areas of material non-compliance were identified.

13. OTHER RISKS

13.1. BUSINESS AND STRATEGIC RISK

CCB-JHB defines Business and Strategic risk as any risk to the Branch arising from changes in its business, including the risk that the Branch may not be able to carry out its desired business plan and strategy.

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, depositors' concentration 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

Reputational Risk is the possibility that negative publicity regarding a bank's practices, relations, and/or conduct may result in a loss of trust in its quality of service, integrity, and/or financial stability which may cause substantive and/or valuation losses that could potentially undermine its existence.

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 a code of conduct, Ethics 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.

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

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

The three central factors of ESG are:

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

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

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

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

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

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).

The financial service industry has changed and the demand for sustainable financial products is increasing. This demand can be seen from;

- investor level / parent company;
- client level;
- counterparty level;
- third-party service providers;
- public organisation; and
- regulators.

A responsible approach to epidemics/pandemics involves maintaining the interests of the Bank, its employees, and the community in which the Bank operates. It is the Bank's objective to protect its employees and to take measures to assist in curbing the spread of epidemics/pandemics. During 2021, few COVID-19 cases occurred within CCB-JHB', however the spread of the virus was contained. All affected staff have recovered.

Management of ESG risk

CCB-JHB has developed and issued an ESG Framework at the end of 2021 to address all aspects of ESG. This framework lays out CCB-JHB's overall principles and guidelines for managing, enhancing and improving ESG within the Branch. The Branch has also established an ESG forum assuming responsibility for the implementation of the Green strategy of the Branch.

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.

Management of pandemic risk

CCB-JHB has established in 2020 a standard of conduct for all employees, and guides unacceptable conduct concerning policies and procedures on infectious diseases or epidemics or pandemics. It sets out the Bank's approach to health and safety within the workplace in relation to the outbreak and containment of epidemics/pandemics.

CCB-JHB's business continuity plan for infectious diseases focuses on:

- Execution authority; and
- Measures to mitigate the risk of transmission based on the level of restrictions imposed by the National Command Council (essential service and staff; remote working; hygiene rules; personal protective equipment (PPE); social distancing rules; access to CCB-JHB building; quarantine rules; travel policy and staff awareness and training).

The Bank commits to the following principles:

- all employees must be offered appropriate awareness education programs and support;
- prevent the spread of infections and assist employees to reduce their exposure to and prevent contraction of the epidemic/pandemic;
- provide up-to-date health information, including symptoms and methods to limit exposure;
- encourage and assist employees who have reason to believe they have contracted or have been in contact with an infected person, to obtain a diagnosis from a medical practitioner;
- provide standard precautions such as PPE;
- confidentiality of medical information;
- operate as efficiently as possible throughout the national state of disaster period whilst encouraging employees to remain positive and productive whilst working remotely if required and instructed to do so;
- minimise the number of workers at the workplace through rotation, staggered working hours, shift systems, remote working arrangements, or similar measures to achieve social distancing at the workplace;
- take measures to minimise contact between workers as well as between workers and members of the public; and
- no employee shall be treated unfairly in respect of any employment policy or practice. Employees shall be protected against discrimination and victimisation.

Being infected with a disease related to an epidemic or pandemic will not constitute a reason to preclude any person from employment or advancement in employment or participation in any benefits.

14. REMUNERATION

14.1. CHINA CONSTRUCTION BANK CORPORATION (CCB) GROUP

The Bank 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.

According to relevant government policies regarding remuneration reform of state-owned enterprise leaders, annual remunerations for the Bank's leaders administered by the Central Committee of the Communist Party of China (CCP) include three parts, namely the basic annual salary, performance-based annual salary, and tenure incentive income. If a material error arises during a leader's tenure and causes a significant loss for the Bank, part or the entirety of the paid-out performance-based annual salary and tenure incentive income may be reclaimed.

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

The Bank makes full use of remuneration allocation to motivate and retain its employees. The Bank establishes the principle of assessment and assignment that encourages value creation, allocates the salary resources to operation institutions, front office departments, positions that can directly create value, further optimises the incentive and guarantee policies for mainland China branch staff, establishes a special subsidy system for staff in branches situated in remote countries under tough conditions, to enhance the support of staff.

The Bank strengthens the role of performance assessment as an incentive to improve the cost-efficiency of its human resources and match remuneration to performance. The Bank improves rules and requirements related to deferred payment and claw-back of performance-based remuneration for key positions. For employees who face disciplinary sanctions or other penalties due to violations of rules or breach of duties, their remunerations are deducted following relevant rules and measures.

The Bank has established clear standards in relation to the remuneration policy for directors, supervisors, and senior management. For enterprise leaders which are administered by central authorities the remuneration policy is set out to ensure that it complies with the relevant measures enacted for the remuneration of central financial enterprise leaders.

The Bank's remuneration policy for other directors, supervisors, and senior management is based on the principle of combining incentives and disciplines, short-term incentives, long-term incentives, governmental regulations, and market adjustment and has defined a structured remuneration system comprising a basic annual salary, performance-based annual salary and welfare income such as People's Republic of China (PRC) social security benefits.

The Bank participates in the relevant PRC mandatory retirement schemes for its directors, supervisors, senior management, and other employees. Other than reviewing and settling the tenure incentive remuneration to enterprise leaders administered by central authorities in accordance with national regulations the Bank does not implement mid-term and long-term incentive plans for other directors, supervisors, and senior management.

The primary responsibilities of the nomination and remuneration committee of the Group include:

1. formulating criteria and procedures for the selection and appointment of directors and senior management;
2. proposing candidates for directors, president, chief audit officer, secretary to the Board and members of special committees under the Board to the Board;
3. reviewing the structure, number of members, and composition of the Board (including aspects on expertise, knowledge, and experience) and proposing suggestions on the adjustment of the Board to implement the corporate strategies of the Bank;
4. assessing the performance of members of the Board;
5. reviewing candidates for senior management nominated by the president;
6. formulating development plans for senior management and backup personnel for key positions;
7. reviewing the remuneration management system submitted by the president;
8. formulating performance evaluation measures for directors and senior management and submitting the measures to the Board for deliberation;
9. organising performance assessment for directors and senior management; proposing advice on the remuneration distribution plan for directors and senior management in

- accordance with the performance assessment results and the board of supervisors' performance evaluations, and submitting the plan to the Board for deliberation;
10. proposing advice on the remuneration distribution plan for supervisors in accordance with the performance assessment of the supervisors by the board of supervisors and submitting the plan to the Board for deliberation;
 11. monitoring the implementation of the Bank's performance assessment and remuneration systems; and
 12. Other duties and powers authorised by the Board.

The nomination and remuneration committee of the Group attached great importance to the development and training for key talents for back-up and the promotion of CCB Learning Centre and paid attention to matters such as employee remuneration. It also put forward opinions and suggestions on continuously improving the quality and efficiency of operations of the Board, pushing forward the diversity of the members of the Board, improving the performance assessment plans for the executive directors and senior management, improving the remuneration incentive system and enhancing talent development and training.

14.2. REMUNERATION POLICY – CCB-JHB

As a Branch of an international bank in South Africa and due to the size and complexity of its business operations, CCB-JHB's governance on a local level is driven by a delegation of authority from CCB Head Office to the General Manager of the Branch who further delegates such authority to the EXCO. The EXCO is established and run in compliance with local and international Corporate Governance principles.

CCB-JHB considers staff whose professional activities have a material impact on its risk profile and who are responsible and accountable for the activities of the independent Risk, Compliance, and Internal Audit functions as material risk takers and senior managers under its corporate structure as a foreign Branch. This interpretation includes EXCO members and Heads of Department. CCB-JHB's incentive scheme is linked directly to an employee's performance review and the incentive value calculation is based on CCB-JHB's performance.

CCB Head Office acts as a nomination committee and formulates criteria and procedures to select and appoint Executive Management of overseas branches. Candidates are recommended by the president of CCB Group. The president of CCB Group is also responsible for evaluating overseas branches Executive Management candidates.

CCB-JHB's local 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 and the policy sets out the measures to be followed to ensure that the organisation recruits, selects, and places competent and suitably skilled candidates who will contribute to achieving CCB-JHB's strategic and operational requirements and meet the fit and proper requirements of honesty, integrity, and competency.

CCB Head Office formulates performance evaluation measures, performance assessments and advises on the remuneration plan based on the performance assessment results of overseas branches Executive Management.

CCB-JHB Executive Management undergo a Comprehensive Evaluation by the CCB Head Office annually as per the requirements of CCB Group.

The Executive Management performance assessment process is initiated by CCB Head Office and the indicators are divided into four categories, namely ethics, performance, competence and work style.

These are further subdivided as per the table 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

The implementation of the comprehensive evaluation is organized by the Human Resources Department of CCB Head Office under the leadership of the CPC Committee at CCB Head Office.

Locally, REMCO oversees the remuneration of CCB-JHB employees. The committee consists of the Executive Management and the General Administration and Human Resources Department. The mandate of REMCO enables it to develop remuneration policies and procedures and determine remuneration practices in terms of employee salaries and benefits as well as annual salary reviews.

The REMCO oversees the remuneration processes and considers and approves remuneration-related issues and proposals. The REMCO determines and develops CCB-JHB's remuneration policy and ensures that the remuneration policy is aligned with, and promotes the achievement of the strategic objectives of CCB-JHB.

The remuneration policy ensures that principles such as transparency, confidentiality, fairness, market standards, and flexibility are adhered to and that the REMCO makes use of performance measures that support positive outcomes.

CCB Group's remuneration policy is applied for Executive Management remuneration and is based on the principles of combining incentives and disciplines, short-term incentives and long-term incentives, and governmental regulations and market adjustment, and has defined a structured remuneration system comprising basic annual salary, performance annual salary and welfare income such as PRC social security benefits.

CCB-JHB also participates in the retirement, medical schemes and life insurance for its local employees, for expatriates, only medical schemes.

The REMCO is also tasked with overseeing employee benefit structures, promotions, recruitment of critical positions, succession development, dismissals, performance management, and determining discretionary bonus allocations. The REMCO performs its obligations with due regard to the principles of governance and code of best practice.

The remuneration policy has been developed to ensure that all CCB-JHB employees are remunerated fairly and are treated consistently. The objectives of the policy include rewarding employees for reaching and achieving targets set by the Bank, promoting high levels of performance, allowing the Bank to compete effectively in the labour market, and recruiting and retaining high calibre employees while achieving fairness and equity in setting remuneration and rewards.

The remuneration policy is reviewed annually and at the last review had no material changes which impacted remuneration. The Bank's remuneration policy further seeks to link performance with levels of remuneration with performance metrics which include quarterly performance reviews and annual performance appraisals, alignment of job descriptions to key process areas, and key process indicators which are reviewed when evaluating scores allocated to managers and employees.

The performance management policy sets out the requirement for regular performance appraisals for all employees along with the criteria, indicators, and weights used to measure performance. Each department receives a separate Key Performance Indicator (KPI) from EXCO and different criteria are used for Front, Middle, and Back offices. The departmental KPI results are used as quantitative criteria for the Deputy Head of departments and above, the assessment of which then converts CCB Group Head Office budget into measurable criteria on how, when, and where the strategies, objectives, and normal business processes will be implemented. Responsibilities are allocated to each department, including compliance and risk, and indicate what objectives are set for the year

All KPIs are reviewed annually and take into account current and future risks on which both individual and departmental performance can be measured. Each individual's performance appraisal is recorded on a separate form documenting the score of their performance, the score of their performance by each of their managers of different management levels, and finally, the score reviewed by REMCO. Performance is rated under A, B, C, and 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. REMCO determines which departments qualify for an A symbol allocation based on the department's comprehensive performance and will use this in the incentive allocation. Separate and different criteria are used for the assessment and are divided into two areas, namely Quantity and Quality. The Quantitative criteria are based on departmental KPI results achieved, individual KPI results achieved, and must-to-do list achievements. The Qualitative criteria are based on leadership, coordination, time management,

cooperation, and a strong work ethic.

Scores and ratings are gathered, combined and a schedule is performed for REMCO where the principle is determined. This varies from year to year based on the approved bonus allocation provided by Head Office in accordance with the Bank's budget.

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.

CCB-JHB does not provide for deferred and retained remuneration in its current remuneration policy and procedures. The REMCO has commissioned Remchannel Salary Survey as external consultant in comparing market-related data to the current remuneration of employees.

The Compliance Department is an independent function that reports directly to the General Manager of the Branch. The General Manager is appointed by CCB Head Office through a Delegation of Authority to lead, control and monitor the business of the CCB-JHB and to provide effective corporate governance. The General Manager delegates the authority to the CCO to ensure the compliance process is effective and the statutory, regulatory, and supervisory requirements are adhered to. The CCO reports to the General Manager, EXCO, and RCICC; he/she is a voting member of EXCO.

RMD is an independent function responsible for the overall risk management and coordination within the Bank as well as independent oversight of the Bank's risks on behalf of CCB Group Head Office. The General Manager of CCB-JHB is appointed to lead, control, and monitor CCB-JHB business and to provide effective risk management. The General Manager delegates the authority to the CRO to ensure the risk management process is effective and statutory, regulatory, and supervisory requirements are adhered to. The CRO reports to the General Manager, EXCO, and RCICC; he/she is a voting member of EXCO.

The remuneration incentive assessments for Compliance and Risk employees are based on very specific separate criteria independent of the businesses they oversee. Both local and Head Office KPIs are based on Compliance and Risk management criteria and not related to business or asset profits.

REM1: REMUNERATION AWARDED DURING THE FINANCIAL YEAR

	Remuneration amount		A	b
			Senior Management	Other material risk-takers
1	Fixed remuneration	Number of employees	17	
2		Total fixed remuneration (3 + 5 + 7)	47 047 857,81	
3		Of which: cash-based	47 047 857,81	
4		Of which: deferred		
5		Of which: shares or other share-linked instruments		
6		Of which: deferred		
7		Of which: other forms		
8		Of which: deferred		
9	Variable Remuneration	Number of employees	17	
10		Total variable remuneration (11 + 13 + 15)	25 003 815,43	
11		Of which: cash-based	25 003 815,43	
12		Of which: deferred		
13		Of which: shares or other share-linked instruments		
14		Of which: deferred		
15		Of which: other forms		
16		Of which: deferred		
17	Total remuneration (2 + 10)		72 051 673,24	

CCB-JHB does not provide for deferred and retained remuneration in its current remuneration policy and procedures and as such did not have any deferred and retained remuneration for the financial year of 2021. REM 2 and REM3 are thus not disclosed.

15. INDEX OF PILLAR 3 DISCLOSURE TEMPLATE

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LIA Explanation of differences between accounting and regulatory exposure amounts	✓		22
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OV1 Overview of RWA	✓		31 Part of quarterly disclosure
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CRA Qualitative information about credit risk	✓		35
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CRB Exposure by geographical, industry and residual maturity	✓		40-41
CRB Impaired exposures by geographical and industry	✓		40-41
CRB Age analysis	✓		41
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CRC Credit risk mitigation	✓		42
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CRE AIRB approach qualitative disclosure	✗		No use of AIRB
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MRB IMA qualitative disclosure	✗		No use of IMA
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REM1: Remuneration awarded during the financial year	✓		93
REM2 Special payments	✗		No special payments
REM3 Deferred remuneration	✗		No deferred remuneration

16. ABBREVIATIONS

AC	Audit Committee
ALCO	Assets and Liabilities Committee
ALM	Assets and Liabilities Management
AML/CFT	Anti-Money Laundering and Combatting the Finance of Terrorism
BaU	Business as Usual
BCBS	Basel Committee on Banking Supervision
BIA	Basic Indicator Approach
CAR	Capital Adequacy Ratio
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
CEM	Current Exposure Method
CET1	Common Equity Tier 1
CRM	Credit Risk Mitigation
CRO	Chief Risk Officer
CSA	Credit Support Annexure
CVA	Credit Value Adjustment
DF	Deal Forum
EAD	Exposure At Default
ECAI	External Credit Assessment Institution
ECL	Expected Credit Loss
EVE	Economic Value of Equity
EXCO	Executive Management Committee
FIC Act	Financial Intelligence Centre Act
FX	Foreign Exchange
HQLA	High-Quality Liquid Asset
IBOR	Interbank Offered Rate
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
IRRBB	Interest Rate Risk in the Banking Book

IRS	Interest Rate Swaps
ISDA	International Swaps and Derivatives Association
ITF	Information & Technology Forum
LAR	Liquid Asset Requirement
LCR	Liquidity Coverage Ratio
LGD	Loss Given Default
LIBOR	London Interbank Offered Rate
LRP	Liquidity Recovery Plan
MOF	Management Operations Forum
NII	Net Interest Income
NPA	Non-Performing Asset
NPL	Non-Performing Loan
NSFR	Net Stable Funding Ratio
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
RMD	Risk Management Department
RMF	Risk Management Framework
RP	Recovery Plan
RRF	Regulatory Reform Forum
ROE	Return On Equity
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
SMEs	Small and Medium Enterprises