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# Disclosure Report

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

*December 2022*

”New Start

New Development

New Finance”

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# 1. OVERVIEW

## 1.1. Introduction

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

China Construction Bank Corporation, Johannesburg Branch (hereafter referred to as CCB-JHB, the Bank or the Branch) is a 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.

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

The key elements of the policy are:

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

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

Various policies, charters and committee terms of references have been implemented to ensure that there is governance on stakeholder relationships.

## **1.2. Financial position**

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

- Total assets R 43 584 844;
- Total liabilities R 37 296 890; and
- Total equity R 6 287 954.

## **1.3. Financial performance**

As of 31 December 2022, the Branch reported a net profit after tax of R 367 026 and operating income excluding impairments of R 704 817. The operating profit decreased year-on-year as a result of diminishing average interest-bearing assets, however, this was compensated by the write-back of expected credit losses as a result of the annual parameter update of the impairment model and the discontinuation of the use of management overlays.

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

*Reporting period refers to 2022 (January to December). Financial and risk management information is provide as at December 2022, unless stated otherwise.*

## 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 Concentration risk		Settlement Risk	Operational Risk	Liquidity Risk Strategic Risk Reputational Risk Model Risk Climate Risk Regulatory and Conduct Risk
	Fixed Deposit						
	Floating Rate Fixed Deposits						
	Placements						
Foreign Exchange	Spot Transaction	Corporates Banks	Counterparty Credit Risk Credit Risk Collateral Risk	Currency Risk			
	Forward Transactions						
	Swap Transactions						
Fixed Income	RSA Sovereign Bonds	Own use Corporates Financial institutions	Credit Risk				
	RSA Treasury Bills						
	Corporate Bonds						
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						
	Call Loan Facilities						
	Club Loans						
	ECA Loans						
Cash-backed/collateralised Loans							
Insurance-backed Loans							
Trade Finance	Import Letter of Credit	Large, Medium, and Small corporates	Credit Risk and Country Risk	NA	Settlement Risk	Operational Risk	Liquidity Risk Strategic Risk Reputational Risk Model Risk Climate Risk Regulatory and Conduct Risk
	Standby Letter of Credit						
	Export Letters of Credit						
	Import Collections						
	Export Collections						
	Aval of Bills of Exchange						
	Confirmation of Export L/C's						
	Cross Boarder Risk Participation						
	Forfaiting						
	Entrusted payments						
	Refinancing						
	Discounting						

Table 1: Products and Services and associated risks

## **2.2. CCB-JHB RISK PROFILE**

CCB-JHB has established a framework for identifying material risks. A risk is evaluated by its likelihood and impact, and matched to an internal grading scale. A material risk is defined by its potential to create significant business losses, disruption or reputational damage.

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

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

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

- Solvency Risk (included in Capital Management and Liquidity Risk sections);
- Credit Risk (including Credit Concentration Risk);
- Counterparty Credit Risk (CCR);
- Liquidity Risk( including Depositor Concentration Risk);
- Interest Rate Risk on the Banking Book (IRRBB);
- Market Risk (including Foreign Exchange Risk);
- Model Risk (including Valuation Risk covered mainly in section 3 below).
- Operational Risk (including Property, People, IT, Cybersecurity, Business Continuity, Outsourcing/Third-Party risks);
- Regulatory and Conduct Risk (including Compliance, Financial Crime, AML/CFT/CPF and Legal risks);
- Country and Geopolitical and Macroeconomic Risk;
- Business and Strategic Risk;
- Reputation Risk; and
- ESG (including Climate Risk and Epidemic/Pandemic 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:

		31 December 2022	Risk Appetite	Year under review
Growth and Returns		ROE 10,84% 2021: 13,46%	Articulated around financial and business projections and monitored monthly	CCB-JHB continued to perform well in 2022, although total profit reduced, it remained aligned to budget and overall expectations. The low credit demand affected the replacement of longer term loans and contributed to reducing interest income; most of longer terms assets were only contracted end of 2022. Post-pandemic environment showed signs of recovery, it has however been negatively impacted by global and local economic uncertainties during 2022 (geopolitical risk, stagflation and electricity crisis).
	Solvency	Capital Adequacy 40,40% 2021: 48,27%	Internal Buffers on top of Minimum regulatory requirement for total capital adequacy, CET1 and T1	CCB-JHB manages capital aligned to its strategy.
		CET1 39,71% 2021: 47,19%		CCB-JHB operated at a high CAR and LR, within internal appetite.
		T1 39,71% 2021: 47,19%		There are no fundamental changes regarding CCB-JHB's capital structure.
Leverage 13,89% 2021: 13,62%	Leverage Internal Buffer on top of Minimum regulatory requirement (4%)	The increase of credit and counterparty credit capital demand contributed to an overall increase of capital demand. Mainly driven by additional term loans and investment into corporate bonds on the credit side and exchange rate fluctuations on the counterparty credit side. The Branch's returns contributed to a modest but steady increase of qualifying capital via profit appropriation.		
Liquidity	LCR 190% 2021: 335%	LCR Internal Buffer on top of Minimum regulatory requirement (100%)	CCB-JHB liquidity remained aligned to its strategy. The COVID-19 SARB relief measures were phased out beginning of 2022 and triggered a review of CCB-JHB's internal LCR appetite and adjustment.	
	NSFR 139% 2021: 210%	NSFR Internal Buffer on top of Minimum regulatory requirement (100%)	CCB-JHB operated at high LCR and NSFR, above internal requirements. This is mainly due to the HQLA holdings and improved liquidity risk profile. Directive 11 of 2022 on national discretions related to LCR also contributed to an increase of HQLA. Market liquidity was stable over 2022.	
Exposure per risk type	Credit Risk	NPLs 0,00% 2021: 0,00%	Appetite set in terms of internal credit ratings and concentration (industry, asset class and name)	The overall Financial Institutions and Large Corporates credit demand remained muted in 2022 but improving towards the end of H2 2022. Most of additional term loans (replacement and new) were granted during H2 2022.
		Credit Loss Ratio 0,00% 2021: 0,00%		CCB-JHB was not exposed to Ukraine and Russia and exposure to Europe is limited.
		Total credit RWA R12,4Bn 2021: R10,5Bn		CCB-JHB credit portfolio is performing with no counterpart defaulting in 2022 nor any exposure being restructured. The Branch NPL continues to be nil. Credit impairments decreased, this follows ECL model review, no longer factoring pandemic impact on the economy and management adjustments/overlays.
	Market Risk	Net Open Foreign Currency Position 2022: \$0.72Mn / R12,26Mn Limit: \$2.8Mn / R47.66Mn	Appetite set in terms of traded currencies, open position limits and FX derivative instruments	CCB-JHB operates under a restricted currency limit. Only major currencies are exchanged. FX exposures are hedged (exceptions are to be approved by ALCO). No trading position or arbitrage.
IRRBB	Net Interest Income sensitivity Down 200 bps: -R81Mn 2021: -R89Mn Up 200 bps: R79Mn 2021: R125Mn	Appetite set in terms of NII sensitivity limits, IRS derivative instruments and hedging effectiveness	CCB-JHB maintained its IRRBB hedging strategy. Interest rate hikes only had minor impacts on overall profitability. CCB-JHB has prepared for the adoption of the revised Interest Rate Risk in the Banking Book framework (from January 2023). Risk management, processes, reporting and appetites have all been adjusted in line with amended regulations.	
Operational Risk	Operational risk loss rate 0% 2021: 0%	of number and amount of operational losses, systems and connectivity downtime.	No material operational losses were recorded, no material internal control failures occurred and the operational risk loss rate continues to be nil.	

Table 2: Overview of risk profile

### 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:

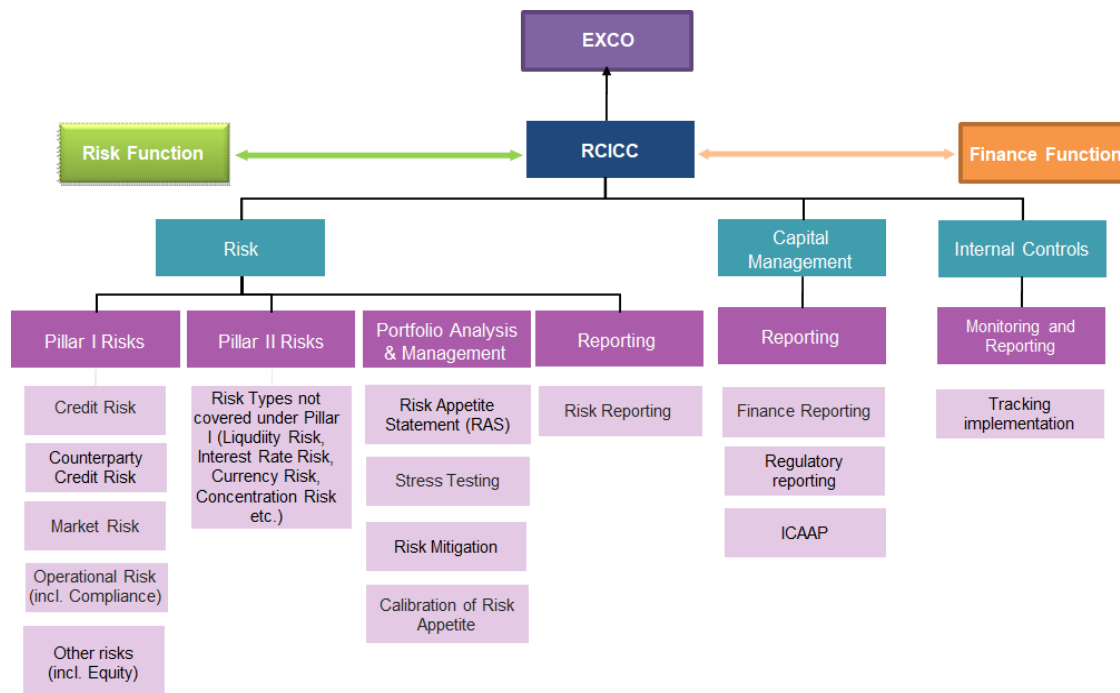


Figure 1: Risk Management Framework (RMF)

Other committees and forums are established to either directly support risk management across CCB-JHB or partially (not risk management focussed but assisting with risk monitoring) and the architecture is detailed below:

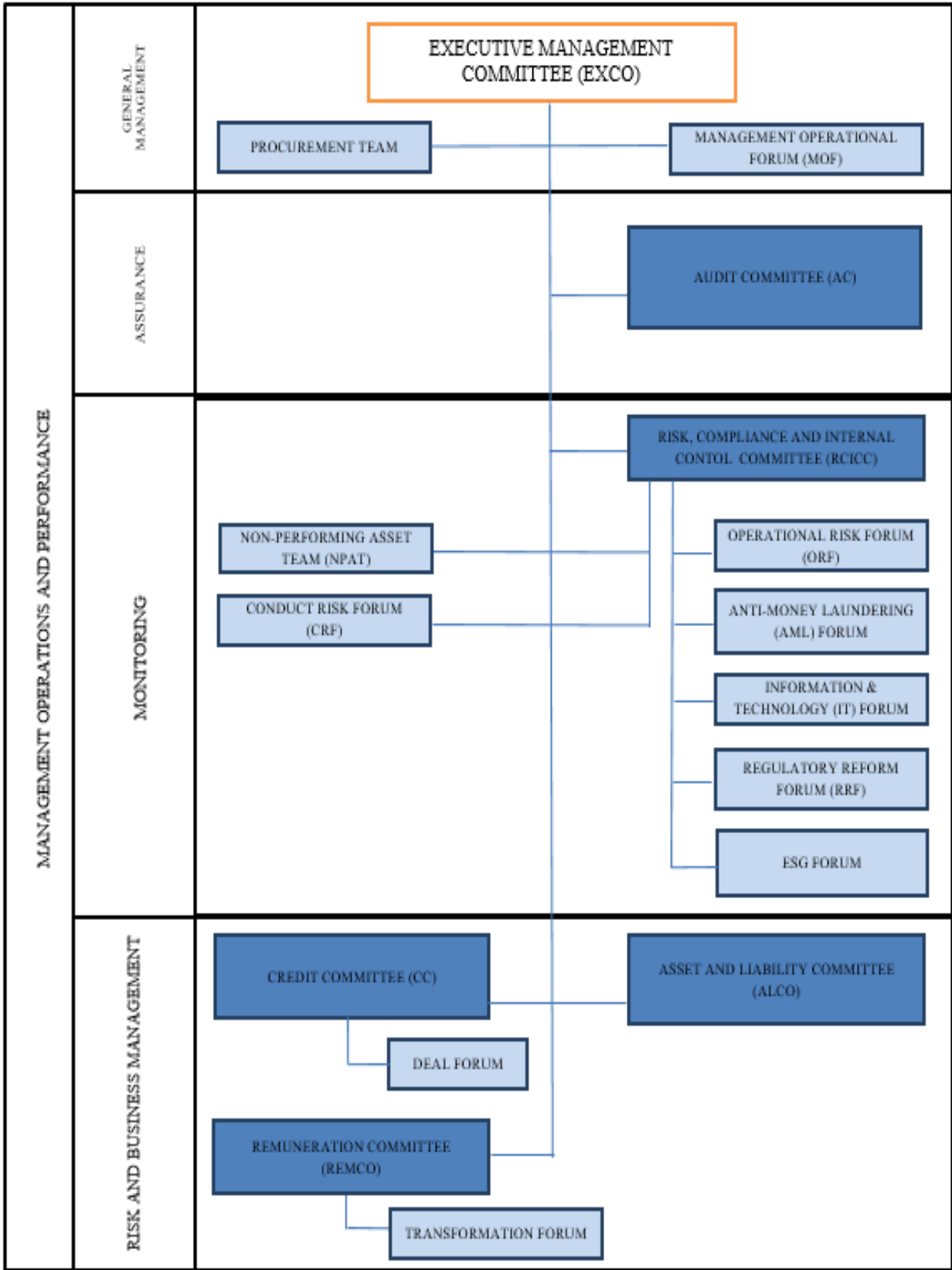


Figure 2: Committees and Forums 2022

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

Committee	Frequency	Mandate
<b>Executive Management Committee ("EXCO")</b>	Minimum Quarterly / upon request	Responsible for reviewing the risk reports and approve recommended improvements and, if necessary, adjust the risk profile or risk appetite of the Bank. It is also informed of and formally approves any material management actions, taking into account the Bank's risk tolerance levels. 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.
<b>Risk, Compliance and Internal Control Committee ("RCICC")</b>	Minimum Quarterly / upon request	RCICC is responsible for ensuring that an integrated and effective risk and compliance management framework is maintained throughout the Bank and that the Bank's business is conducted by following applicable laws and regulations.
<b>Asset and Liability Committee ("ALCO")</b>	Minimum Monthly / upon request	The ALCO is constituted to exercise its responsibilities in managing the Bank's liquidity (incl. funding), market (incl. hedging and pricing), investment, foreign exchange, and interest rate (incl. interest rate margin) risks.
<b>Credit Committee ("CC")</b>	Upon request	The CC is responsible for matters relating to credit risk management decisions, including loan approval matters and loan classifications (performing).
<b>Audit Committee ("AC")</b>	Minimum Quarterly / upon request	The AC is responsible for reviewing internal controls and working with both internal and external auditors, ensuring objectivity and credibility of the Bank's financial reporting. The AC assists to ensure that the Bank has exercised care, diligence, and skill as prescribed by South African laws and regulations.
<b>Remuneration Committee ("REMCO")</b>	Minimum Quarterly / upon request	The Remuneration Committee's (REMCO) main roles are to: - 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.

Forum	Frequency	Mandate
<b>Management Operational Forum (“MOF”)</b>	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.
<b>Operational Risk Forum (“ORF”)</b>	Upon request	The purpose of the ORF is to assist the RCICC with matters relating to operational risk and monitoring the implementation thereof.
<b>Regulatory Reform Forum (“RRF”)</b>	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
<b>AML Forum (“AMLF”)</b>	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.
<b>Information and Technology Forum (“ITF”)</b>	Every two months / upon request	Aiming at improving identification, monitoring, and reporting of all aspects related to IT Risk in respect of projects, data application, and parameters management
<b>Transformation Forum</b>	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.
<b>Conduct Risk Forum</b>	Quarterly	To establish and assess related KRIs, perform conduct review of risk events should they occur and recommended actions (excluding staff related)
<b>ESG Forum</b>	Quarterly	The forum assumes responsibility for the implementation of the Green strategy of the Branch
<b>Deal forum</b>	Upon request	Front line departments submit to the forum for an initial high-level assessment of the desirability of pursuing credit transactions or deals.

Table 3: Committee and Forums - 2022 - mandate

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><b>Primary Risk Owner: Head of Departments</b></p> <p><b>Ensure that the front line departments and support functions act following mandates, policies, and procedures</b></p> <ul style="list-style-type: none"> <li>Identify key risks to own business area</li> <li>Specify and implement appropriate risk management processes and internal controls</li> <li>Specify and implement early warning measures, as well as associated reporting and management processes</li> <li>Implement corrective actions, as required</li> <li>Participate in formulating risk management strategies</li> <li>Ensure all staff understand their responsibilities concerning daily business and risk management</li> <li>Report all-risk incidents as soon as discovered to RMD</li> </ul>	<p><b>Foundation of risk governance: RMD and Compliance</b></p> <p><b>Independent oversight and monitoring risk and compliance across departments</b></p> <p><u><b>Committees</b></u></p> <ul style="list-style-type: none"> <li>Take ownership of and maintain risk governance frameworks</li> <li>Specify risk appetite in line with the strategy</li> <li>Approve risk and compliance-related policies</li> </ul> <p><u><b>RMD</b></u></p> <ul style="list-style-type: none"> <li>Establish and monitor risk universe</li> <li>Implement risk appetite, framework, and policies</li> <li>Challenge risk profile through review of risk assessment and measures, evaluation of risk management processes, and monitoring of corrective actions and mitigation</li> <li>Joint assessment to the business unit according to risk management and issues</li> </ul> <p><u><b>Compliance in line with Regulation 49</b></u></p> <ul style="list-style-type: none"> <li>Establish and monitor regulatory universe</li> <li>Facilitate the development, approval, and maintenance of CCB-JHB's Compliance manual, charter, methodology and policy</li> <li>Ensure consistency of approach and practice throughout CCB-JHB.</li> <li>Entrench the culture of compliance in CCB-JHB such that any incident of non-compliance can be identified in a timely manner</li> <li>Provide a central point of reference and expertise to compliance-related matters and advice on policy and strategic decisions that have compliance implications</li> <li>Ensure the monitoring of regulatory and reputational risk in line with CCB as well as industry standards</li> <li>Ensure effective co-operation and interaction with all role players</li> <li>Submit detailed and summarised reports on areas covered, findings, and appropriate recommendations.</li> </ul>	<p><b>Independent Views: Audit (internal and external auditors)</b></p> <p><b>Provide independent assurance of the adequacy and effectiveness of the bank's system of internal controls and the bank's risk management in line with Regulation 48</b></p> <ul style="list-style-type: none"> <li>Carry out assurance over the system of internal controls and risk management in line with the risk-based Internal Audit plan.</li> <li>Evaluate compliance with policies, laws and regulations and industry standards</li> <li>Review the integrity, reliability, timeliness, accuracy, and completeness of risk reports and other business reports</li> <li>Follow-up on implementation of audit recommendations and resolving audit findings</li> </ul>

Table 4: Risk Management Framework – Three Lines of Defence

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

RMD comprises two distinct functions, namely the risk management 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 & Resolution 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
- recommending loan provision levels via IFRS9 stage classification.

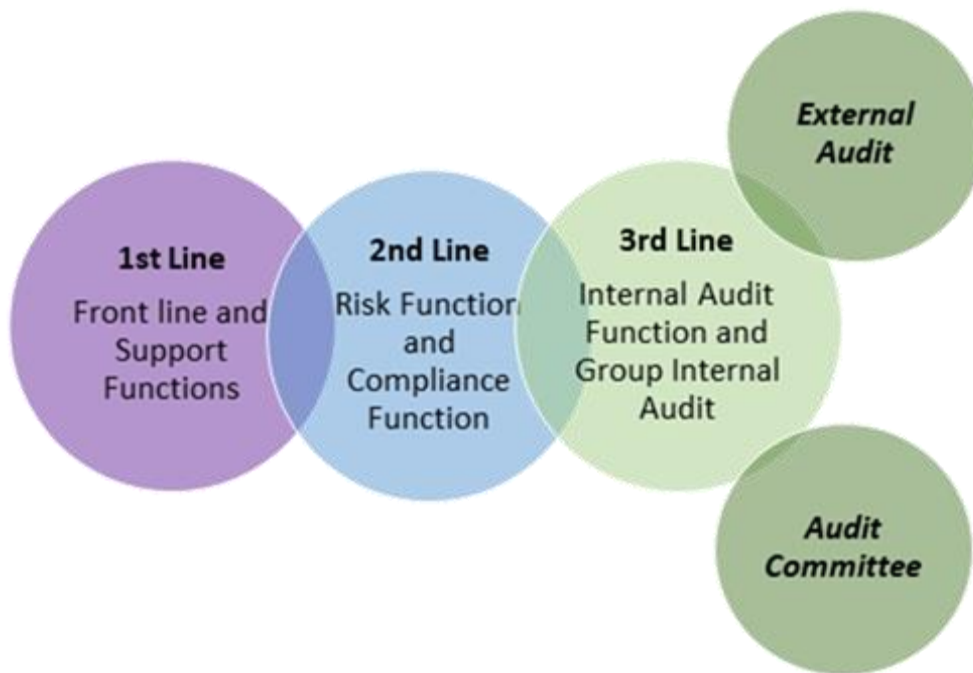
As a Branch of China Construction Bank, various risk reporting lines are in place with the Group:

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

## **2.4. COMBINED ASSURANCE**

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

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



*Figure 3: Combined Assurance Model - 2022*

## 2.5. **RISK MEASUREMENT APPROACHES**

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

Risk Type	Risk Measurement Approach	Expected changes in Risk Measurement Approach
Credit Risk	Standardised Approach (Basel II.5)	Revised Standardised Approach from 2024 (Basel III)
Counterparty Credit Risk	SA-CCR has been implemented and used since January 2021 Standardised Approach for CVA calculation	Credit Valuation Adjustment Framework: Basic Approach for CVA (BA-CVA) from 2024 (Basel III)
Market Risk	Standardised Approach (Basel II)	New Standardised Approach from 2024 (Basel III)
Operational Risk	Basic Indicator Approach (BIA) (Basel II)	New Standardised Approach from 2024 (Basel III)
Other Assets	Standardised Approach	No expected change
Interest Rate Risk in the Banking Book (IRRBB)	IRRBB Framework	Revised IRRBB Framework from January 2023 (Basel III)
Credit concentration	Large Exposure Framework (implemented in April 2022)	NA

*Table 5: Risk Measurement Approaches*

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:

<b>Risk management systems</b>	
Head-Office core banking system	<ul style="list-style-type: none"> <li>- General Ledger system</li> <li>- Client profile system/clients database</li> <li>- Client transactions system</li> <li>- Credit &amp; Country limits monitoring</li> <li>- Risk monitoring and reporting tool</li> <li>- Credit rating applications</li> <li>- Credit rating model</li> <li>- Credit rating reviews</li> </ul>
Middle and Back office system	<ul style="list-style-type: none"> <li>- Booking Bank deals/Bonds</li> <li>- Performing End of Day process to reconcile authorised and captured deals</li> </ul>
Front end Treasury system	<ul style="list-style-type: none"> <li>- Bank deals - Foreign Exchanges Swaps, Interest Rate Swaps, etc.</li> <li>- Treasury Limit monitoring</li> <li>- Containing modified and deleted deals</li> </ul>
Head-Office Reporting system	<ul style="list-style-type: none"> <li>- Reporting system linked to Head-Office core banking system</li> <li>- Generating automated reports</li> <li>- Generating ad hoc reports as per specific request</li> </ul>
Electronic Information Solutions	<ul style="list-style-type: none"> <li>- Market data</li> </ul>
External Rating database	<ul style="list-style-type: none"> <li>- Database for external rating</li> </ul>
Regulatory reporting platform	<ul style="list-style-type: none"> <li>- Regulatory reporting</li> <li>- Monitoring prudential requirements</li> <li>- Preparing risk reporting</li> <li>- Extract data for risk reporting</li> </ul>
AML systems	<ul style="list-style-type: none"> <li>- Screening of Swift payment messages</li> <li>- Name screening</li> <li>- Transaction monitoring</li> <li>- Client Due Diligence</li> </ul>

*Table 6: Risk Measurement Systems*

## **2.7. Risk Reporting**

Clear reporting lines and escalation channels have been established for risk reporting to CCB Head Office, Executive Management, RMD, the Compliance Department, and RCICC. Risk reporting follows the governance structure under section 2.3.

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);
- limit and breach management
- internal or external requirements affecting the risk management framework, policies, and processes;
- risk management assessment and compliance with policies; and
- identification of emerging risk.

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

BCBS 239 issued in January 2013 sets out the principles to strengthen risk data aggregation capabilities and internal risk reporting practices applicable to all banks, the implementation of which is expected to enhance risk management and decision-making processes.

The Branch embarked on achieving compliance and has adopted a practical and fit-for-purpose approach and duly supported by the Branch's leadership.

Independent review will be carried out to ensure RDARR principles are suitably complied with on an ongoing basis.

## **2.9. RISK AND COMPLIANCE CULTURE**

CCB-JHB subscribes to the following principles to encourage a risk and compliance culture:

- 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 assist all departments when requiring support related to a specific risk process;
- the risk and compliance management strategies are 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;
- 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 and compliance 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 relevant and accurate risk information is utilised across the Branch for decision making. CCB-JHB is committed to creating an environment where each staff member understands both what the Branch is aiming to achieve and the risk management constraints 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, internal appetite requirements, 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 and sustaining 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 under the scope of consolidation. Consolidation of all CCB Group entities is managed at the Group level.

#### LI1 – 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
<b>Assets</b>							
Cash and cash equivalents	2,299,834	2,024,549	2,024,549*	-	-	273	-
Loans and advances to banks	17,482,707	17,758,537	17,758,537	-	-	16,855,475	-
Loans and advances to customers	3,161,894	3,161,867	3,161,867	-	-	2,486,585	-
Derivative financial instruments	1,358,424	1,358,424	-	1,358,424	-	874,320	-
Interest-bearing securities at amortised cost	10,103,256	10,103,256	10,103,256	-	-	8,720,993	-
Interest-bearing securities at FVOCI	8,916,998	8,916,998	8,916,998	-	-	3,381,497	-
Investment in associate	8,400	8,400	-	-	-	-	-
Other assets	7,598	10,138	10,138*	-	-	677	-
Deferred taxation asset	72,585	72,585	-	-	-	-	72,585
Right of use assets	3,058	-	-	-	-	-	-
Property, plant and equipment	170,090	170,090	170,090 (*)	-	-	-	-
<b>Total assets</b>	<b>43,584,844</b>	<b>43,584,844</b>	<b>42,145,435</b>	<b>1,358,424</b>	<b>-</b>	<b>32,319,820</b>	<b>72,585</b>
<b>Liabilities</b>							
Deposits from banks	17,422,675	17,422,675	-	-	-	12,750,757	4,671,918
Deposits from customers	19,484,800	19,484,800	-	-	-	1,720,358	17,764,442
Derivative financial instruments	148,331	148,331	-	148,331	-	47,935	-
Employee related liabilities	26,827	-	-	-	-	-	-
Tax payable	900	900	-	-	-	-	900
Other liabilities	209,938	240,184	-	-	-	195,453	44,731
Lease liabilities	3,419	-	-	-	-	-	-
<b>Total liabilities</b>	<b>37,296,890</b>	<b>37,296,890</b>	<b>-</b>	<b>148,331</b>	<b>-</b>	<b>14,714,503</b>	<b>22,481,991</b>

Table 6: LI1

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

(\*) These items are unrelated to credit risk, however, are included in the form BA200 and are related to other risks.

## LI2: 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)	43,584,844	42,145,435	-	1,358,424	32,319,820
2. Liabilities carrying value amount under regulatory scope of consolidation (as per li1) (***)	-	-	-	148,331	14,714,503
<b>3. Total net amount under regulatory scope of consolidation</b>	<b>43,584,844</b>	<b>42,145,435</b>	-	<b>1,210,093</b>	<b>17,605,317</b>
4. Off-balance sheet amounts (*)	3,828,940	1,914,470	-	-	-
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 (**)	-	(1,527,001)	-	(7,543)	-
<b>10. Exposure amounts considered for regulatory purposes</b>	<b>47,413,784</b>	<b>42,532,904</b>	-	<b>1,202,550</b>	<b>17,605,317</b>

Table 7: LI2

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

(\*\*) Other changes:

- **Credit Risk:** The main difference regarding the credit risk framework is explained by the placements exposure, in Column a, the exposure is as of 31 December 2022 while in Column b is a monthly average (December 2022); as well as differences for Off-balance sheet amounts in Columns a and b explained by Credit Conversion Factors (CCF) being applied in Column b.
- **Counterparty Credit Risk:** The main difference for column d is that the EAD is arrived at using SA-CCR, thereby resulting in the fair value of derivative liabilities made equal to 0, and an add-on factor for all derivatives is added.

The CCR disclosed is the fair value of the Branch's derivatives. The derivatives are made up of interest rate swaps, currency swaps, and forward exchange contracts.

(\*\*\*) Total liabilities carrying value amount under regulatory scope of consolidation as per LI1 is R 37 296 890.

### **Prudent valuation**

Valuation risk is the financial risk that an asset is overvalued and is worth less than expected when it matures or is sold.

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 and securities (booked from August 2022; change of accounting methodology), namely Foreign Exchange (FX) derivatives and Interest Rate Swaps (IRS); SA government bonds, treasury bills and corporate bonds.

The bank uses the following hierarchy for determining and disclosing the fair value of financial instruments:

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

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

External audit places reliance on the Information Technology general controls of systems used in the valuation process from HO; local controls are subject to local audits.

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:	-	-	35,926	-	-	35,926	-	35,926
2	<i>Mid-market value</i>	-	-	3,638	-	-	3,638	-	3,638
3	<i>Closeout cost</i>	-	-	32,289	-	-	32,289	-	32,289
4	<i>Concentration</i>	-	-	-	-	-	-	-	-
5	Early termination	-	-	-	-	-	-	-	-
6	Model risk	-	-	-	-	-	-	-	-
7	Operational risk	-	-	3,444	-	-	3,444	-	3,444
8	Investing and funding costs	-	-	-	-	-	-	-	-
9	Unearned credit spreads	-	-	-	-	-	-	-	-
10	Future administrative costs	-	-	-	-	-	-	-	-
11	Other	-	-	-	-	-	-	-	-
12	<b>Total adjustment</b>	-	-	<b>39,371</b>	-	-	<b>39,371</b>	-	<b>39,371</b>

Table 8: PV01

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

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

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

The PVA calculation is limited to the FX Swap book. 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	Assessment
Market price uncertainty	Market Price Uncertainty (MPU) refers to the valuation uncertainty of a valuation exposure arising from uncertainty of a valuation input	The Market Price Uncertainty is deemed material and details on calculation provided below.
Close-out cost	The valuation uncertainty of a valuation exposure arising from uncertainty in the exit price of the valuation position	The close-out-cost is deemed material and details on calculation provided below.
Model risk	Further adjustments, to take into account valuation model risk, arise due to: <ul style="list-style-type: none"> <li>— the potential existence of a range of different models or model calibrations;</li> <li>— the lack of a firm exit price for the specific product being valued;</li> <li>— the use of an incorrect valuation methodology;</li> <li>— the risk of using unobservable and possibly incorrect calibration parameters; or</li> <li>— the fact that market or product factors are not captured by the core valuation model</li> </ul>	The Model Risk adjustment is deemed to be equal to zero for the FX derivative instrument book.  The valuation model is simple and no model risk is arising for the valuations that are 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)	Deemed to be equal to zero for the FX derivative instrument book. The trades are very short dated (less than 3 months) and either contracted internally or with counterparties with good credit rating (South African sovereign credit rating level).
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	Deemed to be equal to zero for the FX derivative instrument book, calculation of the funding costs associated with the FX derivative instrument 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	Deemed to be equal to zero for the FX derivative instrument book, as the FX portfolio is not constituted of 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	Deemed to be equal to zero for the FX derivative instrument book, 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	Deemed to be equal to zero for the FX derivative instrument book, as early termination is only 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 is deemed material and details on calculation provided below.

Table 9: PVA methodology

### Fair value calculation

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

To perform different fair value calculations, CCB-JHB stressed data inputs with observable market inputs as follows:

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

### Calculation of Market Price Uncertainty adjustment

Where sufficient market data exists for a valuation input, banks shall estimate a point within the range where it is 90% confident it could exit the valuation exposure at that price or better.

### Calculation of Close-out Cost adjustment

The Close-out Cost adjustment is based on range of bid/offer quotes (rather than mid prices).

### The Operational Risk adjustment

The Operational Risk adjustment is calculated by assessing the potential losses that may be incurred because of operational risk related to valuation processes.

## 4. CAPITAL MANAGEMENT

### 4.1. Introduction

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

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

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

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

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.

### 4.2. CAPITAL ADEQUACY AND LEVERAGE

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

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

And considers:

- BCBS Basel III minima (total capital requirement: 8%);
- South African minima (including Conservation buffer(2.5%), Pillar 2A (1%), and 2B); and
- Countercyclical buffer (depending on exposures to corporate sector in foreign jurisdiction).

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 (98.30% of total capital). This capital is well-suited to absorb losses and retain value under stressed conditions. There have been no material changes in the capital 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, equity risk and other risks.

**Five years' review**

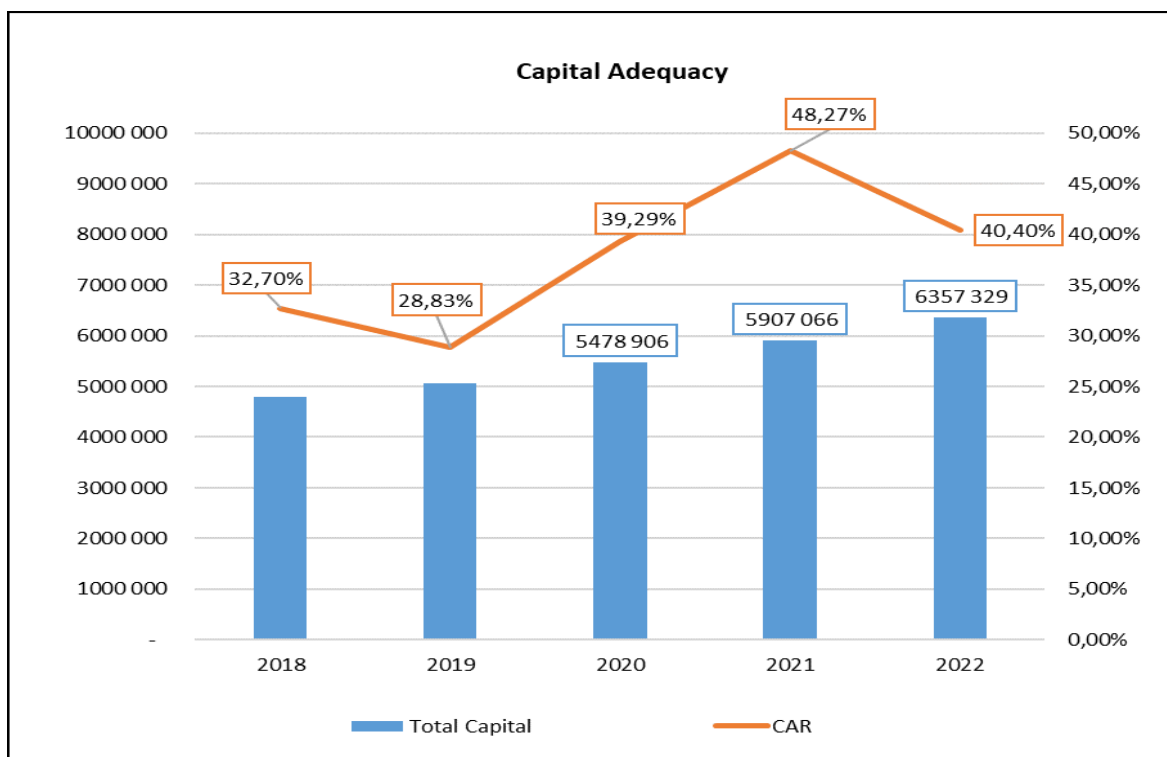


Figure 4: CAR and Qualifying Capital – 2018 to 2022

As at 31 December 2022, the Branch reported a capital adequacy of 40.40% and a leverage ratio of 13.89%. Capital supply remained relatively stable (organic growth via profit appropriation) The capital adequacy ratio has decreased due to an increase of total RWA, mainly driven by an increase of both credit RWA and CCR RWA; new bilateral and syndicated term loans coupled with investment in new corporate bonds contributed to an increase of credit risk. CCB-JHB is operating at comparable levels to 2020. The RWA decrease during 2021 (and part of 2022) was due to the COVID-19 pandemic and its impact on credit demand with loans maturing and not being replaced, early repayments and a decrease in exposure to large local and international corporates.

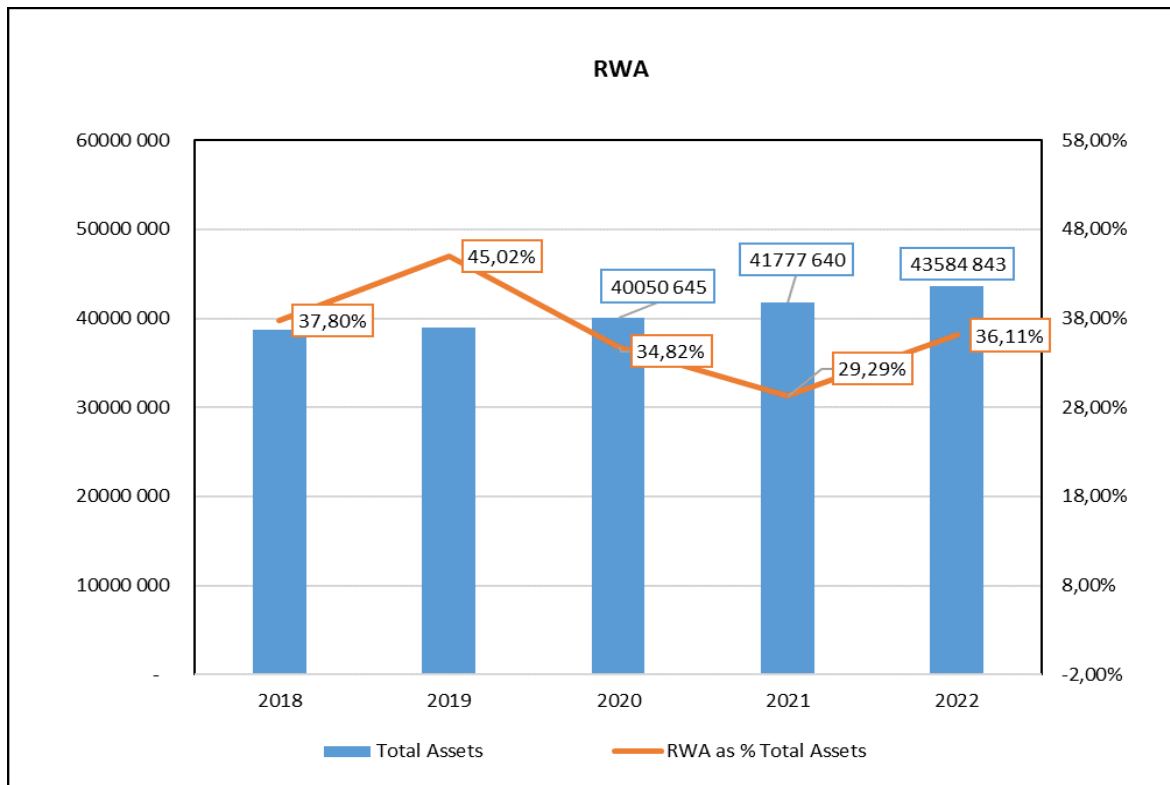


Figure 5: RW ratio and Total Assets – 2018 to 2022

From an RWA perspective, at comparable balance sheet size, the average risk-weight ratio increased to levels comparable with 2020. The decrease over the years 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.

The increase in risk-weight ratio during 2022 is a combination of increased term loans to corporates and banks while reduced short term placements and refinancing business (compared to December 2021).

### 4.3. SUPPLY OF CAPITAL

	R'000	2022	2021
<b>Tier 1 capital</b>		<b>6 248 228</b>	<b>5 775 317</b>
<i>Branch capital</i>		3 385 642	3 385 642
<i>Retained earnings</i>		2 767 198	2 400 169
<i>Accumulated other comprehensive income (*)</i>		135 117	0
<i>Specified Adjustments</i>		-39 729	-10 494
<b>Tier 2 capital</b>		<b>109 101</b>	<b>131 749</b>
<i>General allowance for credit impairment</i>		109 101	131 749
<b>Total regulatory capital</b>		<b>6 357 329</b>	<b>5 907 066</b>

Table 10: Capital supply

(\*) change of accounting rule occurred during 2022 and thus explaining no OCI in 2021.

#### Capital levels drivers - 2021 to 2022



CET1		+ Increase of retained earnings over 2022, no repatriation is performed + OCI of government bonds and corporate bonds (from August 2022, booked as FVOCI (change of methodology) - Increase of PVA deduction from capital (negative impact but offset by increases specified above) (see PVA section)
T2		Decrease of credit impairments (adjustment of model and management overlays)

Figure 6: Capital level drivers

The total qualifying capital position of the Branch as at 31 December 2022 is R 6 357 329.

CCB-JHB CET1 / T1 capital as at 31 December 2022 is at R 6 248 228.

CCB-JHB CET1 represents 98.30% of total capital.

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

#### 4.4. DEMAND FOR CAPITAL

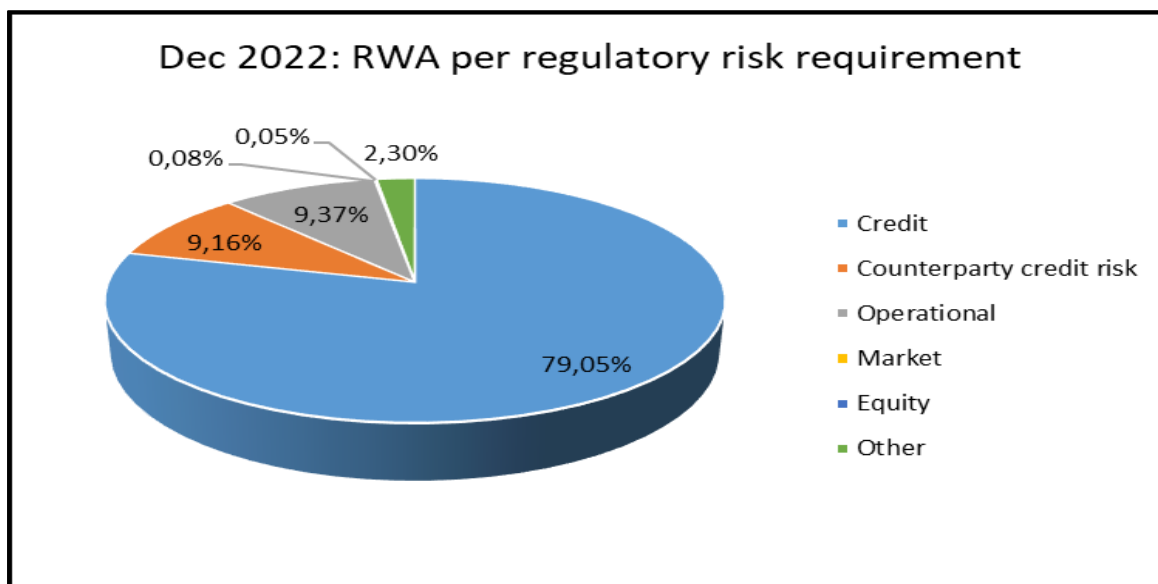


Figure 7: RWA per risk category – 2022

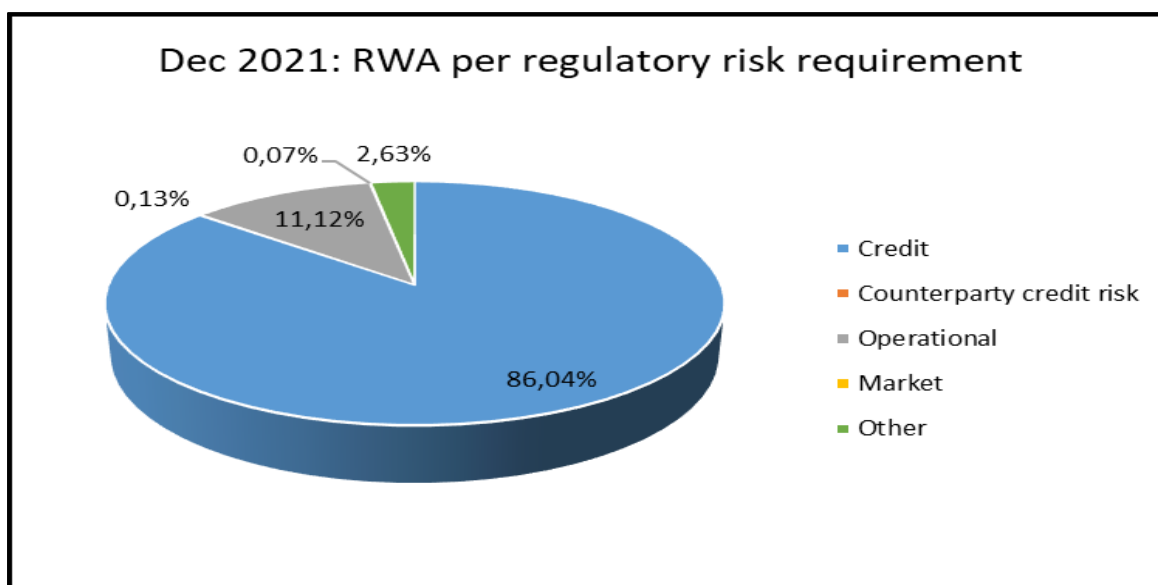


Figure 8: RWA per risk category - 2021

CCB-JHB's RWA profile has been mostly stable over 2022 with credit representing the largest capital requirements (79%). One notable change is the Counterparty Credit Risk increasing and explained below (which mechanically contributed to decrease of credit risk %). The main drivers are summarized in the below table:

Risk drivers - 2021 to 2022






Credit		Increase of Term loans (bilateral and syndications) Purchase of corporate bonds
Counterparty Credit		Depreciation of ZAR towards USD at the end of 2022 which increased FX derivatives replacement cost, and hence capital requirements Increase of FX business with local banking counterparts and decreased FX business with Head Office 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 low due to restricted open foreign currency position and traded currencies
Other		No notable change

Figure 9: Risk drivers

## 4.5. CAPITAL MANAGEMENT

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

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

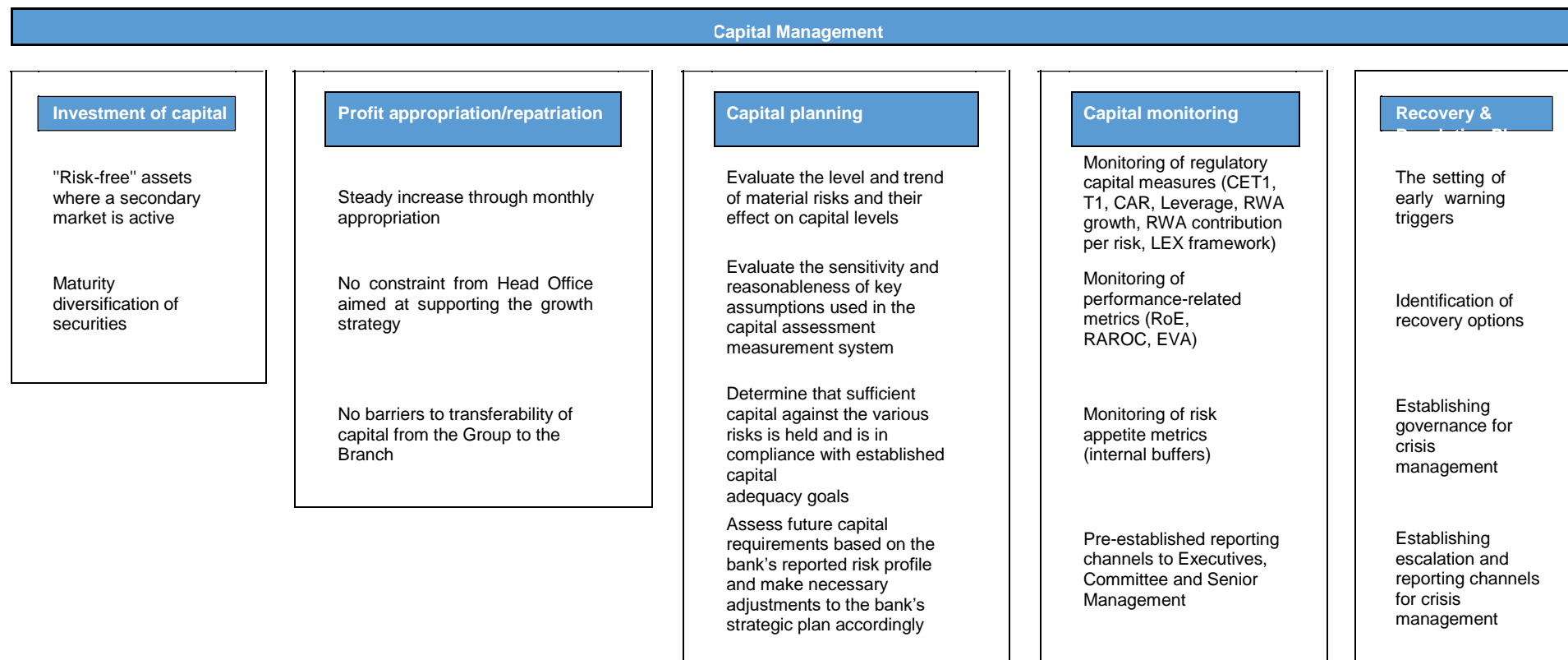


Figure 9: Capital management principles

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

#### **4.6. ICAAP**

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

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

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

During the ICAAP 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.

#### **4.7. 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.

#### **4.8. 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 and results to the RCICC.

#### **4.9. RECOVERY AND RESOLUTION PLAN**

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

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

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

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

- communication channels and coordination with Head-Office and the SARB;
- ensure temporary continuity by maintaining critical functions;
- protect depositors while reducing and adjusting level of required funding, using intragroup funding if available;
- protect creditors by selling-off loans and advances on the secondary market and/or other CCB entities/ensuring FX derivatives are held till maturity and collateral returns (if applicable);
- protect service providers and third parties with cooperation, information exchanges and transparency;
- ensure no legal impediments with third parties in the process;
- protect staff with following local labour regulation (section 189);
- avoid unnecessary destruction of value and minimise overall costs;
- exit market in an orderly way; and
- prepare together with HO all external communications.

## 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.

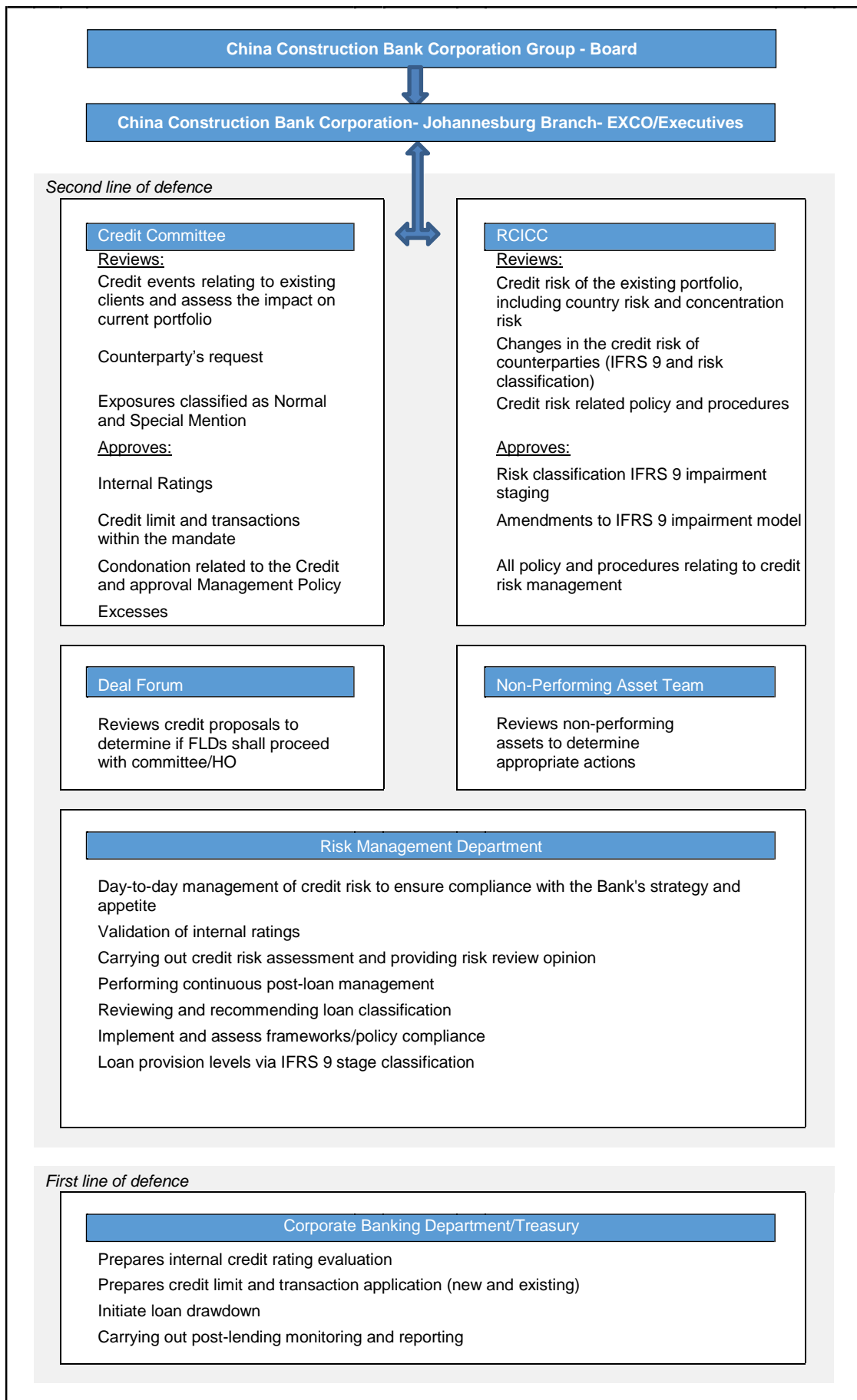
The Branch's lending strategy has remained stable over the years.

#### 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.



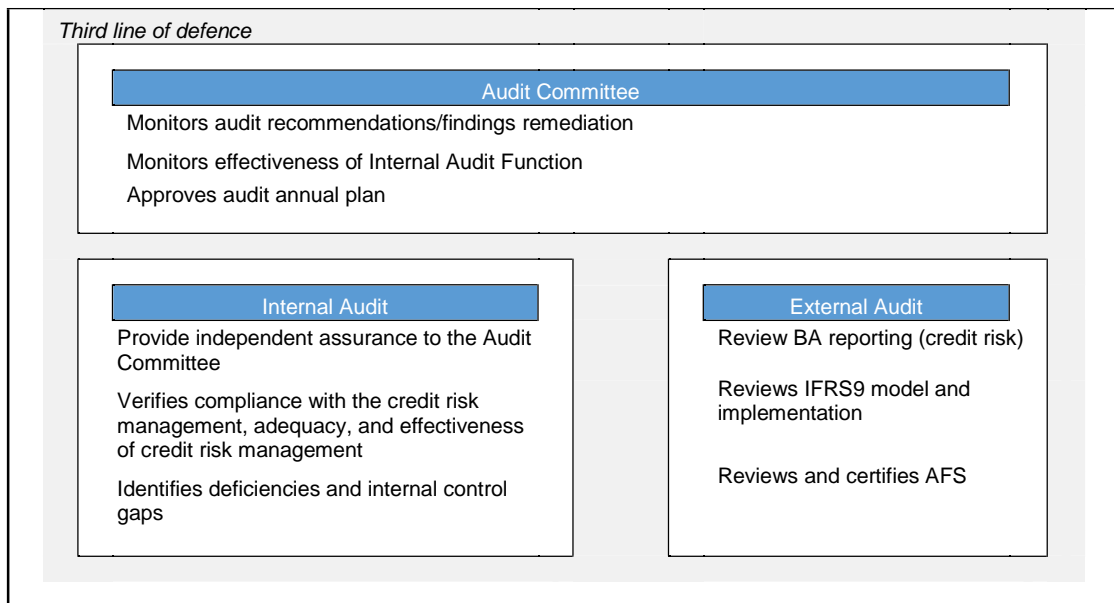


Figure 10: Credit risk management governance

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 and Approval Management Policy and Procedure.
- Assessment of the counterparty's external credit rating
  - Under the guidance of the Credit and Approval Management Policy and Procedure, counterparty external credit ratings that are issued by approved rating agencies are utilised for referencing in the credit assessment process.
  - For regulatory reporting, CCB-JHB uses external ratings of rating agencies that have been approved by the PA, commonly referred to as eligible External Credit Assessment Institutions (ECAIs). CCB-JHB uses Moody's Investor Services, Standard and Poor's Rating Services, and Fitch Ratings Inc. (which will be derecognised sometime during 2023 as communicated by the PA) 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 and Approval Management Policy and Procedure, the assessment of the risk profile includes determining creditworthiness, setting appropriate credit limits within the Branch’s credit risk appetite, industry and counterparty concentration, and the counterparty’s risk profile;
  - Limits are allocated based on risk profile;
  - 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
	Group and interconnected parties limits (LEX)	NA
	Industry limits	NA
Country limits	Per country	NA

Table 12: Type of credit limits within CCB-JHB

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.

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.

Monthly post lending management reporting is completed and includes an assessment of the counterparty credit risk profile.

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

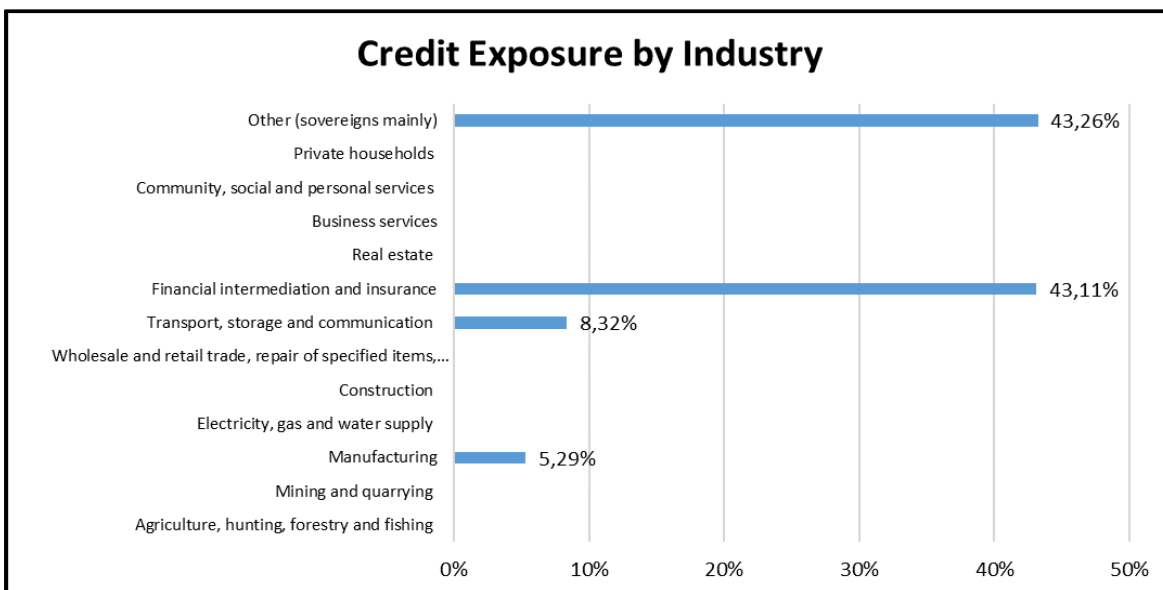


Figure 11: Credit Exposure by Industry - 2022

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

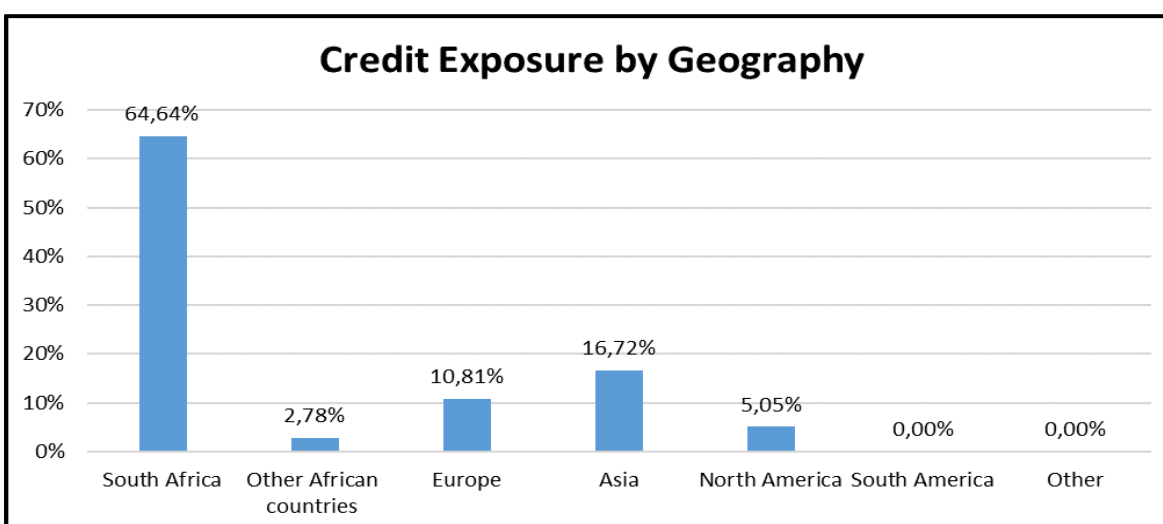


Figure 12: Credit Exposure by Geography - 2022

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

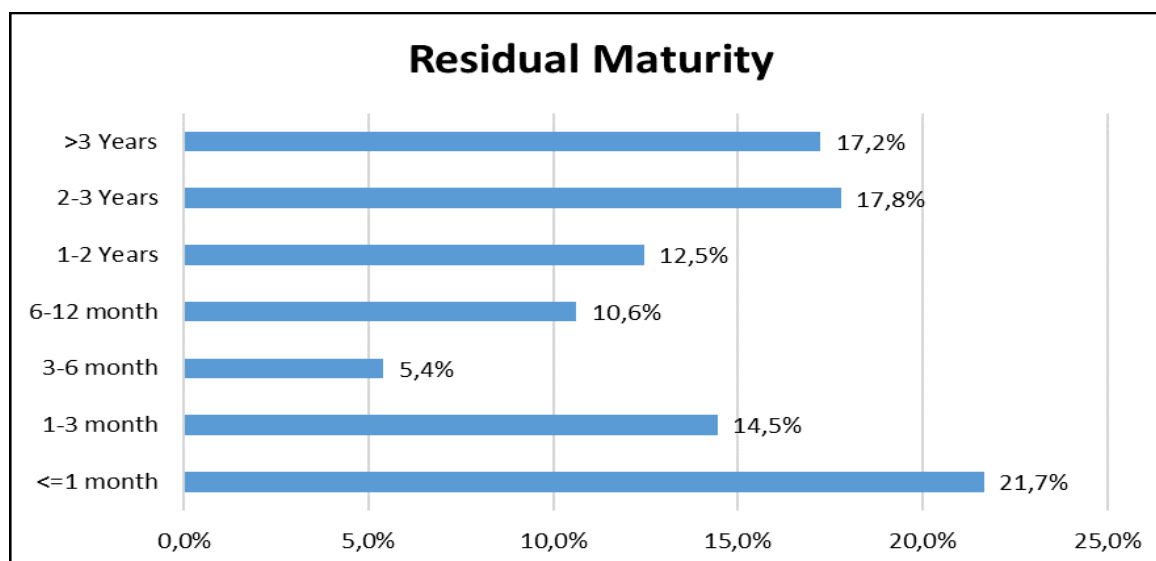


Figure 13: Credit assets per residual maturity

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

<u>Overview of RWA</u>	<u>(R000's )</u>
<b>China Construction Bank Johannesburg Branch</b>	<b>31-Dec-22</b>
<b>Geographical</b>	<b>Total risk-weighted exposure</b>
South Africa	6 906 583
Other African countries	1 207 579
Europe	3 625 988
Asia	624 415
North America	993 742
South America	0
Other	0
<b>Industry</b>	
Agriculture, hunting, forestry and fishing	-
Mining and quarrying	-
Manufacturing	1 844 352
Electricity, gas and water supply	-
Construction	-
Wholesale and retail trade, repair of specified items, hotel	-
Transport, storage and communication	2 158 923
Financial intermediation and insurance	9 090 475
Real estate	-
Business services	-
Community, social and personal services	-
Private households	1
Other	264 555

Table 13: RWA per region and sector

Post the pandemic, CCB JHB implemented the monthly post lending management reporting. The report replaced the enhanced credit risk monitoring report which was used to assess the change in the counterparty credit risk during the pandemic. . The report allows the Branch to assess and report on 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.

#### 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 2022, 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 does not have any default loan exposure.

## IFRS 9 Impairment Model

The Branch has adopted the approach prescribed in IFRS 9, which uses an expected credit loss (ECL) for recognition of impairment losses. 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

*Table 14: Stage and ECL*

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

The 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>

Table 15: stage credit risk definitions

The IFRS 9 impairment model was reviewed during 2022. The model and status quo on the model parameter updates remained unchanged. The parameter updates incorporated the following:

- economic data review;
- asset correlation update;
- S&P matrix & mapping update;
- LGD update (downturn LGDs are no longer used); and
- 2021 audit remediation.

The previously applied management overlay, which factored the forecast sovereign downgrade at the time was removed. The predicted economic growth rate for 2023 was found to reflect recovery from previous years, therefore assumptions were lowered.

The impairment of the Branch has reduced from R159m in December 2021 to R145m in December 2022. The model parameter updates only apply from December 2022 and explain the decrease in below graph. The Branch believes that the impairment level was appropriate and sufficient based on the changes in the Branch's portfolio and the current economic environment.

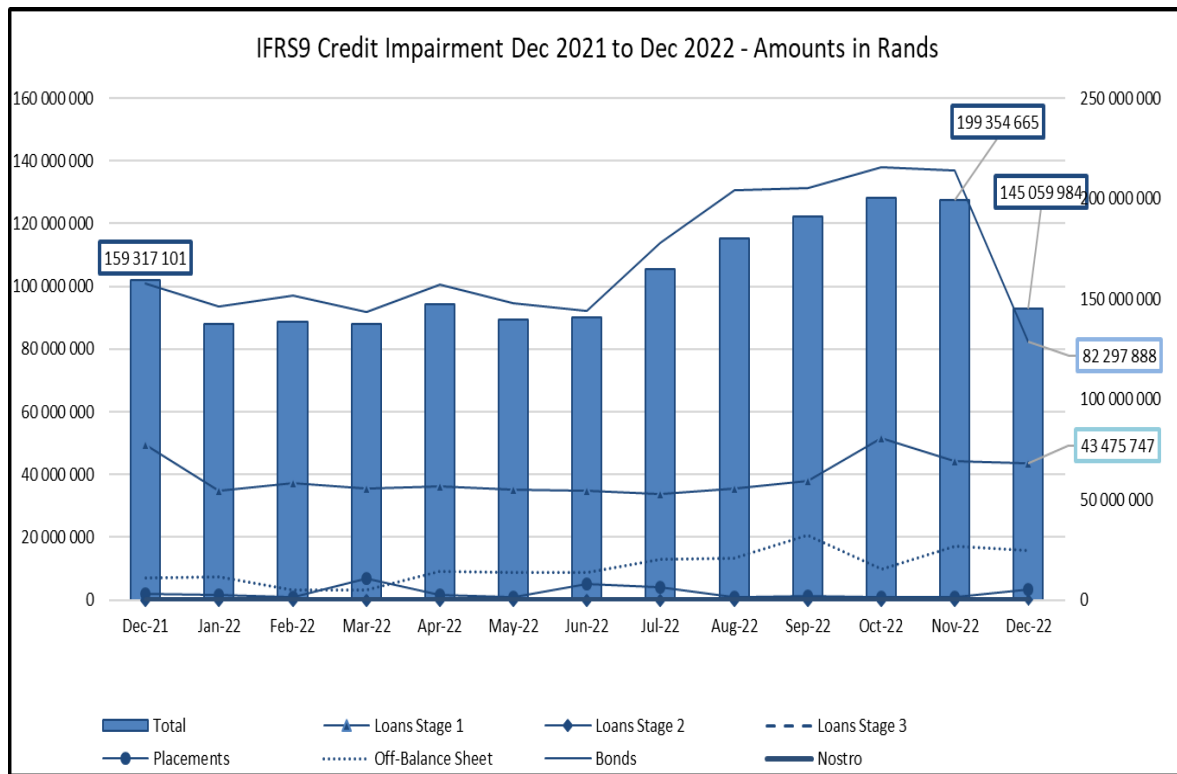


Figure 14: IFRS9 credit impairments

#### 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 2022.

#### **5.4. Year in review**

The COVID-19 pandemic took more of a background role in 2022 both globally and locally. There are concerns of a global stagflation and a global recession, mainly as a result of escalating global conflicts.

In South Africa, the economy returned to pre-pandemic levels, bolstered by higher commodity prices and increased exports. The country endured the longest bouts of rolling blackouts implemented by the country's power utility. Business sentiments was affected and economic growth was below potential. South Africa is also vulnerable to spill over effects from global events.

CCB JHB monitors compliance with the Risk Appetite Statement continuously through the relevant committees. The lending portfolio reduced by 8.54% (excluding Nostro accounts and ECL impairments), a function of repayments. The quality of the assets reflects sound risk management practices. The branch does not have any non-performing assets and suffered no losses during the year.

## 6. COUNTERPARTY CREDIT RISK

### 6.1. 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); 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. 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.

## 6.2. Governance

The governance is as follows:

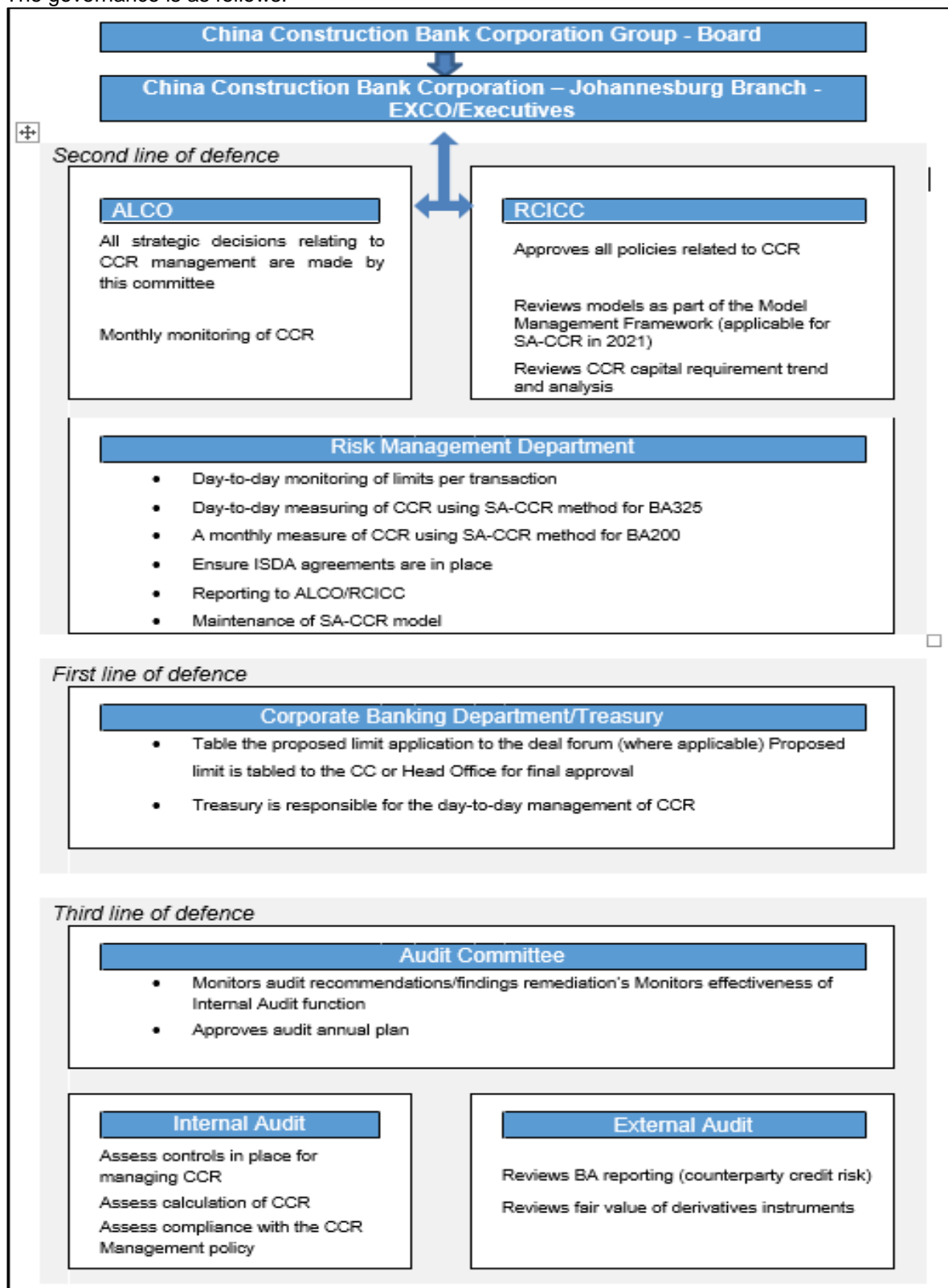


Figure 15: CCR management governance

### **6.3. 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;
- CSA are established for selected local banking counterparts; cash variation margin are received/posted daily thereof, and when meeting criteria as stipulated within said agreements;
- 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 only few selected local banking counterparts of which collateral requested or posted for OTC derivatives is performed. Collateral amount is not based on CCB-JHB credit rating but rather on MtM of derivatives; a downgrade of CCB-JHB (CCB Group) would thus not trigger any additional posting of collateral.

#### **6.4. Year in review**

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

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

The nominal value and volume of derivatives are not materially different from 2021 and the main parameter affecting RWA is the ZAR volatility to USD.

As at 31 December 2022, CCR RWA amounted to R 1 441 704 (including CVA), a significant but controlled increase. FX derivatives are booked as hedging instruments and their replacement costs are affected by exchange rates. When ZAR appreciates towards USD, the replacement cost of ZAR/USD derivatives increases, the derivatives are usually ranging from few days to 3 months. The ZAR appreciation trend started beginning of November 2022 and affected replacement costs of the FX derivatives portfolio (of instruments booked before reporting date and of which maturity extends to 2023). Consequently, this contributed to an increase of CCR EAD and CCR RWA.

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

CVA capital requirement 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

### 7.1. 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.

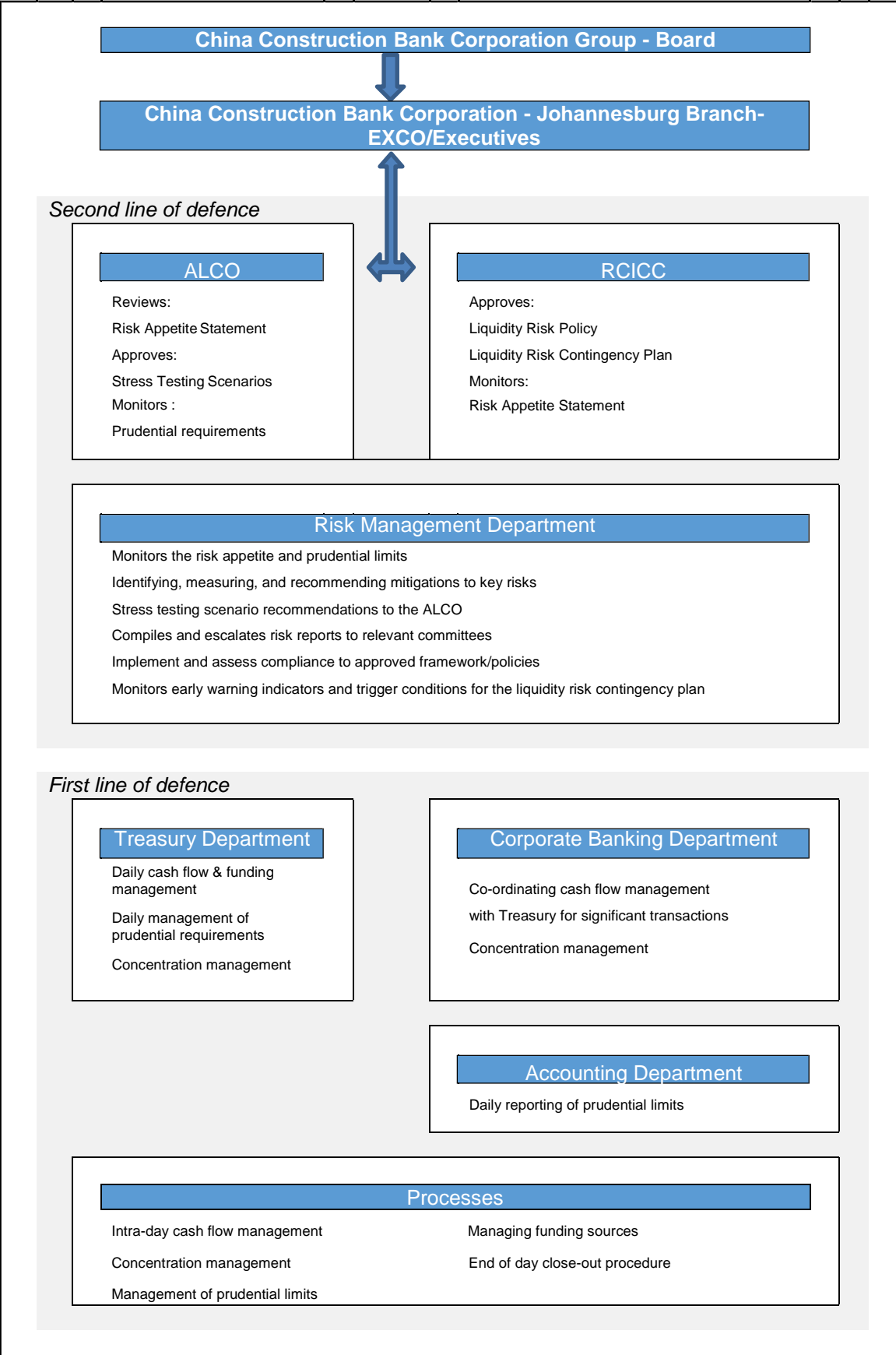
The Branch's funding is constituted of CCB Head Office, interbank, institutional, and corporate funding. The majority of the Branch's USD funding and long-term funding is sourced intra-group, comprising of CCB Head Office and other CCB branches. The strategy is to diversify funding (industry, asset class, tenor and currencies) 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.

### 7.2. 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.



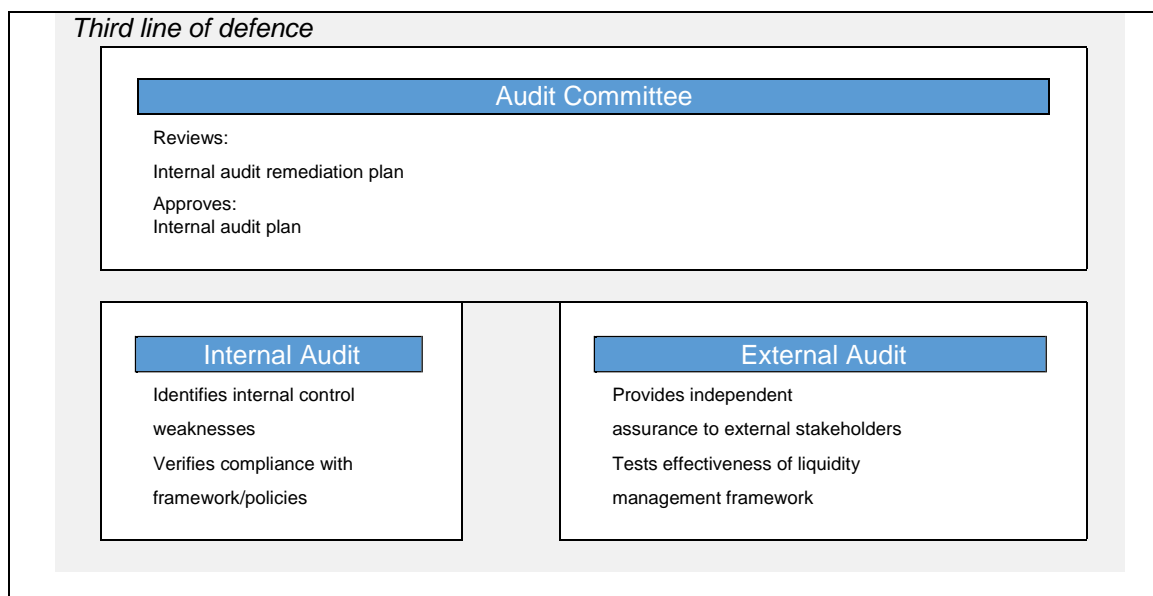


Figure 16: Liquidity risk management governance

### **7.3. 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 & Resolution Plan (Scenario and sensitivity analysis). Parameters utilized in stress testing scenarios are reviewed by ALCO annually.

#### **7.4. 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 LRP is aligned to CCB-JHB strategy, risk appetite and outcomes of stress testing performed during ICAAP.

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.

#### **7.5. Year in review**

The Branch's liquidity position remained resilient during and post pandemic 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 2022, the LCR was reported at 190% while NSFR was 139% (as per regulatory reporting).

Maintaining a strong liquidity position has been a priority given the adverse effects of the pandemic and Ukraine-Russia conflict. The Branch has maintained sufficient levels of HQLA to address short-term funding needs throughout the financial year.

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 has prudently managed its liquidity and adjusted its internal LCR appetite accordingly. Minimum regulatory LCR requirement increased to 90% from January 2022 and 100% from April 2022.

In 2022, the PA issued Directive 11 of 2022 with some adjustments related to LCR calculation. CCB-JHB has adjusted calculation accordingly, the outcome being a positive impact on the ratio (mainly due to regularly recognition of additional HQLA).

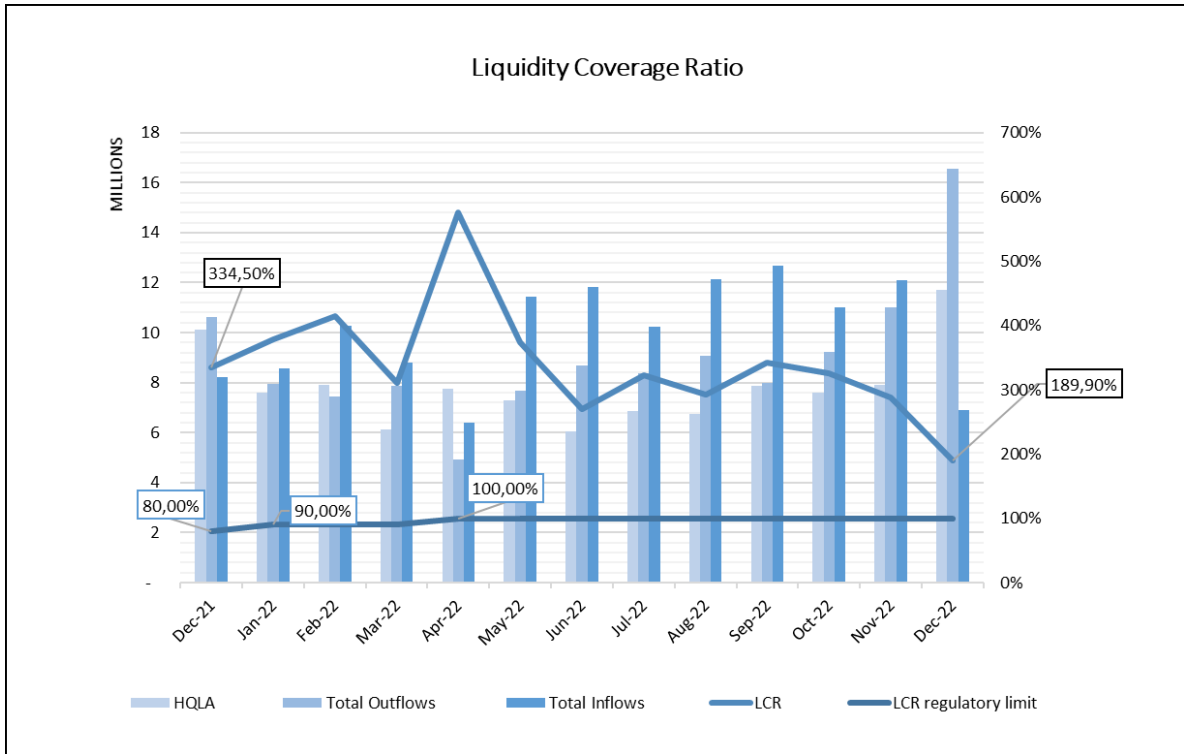


Figure 17: LCR - 2022

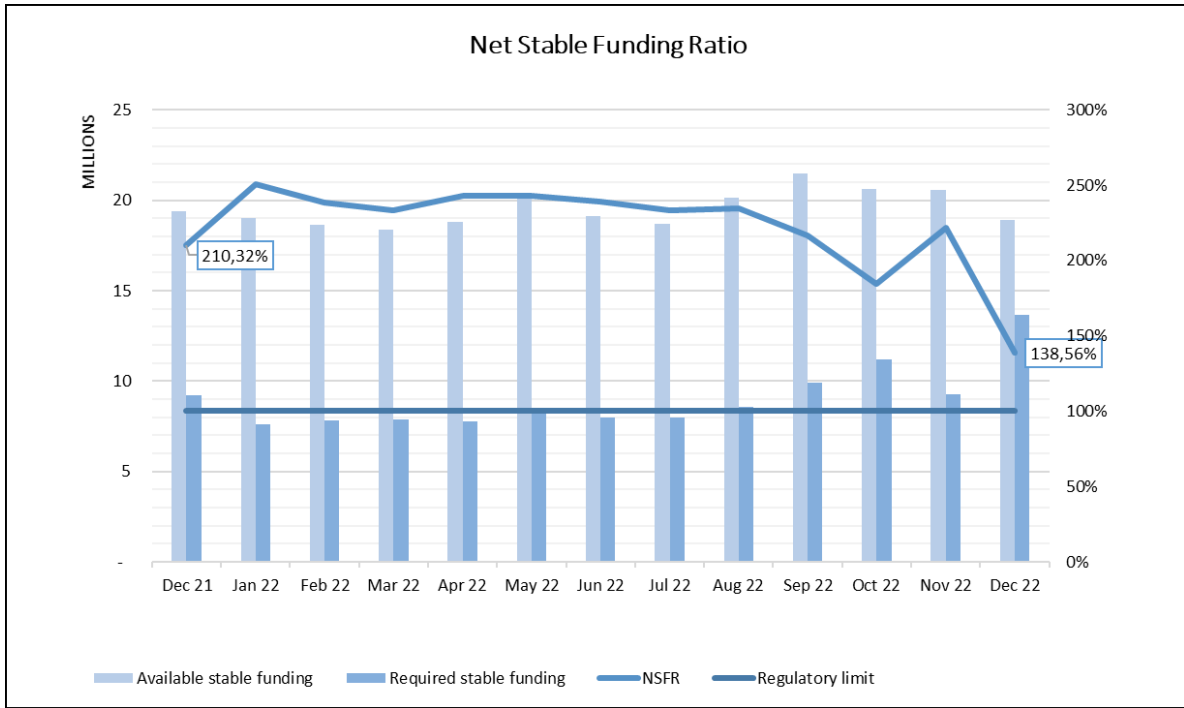


Figure 18: NSFR - 2022

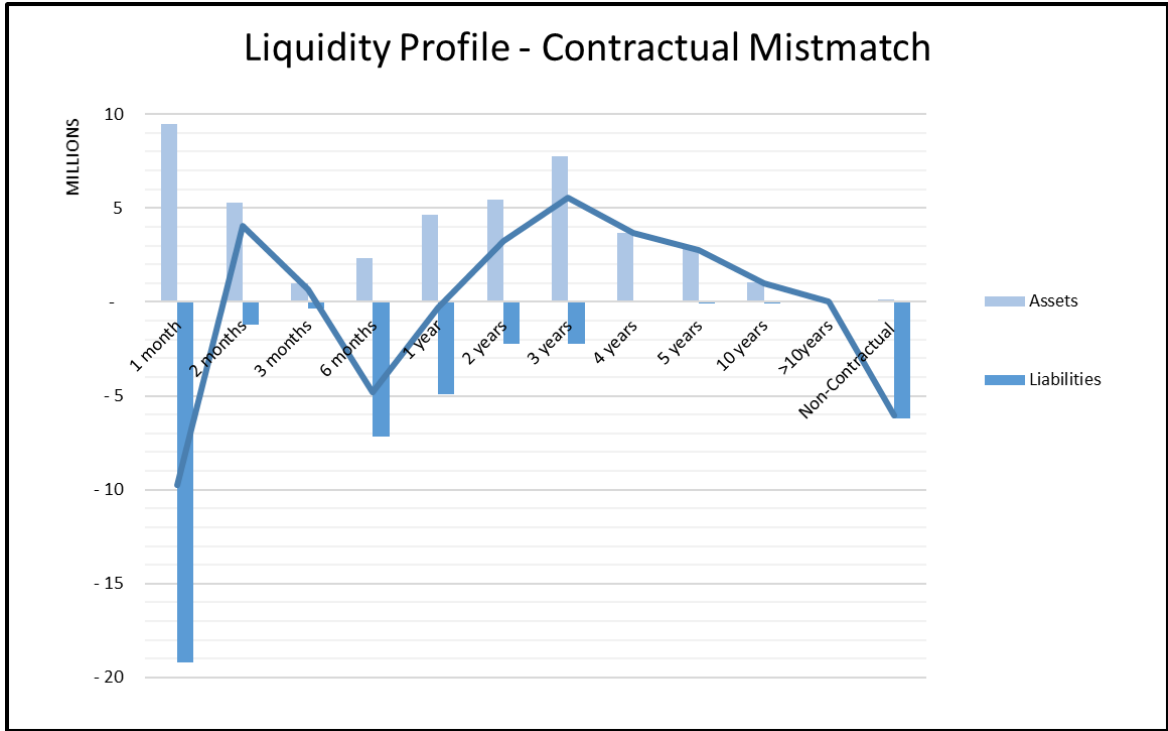


Figure 19: ALM - Contractual Mismatch – 2022 represented by the blue line

The above figure shows the contractual balance sheet mismatch between assets and liabilities, per time buckets and as of end of December 2022.

The funding mix has remained relatively stable from prior year, notable changes being:

- an increase in banks' funding (including intragroup);
- a decrease of Corporate funding (SME and Corporate).

The Branch's main source of funding continues to predominantly be banks and corporates (of which largely composed of financial institutions of varying sizes).

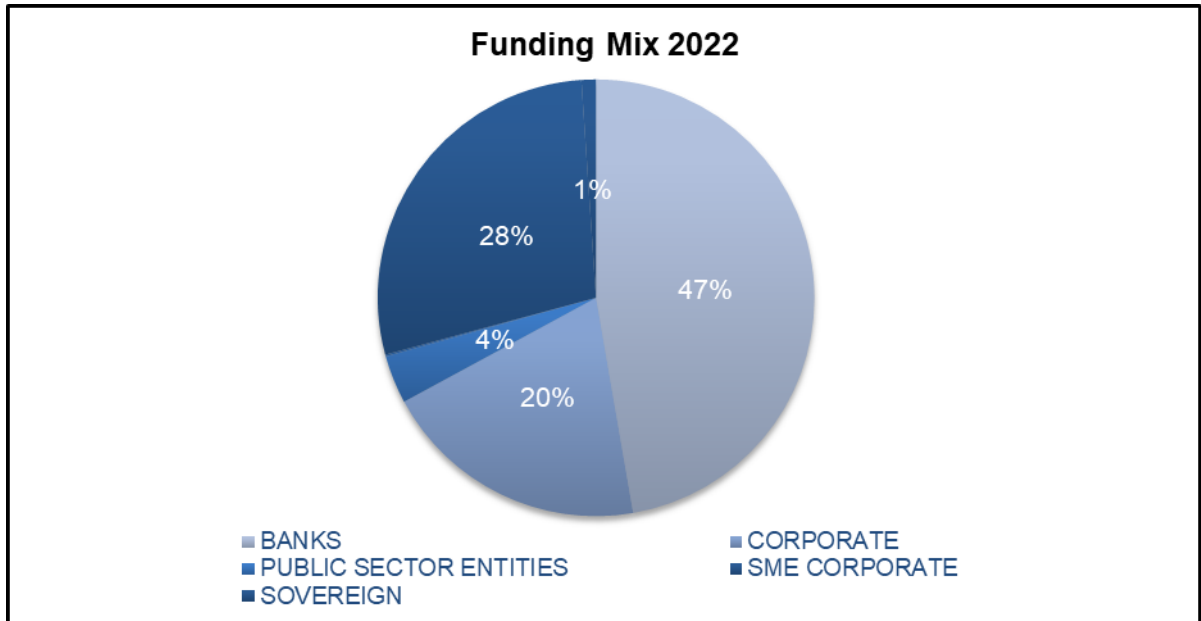


Figure 20: Funding Mix – 2022

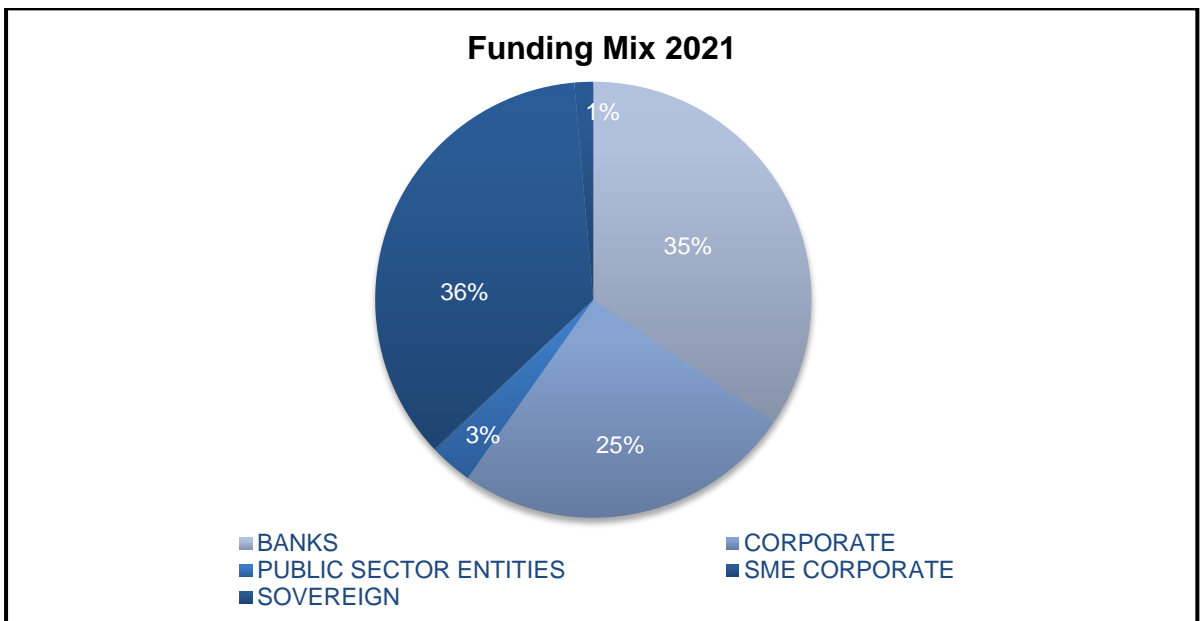


Figure 21: Funding Mix - 2021

## 8. INTEREST RATE RISK IN THE BANKING BOOK

### 8.1. 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.

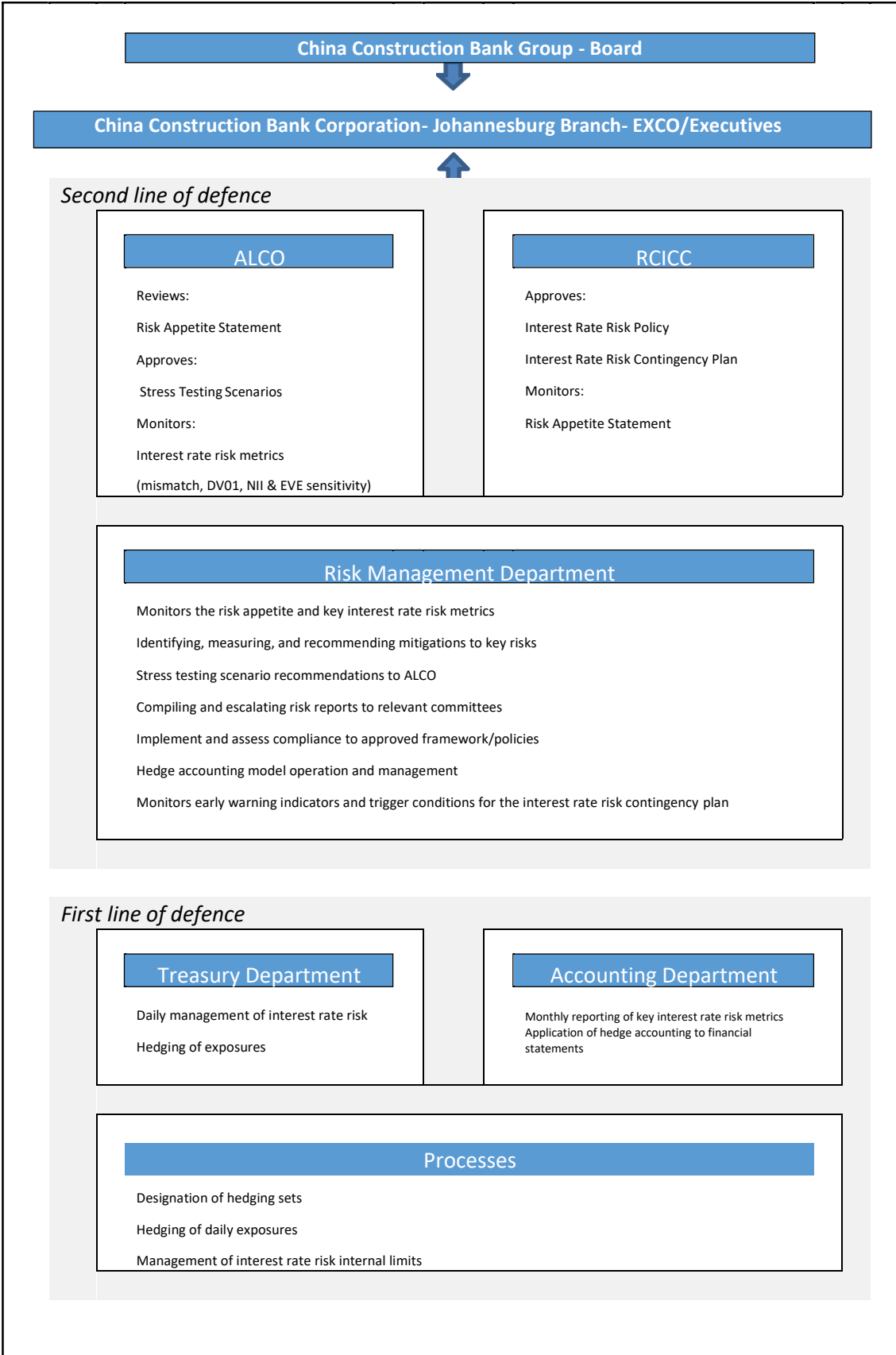
The Branch aims to maintain a balance sheet profile with natural interest rate risk offsets. In cases where there are no natural offsets, interest rate risk is hedged using appropriate derivatives which can affect CCB-JHB's income statement. In mitigation, the Branch has implemented fair-value hedge 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 January 2023, there is no concern regarding CCB-JHB's capacity in meeting stipulated requirements.

### 8.2. 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.



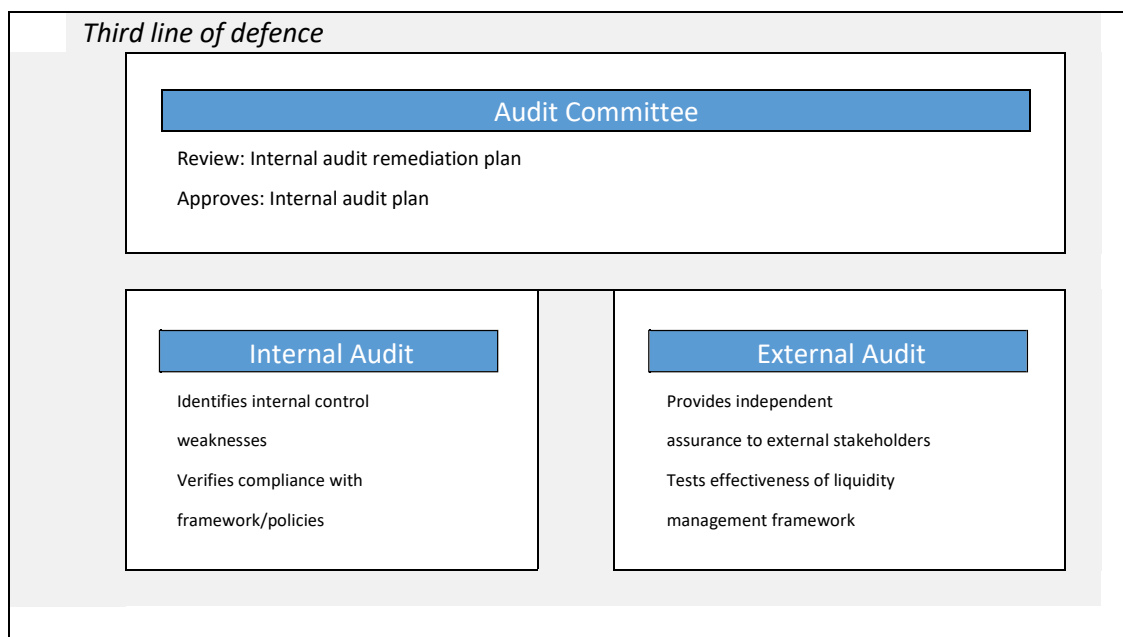


Figure 22: IRRBB management governance

### **8.3. 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.

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

## 8.4. Year in review

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.

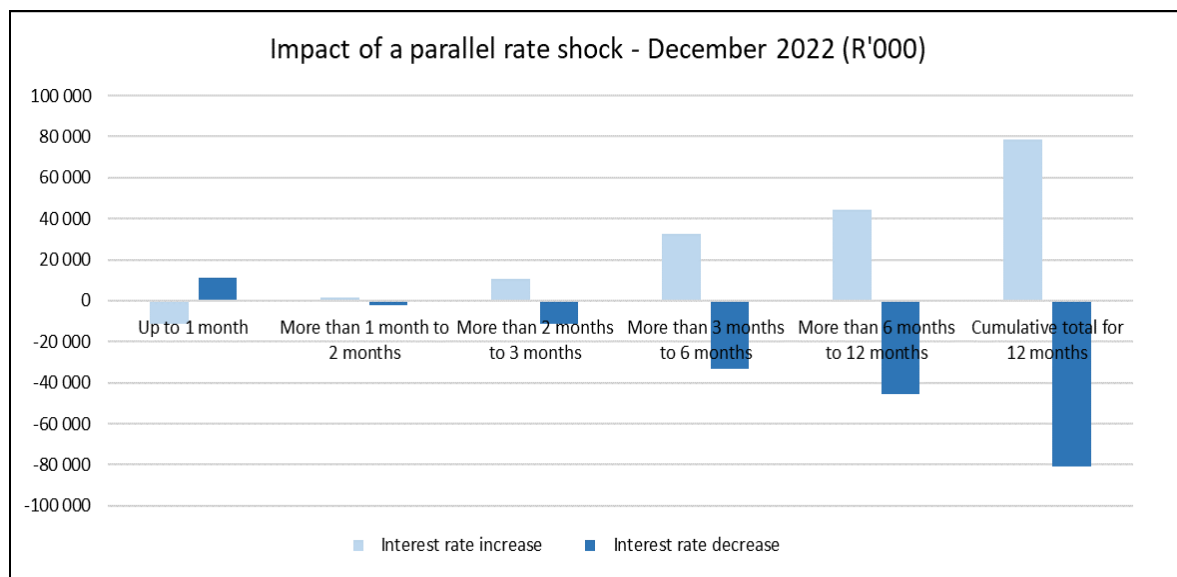


Figure 23: Parallel shock on NII - December 2022

The interest rate shocks used to measure interest rate sensitivity have been updated in accordance to the incoming IRRBB regulatory reform (from January 2023), the scenarios now apply different shock per currency. In addition, behavioural modelling has been incorporated into the measurement of IRRBB to ensure a more robust assessment of the risk.

There is no concern regarding CCB-JHB's ability in meeting the new framework requirements from January 2023 monthly reporting. Adjustments to IRR policy, procedure, modelling, reporting and risk appetite have all been performed.

The new scenarios impact will be measured against CCB-JHB Economic Value of Equity (EVE), the impacts will be measured against the Branch's Tier 1 capital. The outputs will be monitored and reported monthly and hedging strategy adapted accordingly.

## 9. MARKET RISK

### 9.1. 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 conducted a review of the banking/trading book exposure delimitations as per the BCBS Fundamental Review of the Trading Book (FRTB) Framework. The new FRTB framework will not impact current banking/trading book classification.

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

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.

## **9.2. Governance**

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

Operationally, the Treasury department manages market risk daily, with the RMD monitoring early warning indicators and current exposures. The Accounting department is responsible for regulatory reporting monthly, which forms part of the reporting to the ALCO and the RCICC on a monthly and quarterly basis respectively.

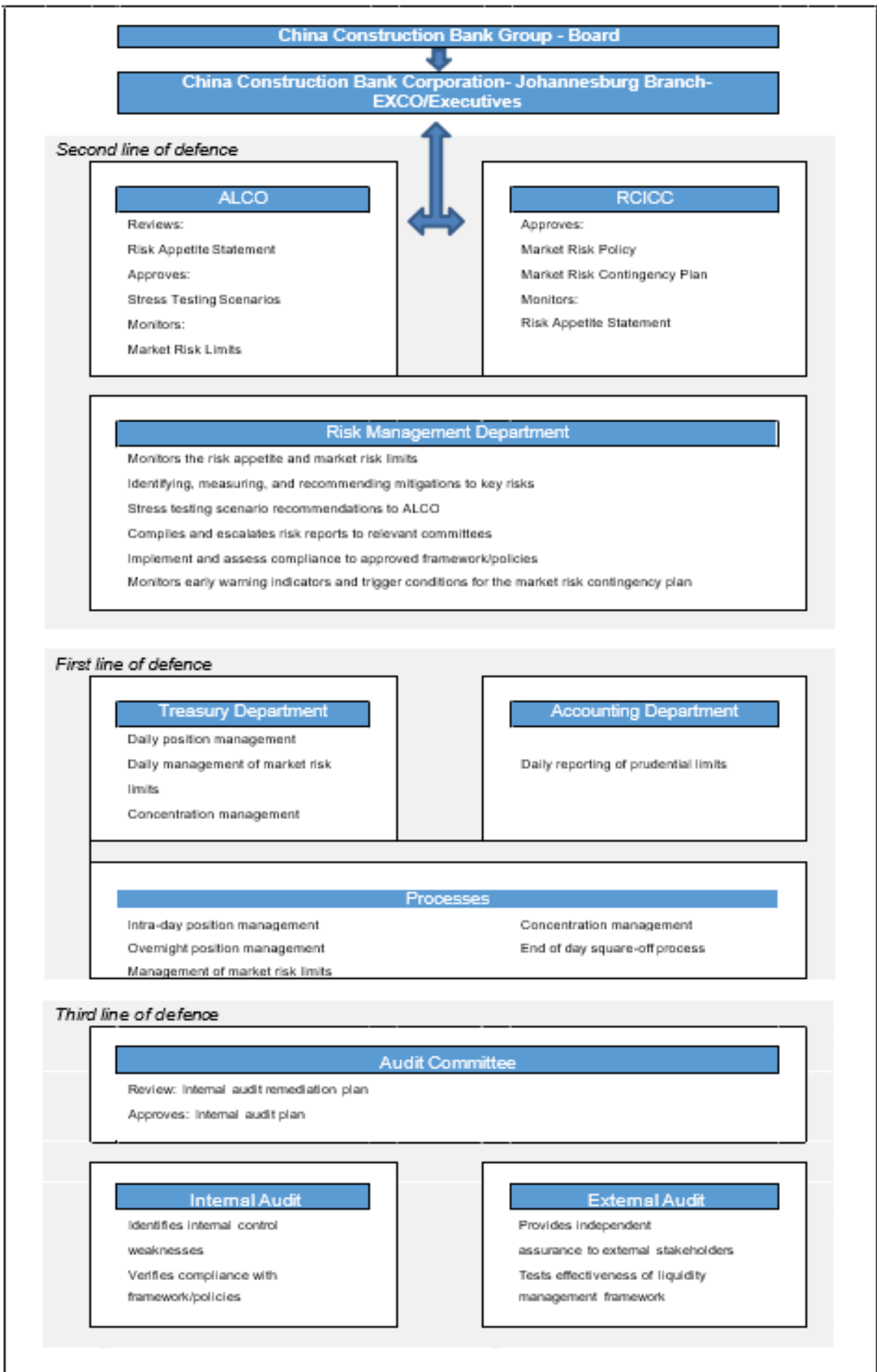


Figure 24: Market Risk governance

### **9.3. 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.

### **9.4. 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

### 10.1. 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.

## 10.2. Governance

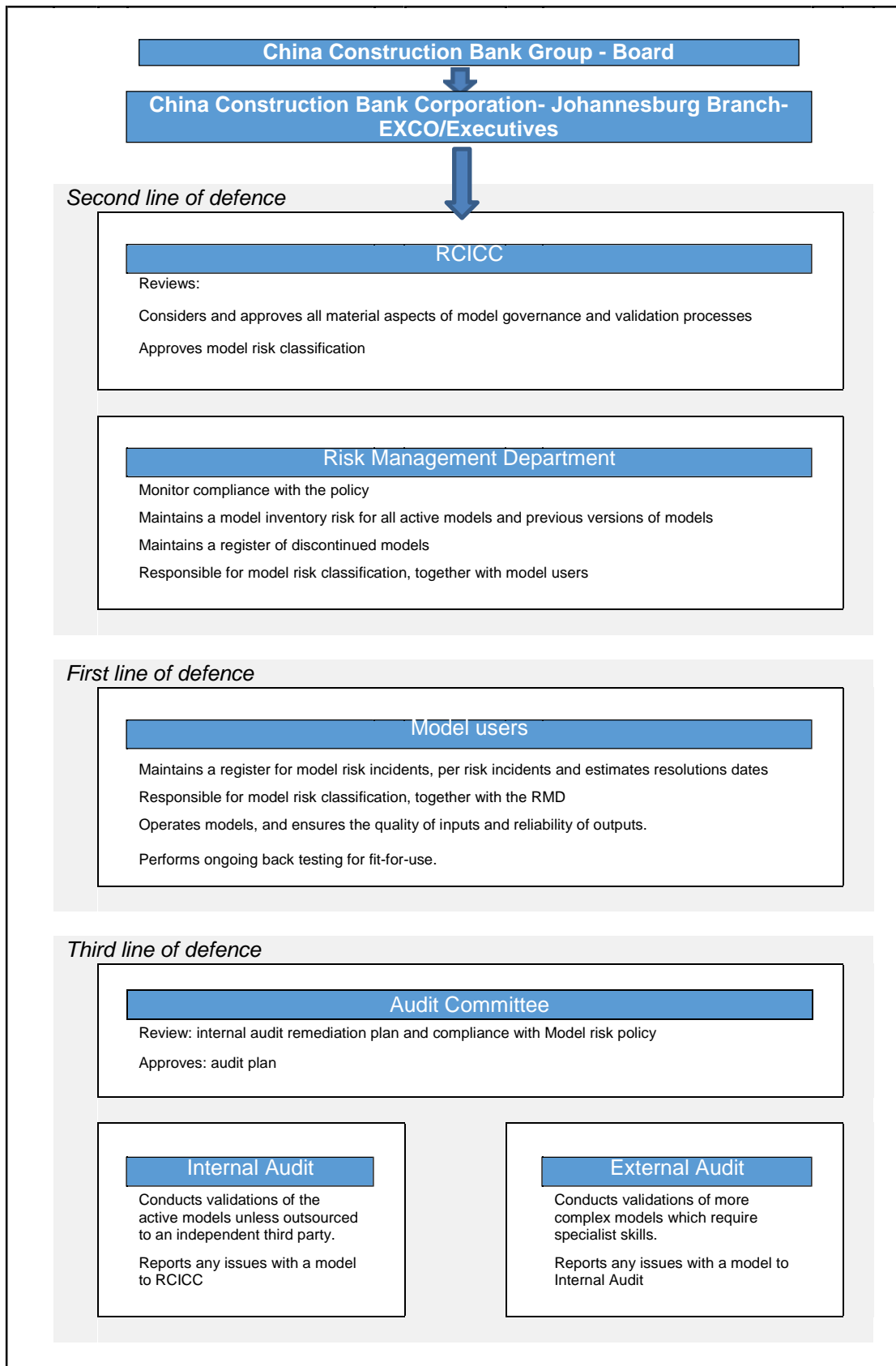


Figure 25: Model Risk governance

### **10.3. Management of Model risk**

Models are supported with 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

## 11.1. 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.

## 11.2. 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.

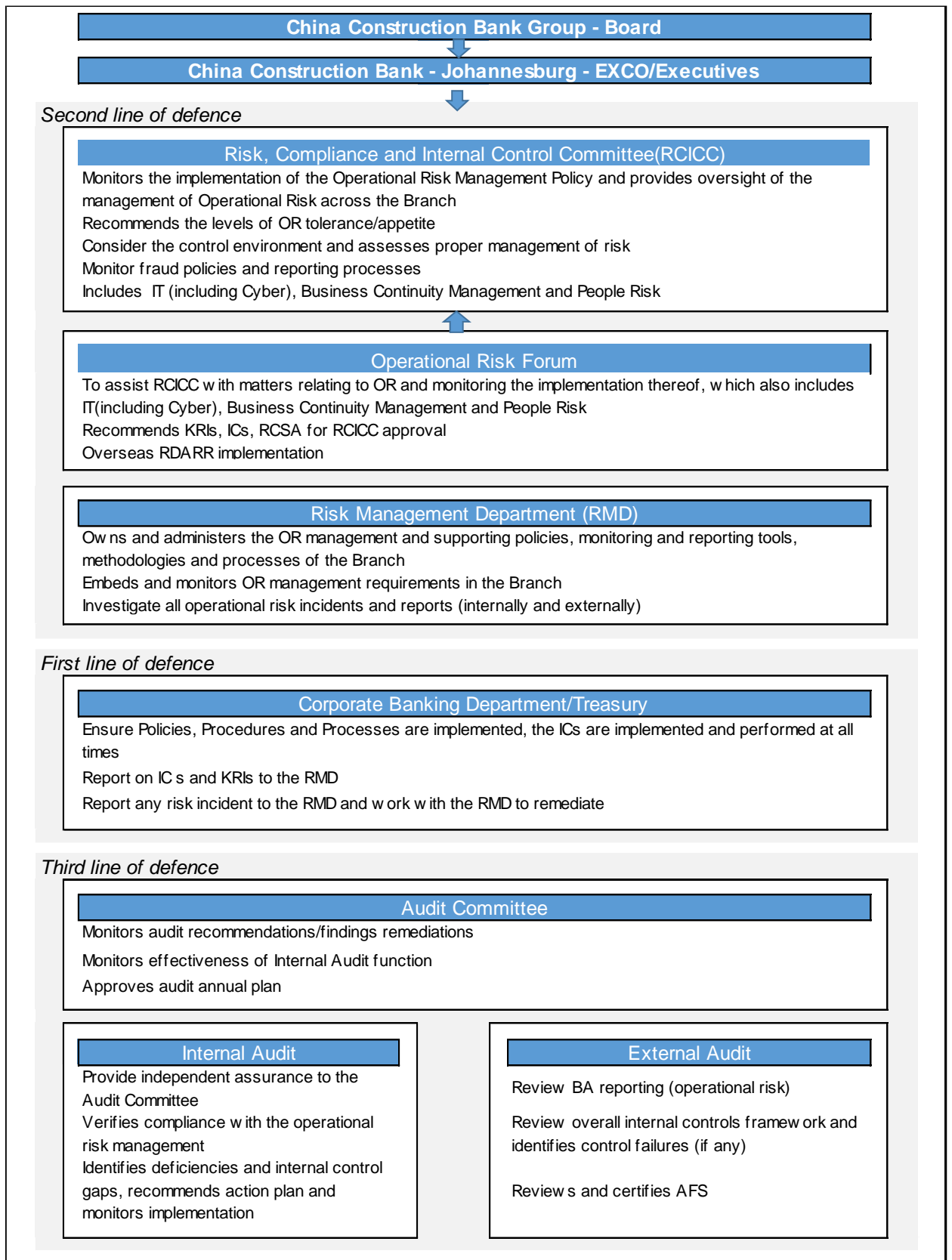


Figure 26: Operational Risk governance

### **11.3. 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 2024. 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.

### **11.4. 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. The Branch has also completed various assessments during 2022 which will support improving the management of operational risk.

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

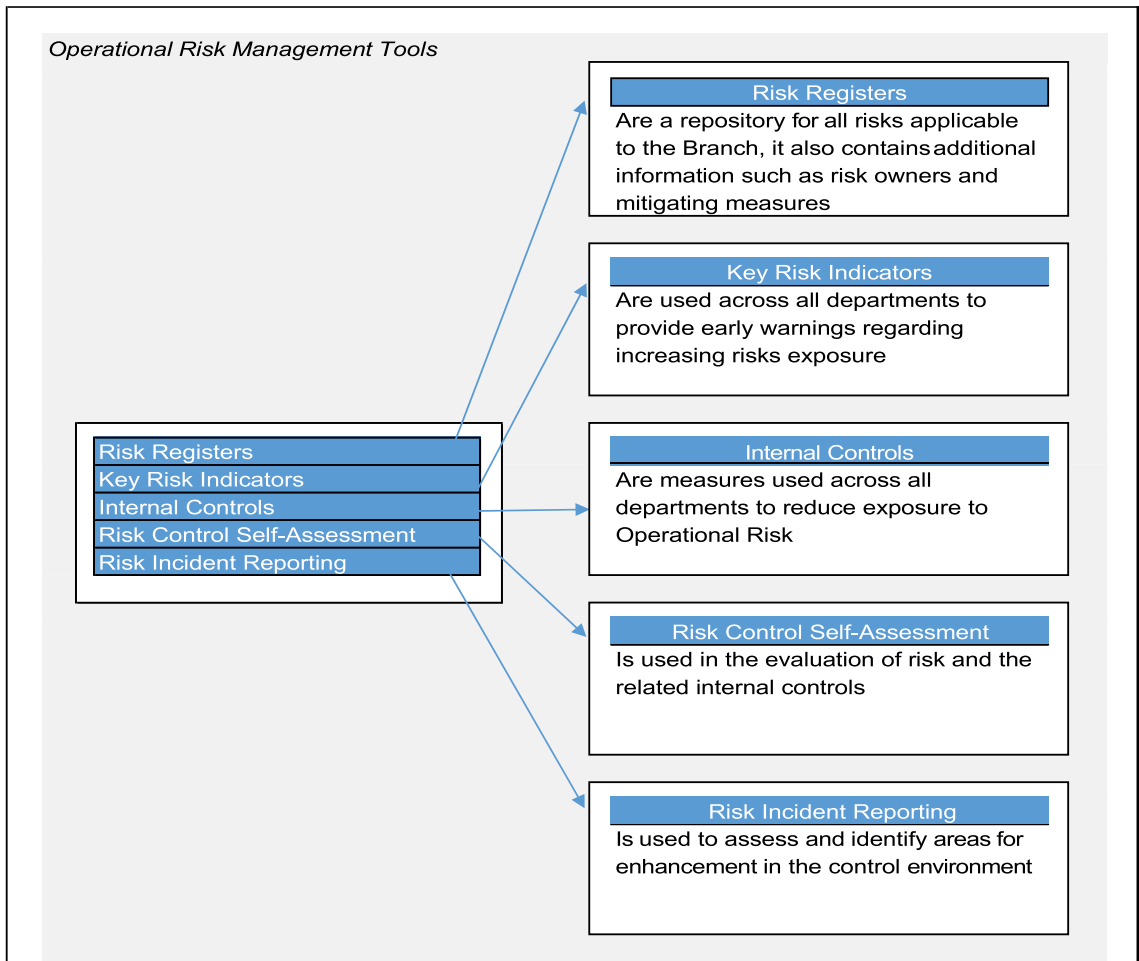


Table 16: OR tools

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

Table 17: OR sub-categories

### **11.5. 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. Effective operational risk management has resulted in no losses during 2022.

### **11.6. Year in review**

During 2022 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 and independent assessments throughout the year. 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 by adopting best practise standards, that being the Business Continuity Institute's Good Practise Guidelines of 2018, the adoption of these standards will support the Branch's overall resilience and response capabilities to emergencies.

As the Branch has returned to onsite working, enhancement of Information Technology practices is paramount to ensure a robust working environment and safeguarding the quality of the customer experience. Additional information on operational risk levels can be found in CCB-JHB's quarterly disclosure for December 2022.

## 12. REGULATORY AND CONDUCT RISK

### 12.1. 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.

Compliance risk is the risk that CCB-JHB may suffer legal sanctions, regulatory penalties, major financial losses and reputational losses due to failure to comply with regulatory requirements, and/or loss of authorisation by the regulators to perform certain or all activities, which would jeopardise the business of CCB-JHB.

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

The Prudential Authority (PA) and the Financial Sector Conduct Authority (FSCA) regulates banks in South Africa including the supervision of compliance within the Banks Act, Financial Markets Act, Financial Sector Regulation Act and other financial sector legislation.

Other regulators of CCB-JHB include the SARB's Financial Surveillance Department (FinSurv) and National Payment Systems Department, the Financial Intelligence Centre (FIC), the South African Revenue Service (SARS), the Department of Employment and Labour (DoEL), the Department of Trade and Industry (Dti), the Financial Sector Transformation Council (FSTC) and others such as Department of Health Inspectors (DOH).

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

CCB JHB defines Conduct Risk as the risk of CCB-JHB and/or its staff members not conducting itself/themselves in accordance with fair customer outcomes, market stability or competition standards, thereby leading to potential or actual detriment to customers or adverse effects to the industry or market.

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

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

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

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

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.

## **12.2. Structure and Governance**

The format of CCB-JHB's compliance structure has been determined based on the following underlying principles. The compliance department should be able to provide the Executive Management Committee with regular information regarding the level of compliance with regulatory requirements:

- having demonstrable support from the General Manager, Executive Management and Head Office;
- having adequate resources available to ensure proper compliance monitoring;
- functioning adequately, independently and objectively;
- ensuring that no conflict of interest exists with other internal control departments;
- reporting issues of non-compliance to the EXCO and the RCICC in a timely manner;
- having direct access to the General Manager; and
- being able to liaise directly with the regulator particularly with regard to reporting required.

CCB-JHB takes cognizance of both the Generally Accepted Compliance Principles as set out by the Compliance Institute of Southern Africa (GACP) and the 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 Head Office policies.

CCB-JHB as an overseas institution adheres to the strictest compliance standards. As the Bank endeavours to manage all risks associated with it, CCB-JHB has delegated the facilitation and guidance of the management of compliance risks to the Compliance Department.

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

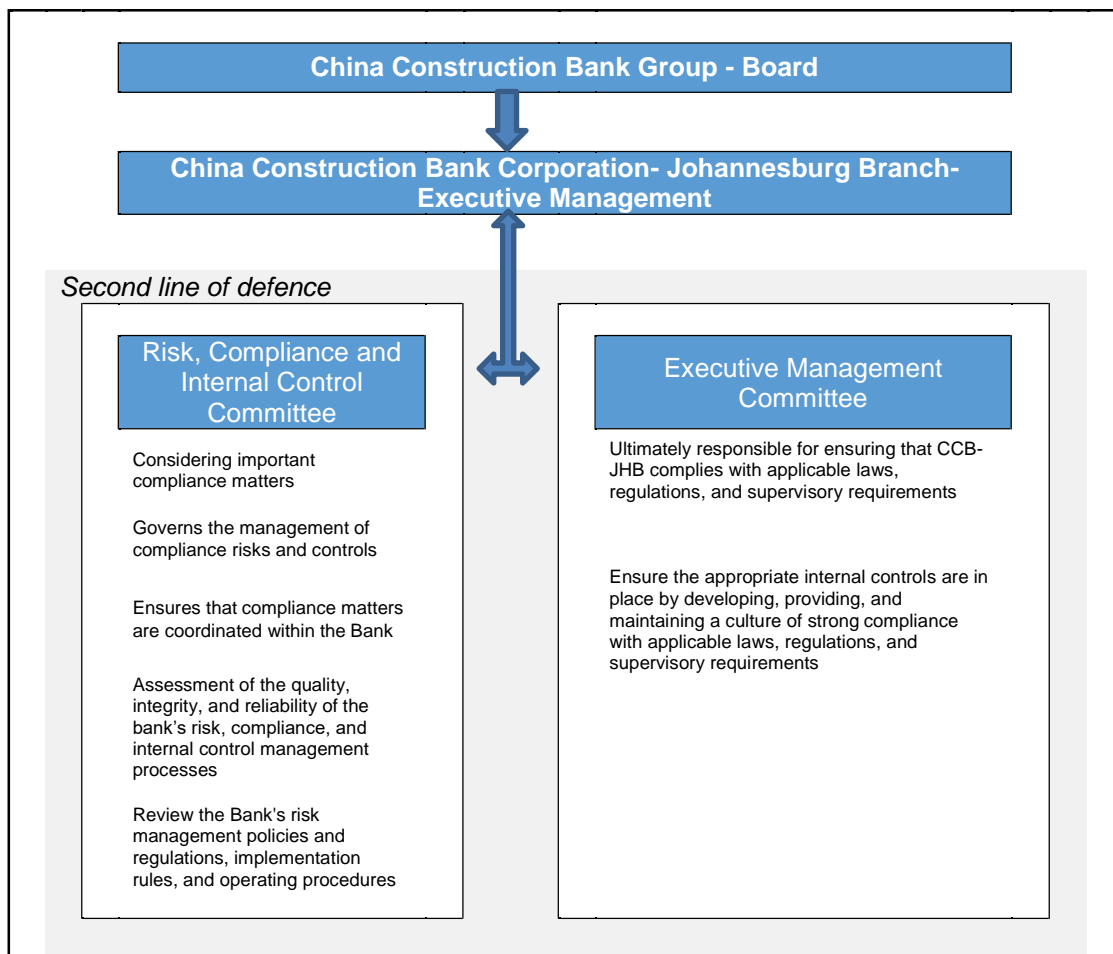
RCICC chaired by the General Manager and composed of senior representatives from across the Bank, provides a forum for considering important compliance matters. RCICC also ensures that compliance matters are coordinated within the Bank.

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

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

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

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



### Compliance Department

Facilitate the development, approval, and maintenance of 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 provides assurance for compliance;

Regularly assess the effectiveness of compliance management;

Give feedback to Compliance Department in a timely manner based on conducted audits.

### 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.

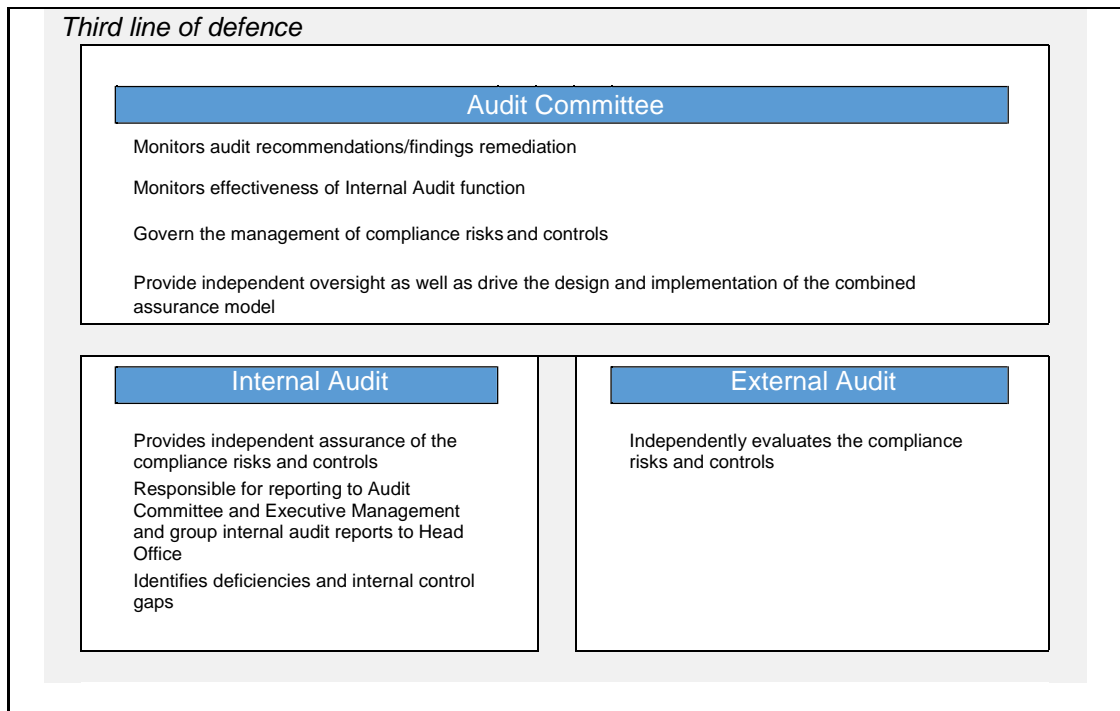


Figure 27: Regulatory and Conduct Risk governance

### **12.3. Management of regulatory and conduct risk**

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

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

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

#### **12.4. Year in review**

During 2022 the Branch continued to implement the risk-based monitoring plan to improve the monitoring of compliance risk and enhanced the risk-based assessment of key legislation to individual compliance risk assessments for each department with the aim to increase identification, understanding and monitoring of compliance risks by the first line of defence.

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, and over the counter derivative provider standards, disclosure requirement changes as well as regular updates and improvements of its AML/CFT/CPF policies and procedures. The branch implemented the Conduct Risk Forum and the Transformation Forum to address the conduct risk management and transformation initiatives. In June 2022 the branch received its authorisation as an OTC derivatives provider.

The Branch underwent internal and external reviews of its AML/CFT/CPF 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 also undertook an assessment and evaluation of the maturity level of the compliance function which led to an enhancement of the policy, manual, charter and methodology to accommodate a risk based approach to compliance management in line with HO, the Compliance Institute of South Africa and best practices.

Gap assessments were performed on incoming legislative changes and the department performed all monitoring initiatives which were planned for the year. All routine regulatory and HO reporting was completed and the department received a clean internal audit.

All Compliance projects planned for the year were completed with enhancements in areas of anti-money laundering, protection of personal information, OTC Derivatives and Conduct Risk management.

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

## 13. OTHER RISKS

### **13.1. Geopolitical and Macroeconomic Risk**

Geopolitical and Macroeconomic risk derives from the behaviour of industries and governments and the relationships between them. It concerns fiscal and monetary policies, trade and investment flows, and political developments on a national and international scale, and the effects of these factors on financial portfolios and company valuations.

Head Office establishes specific country exposure limits for each country with whom the Bank has or may have a business.

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

Country Risk limits are based upon an analysis of the socio-political environment in the listed countries, and these are managed by the Branch accordingly. RMD is in charge of tracking, collecting, and sourcing the political, economic, and safety information in the business-related countries (or regions) to prepare country risk rating reviews which are then submitted to Head Office for ultimate review and approval.

All country limits are allocated by Head Office based on the following:

- all countries are allocated a CCB internal rating;
  - CCB Group Credit Department will allocate a global limit per country (regular or temporary); and
  - CCB Group Credit Department will allocate specific limits per business type (credit business and market risk business).

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

RMD reports to the RCICC which reports to EXCO and CCB-JHB is responsible for:

- identifying country risk;
- monitoring country limits and use of limits;
- measuring as per CCB Group principles (allocation of country limits per set criteria, risk transfer rules, limits utilisations, exposure per type of transactions, etc.);
- setting sound early warning and reporting mechanism as stipulated in the Country Risk Contingency Plan;
- reviewing country ratings in the Sub-Sahara region following CCB Group rating model; approval is performed at HO; and
- conducting timely emergency country risk events reporting and implementing recovery actions if needed (pre-established guidance within Country Risk Contingency Plan).

Country risk (of which geopolitical and macroeconomic risk) is managed/mitigated:

- with diversified funding lines across various regions than the one it is operating with;
- the Treasury Department hedges all transactions > 9 months using Interest Rate derivatives and forex;
- contingency plans rely on other CCB branches across the world and on the CCB Group;
- ongoing monitoring of market movements due to geopolitical influences are monitored and reported to Executive Management and the HO;
- in line with CCB-JHB lending strategy, CCB-JHB provides services to clients enjoying upper credit risk ratings; guarantees and collateral are sought where possible, including parent company guarantees from other jurisdictions; and
- stress testing encompasses geopolitical and macroeconomic shock to assess the impact and pro-actively identify response actions.

The RWA distribution per country is shown in the below table:

Countries	Risk weighted assets 2021	% of total Risk weighted assets 2021	Risk weighted assets 2022	% of total Risk weighted assets 2022
China	3 601 753 824	34,19%	624 415 424	4,68%
Egypt	352 020 633	3,34%	376 238 726	2,82%
United Kingdom	1 604 475 405	15,23%	2 820 278 478	21,12%
United States	2 021 881 069	19,19%	988 322 568	7,40%
Netherlands	0	0,00%	805 709 250	6,03%
Mauritius	0	0,00%	831 339 508	6,23%
<b>Grand Total</b>	<b>7 580 130 931</b>	<b>71,96%</b>	<b>6 446 303 953</b>	<b>48,28%</b>
South Africa	2 953 607 377	28,04%	6 905 457 805	51,72%

Table 18: Country risk composition

As of December 2022, 48% of total RWA are to companies domiciled outside of South Africa; RWA distribution has changed over 2022 with an increased concentration in South Africa with local credit demand recovering post pandemic. Over 2021, the pandemic affecting negatively local credit demand (early repayments and difficulties in replacing maturing deals) and CCB-JHB relied on overseas opportunities, mainly from China.

Given CCB-JHB mandate and strategy, CCB-JHB is exposed to the Sub-Saharan region and particularly South Africa. Given CCB-JHB operating in South Africa, CCB-JHB is also exposed to emerging countries' geopolitical and macroeconomic risks.

The Ukraine-Russia conflict has affected the global economy (direct and indirect impacts). CCB-JHB had no assets in both countries and is not subject to any direct impact. Secondary effects on the local economy are monitored (oil price, global instability, volatility of some currencies etc.).

## **13.2. 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".

### **13.3. 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, Conduct Risk Policy and compliance standards which constitute the reference framework for CCB Group's values, responsibilities, ethics, and compliance. Adherence to the principles in these documents protects employees from exposure to severe reputation risk.

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.

## **13.4. 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.

### 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 developed a CO2 reduction plan to achieve neutrality within realistic and reasonable timeframe.

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

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

### 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).

During 2022, the business continuity plan was gradually adjusted to eventually return to all staff being back on-site. The return of staff was operated smoothly and no outbreak occurred. CCB-JHB is no longer operating under business continuity management as at end of 2022.

## 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 a foreign 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 sub-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 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 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

*Table 19: HR indicators*

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 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 Expatriates and 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, and medical schemes for expatriates.

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 line Executives 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 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

Rand amounts	Remuneration amount		Senior Management
1	Fixed remuneration	Number of employees	18
2		Total fixed remuneration (3 + 4)	<b>60,688,978.51</b>
3		<i>Of which: cash-based</i>	<i>55,471,257</i>
4		<i>Of which: other forms</i>	<i>5,217,722</i>
5	Variable Remuneration	Number of employees	18
6		Total variable remuneration	<b>28,407,276</b>
7		<i>Of which: cash-based</i>	<i>28,407,276</i>
8	<b>Total remuneration (2 + 6)</b>		<b>89,096,254.90</b>

Table 20: REM1

## 15. INDEX OF PILLAR 3 DISCLOSURE TEMPLATE

SECTION AND TABLE	PILLAR 3 REQUIREMENTS	PAGES	COMMENTS
Overview of risk management and risk weighted assets			6
OVA Bank risk management approach	✓		6
Link between financial statements and regulatory exposures			23
LI1 Mapping of financial statement categories with regulatory frameworks	✓		23
LI2 Sources of difference between regulatory exposure amounts and carrying values in financial statements	✓		24
LIA Explanation of differences between accounting and regulatory exposure amounts	✓		23
PV01 Prudent valuation adjustments	✓		26
Capital management			29
Credit risk			36
CRA Qualitative information about credit risk	✓		36
CRB Additional disclosure related to credit quality of assets	✓		43
CRB Exposure by geographical, industry and residual maturity	✓		41-42
CRB Impaired exposures by geographical and industry	✓		41-42
CRB Age analysis	✓		42
CRB Impaired and not impaired restructured exposures	✓		47
CRC Credit risk mitigation	✓		43
CRD Qualitative disclosures on banks' use of external credit ratings under the standardised approach for credit risk	✓		39-40
CRE AIRB approach qualitative disclosure	✗		No use of AIRB
Counterparty credit risk			48
CCRA Qualitative disclosure	✓		48-51
Liquidity and funding risk			52
Interest rate risk in the banking book			59
Market risk			63
MRA Qualitative disclosure for market risk	✓		63
MRB IMA qualitative disclosure	✗		No use of IMA
Model risk			67
Operational risk			70
Regulatory and conduct risk			76
Other risks			83
Remuneration and compensation			89
REM1: Remuneration awarded during the financial year	✓		95
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/CPF	Anti-Money Laundering and Combatting the Financing of Terrorism and Countering Proliferation Financing
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
FV	Fair Value
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
OCI	Other Comprehensive Income
ORF	Operational Risk Forum
OTC	Over-The-Counter
PA	Prudential Authority
PD	Probability of Default
PoPIA	Protection of Personal Information Act
PSEs	Public Sector Enterprises
PVA	Prudent Valuations Adjustment
RAF	Risk Appetite Framework
RAS	Risk Appetite Statement
RCICC	Risk, Compliance and Internal Control Committee
RMD	Risk Management Department
RMF	Risk Management Framework
RRP	Recovery & Resolution 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