Bank of Communications Co., Ltd. Johannesburg Branch

Pillar III disclosure report for the period ended 31 December 2021

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1. EXECUTIVE MANAGEMENT'S STATEMENT

The Bank of Communications Co., Ltd. Johannesburg Branch (the Branch) officially opened on 20 November 2020. The Branch is the first Bank of Communications Co., Ltd. (the Bank / Head Office) branch to be established in Africa and it holds great significance in that it not only expands the international footprint of the Bank but it also assists the Bank in building an effective global customer service system.

The Executive Management have the pleasure of presenting the Pillar III Disclosure in terms of Regulation 43 of the Banks Act 94 of 1990 for the year ended 31 December 2021.

The Pillar III Disclosure is prepared in accordance with internal control processes approved by the Executive Management of the Branch. Executive Management accepts its responsibility for the preparation and fair presentation of the Pillar III Disclosure and the related information included.

In order for Executive Management to discharge its responsibilities, a system of internal controls was developed and continues to be maintained. The internal controls provide reasonable assurance that assets are safeguarded and that transactions are executed and recorded in accordance with generally accepted business practices and the Branch's policies and procedures.

These controls are implemented by trained and skilled staff members with appropriate segregation of duties and are monitored by management and include a comprehensive reporting system, which operates within a control framework. The Executive Management acknowledge that they are ultimately responsible for the system of internal financial control established by the Branch and place considerable importance on maintaining a strong control environment. Executive Management are responsible for establishing and calculating accounting estimates and selecting and applying accounting policies.

The Branch endowment capital as at 31 December 2021 is R1 488 180 000. The net loss after tax for the year ended 31 December 2021 is R33 699 869.

The Pillar III Disclosure provided in this report are in line with the revised disclosure requirements published by the Basel Committee on Banking Supervision.

The Executive Management Committee (EXCO) of the Branch is satisfied that the information provided in this report was subject to the same level of internal review and internal control processes as the information provided for financial reporting purposes and disclosures in this report have been prepared in accordance with the board-agreed internal control processes related to public disclosures.

Mr JD Wang
General Manager

2. OVERVIEW OF RISK MANAGEMENT AND RISK WEIGHTED ASSETS

KM1: Key metrics

	in R'000	31 Dec 2021	30 Sep 2021	30 Jun 2021	31 Mar 2021	31 Dec 2020
Available capital (amounts)						
1	Common Equity Tier 1 (CET1)	1 157 084	1 471 203	1 475 941	1 470 006	1 493 835
1a	Fully loaded ECL accounting model	1 157 084	1 471 203	1 475 941	1 470 006	1 493 835
2	Tier 1	1 157 084	1 471 203	1 475 941	1 470 006	1 493 835
2a	Fully loaded ECL accounting model Tier 1	1 157 084	1 471 203	1 475 941	1 470 006	1 493 835
3	Total capital	1 185 710	1 471 203	1 475 976	1 470 045	1 493 871
3a	Fully loaded ECL accounting model total capital	1 185 710	1 471 203	1 475 976	1 470 045	1 493 871
Risk-weighted assets (amounts)						
4	Total risk-weighted assets (RWA) [1]	3 467 279	234 313	243 363	164 487	286 605
4a	Total risk-weighted assets (pre-floor) [1]	3 467 279	234 313	243 363	164 487	286 605
Risk-based capital ratios as a percentage of RWA						
5	CET1 ratio (%) [1]	33.16%	627.88%	606.48%	893.69%	521.22%
5a	Fully loaded ECL accounting model CET1 (%) [1]	33.16%	627.88%	606.48%	893.69%	521.22%
5b	CET1 ratio (%) (pre-floor ratio) [1]	33.16%	627.88%	606.48%	893.69%	521.22%
6	Tier 1 ratio (%) [1]	33.16%	627.88%	606.48%	893.69%	521.22%
6a	Fully loaded ECL accounting model Tier 1 ratio (%) [1]	33.16%	627.88%	606.48%	893.69%	521.22%
6b	Tier 1 ratio (%) (pre-floor ratio) [1]	33.16%	627.88%	606.48%	893.69%	521.22%
7	Total capital ratio (%) [1]	34.20%	627.92%	606.49%	893.71%	521.23%
7a	Fully loaded ECL accounting model total capital ratio (%) [1]	34.20%	627.92%	606.49%	893.71%	521.23%
7b	Total capital ratio (%) (pre-floor ratio) [1]	34.20%	627.92%	606.49%	893.71%	521.23%
Additional CET1 buffer requirements as a percentage of RWA						
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.50%	2.50%	2.50%	2.50%	2.50%
9	Countercyclical buffer requirement (%)	0.00%	0.00%	0.00%	0.00%	0.00%
10	Bank G-SIB and/or D-SIB additional requirements (%)	0.00%	0.00%	0.00%	0.00%	0.00%
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9 + row 10)	2.50%	2.50%	2.50%	2.50%	2.50%
12	CET1 available after meeting the bank's minimum capital requirements (%) [1]	34.20%	627.92%	594.73%	881.94%	509.47%
Basel III leverage ratio						
13	Total Basel III leverage ratio exposure measure	4 519 037	1 489 736	1 493 041	1 495 750	1 526 904
14	Basel III leverage ratio (%) (including the impact of any applicable temporary exemption of central bank reserves)	25.60%	98.76%	98.85%	98.28%	97.83%

in R'000		31 Dec 2021	30 Sep 2021	30 Jun 2021	31 Mar 2021	31 Dec 2020
14a	Fully loaded ECL accounting model Basel III leverage ratio (including the impact of any applicable temporary exemption of central bank reserves) (%)	25.60%	98.76%	98.85%	98.28%	97.83%
14b	Basel III leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	25.60%	98.76%	98.85%	98.28%	97.83%
14c	Basel III leverage ratio (%) (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values for SFT assets	25.60%	98.76%	98.85%	98.28%	97.83%
14d	Basel III leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values for SFT assets	25.60%	98.76%	98.85%	98.28%	97.83%
Liquidity Coverage Ratio (LCR)						
15	Total high-quality liquid assets (HQLA) [2]	1 177 598	1 004 509	994 657	1 192 752	1 051 465
16	Total net cash outflow [2]	1 426	9 472	11 026	27 347	21 141
17	LCR ratio (%) [2]	27 053%	10 606%	9 021%	4 362%	4 974%
Net Stable Funding Ratio (NSFR)						
18	Total available stable funding	4 662 903	1 481 739	1 483 754	1 487 900	1 521 202
19	Total required stable funding	3 180 630	126 575	326 124	325 131	311 832
20	NSFR ratio [1]	147%	1 171%	455%	458%	488%

[1] *Investment in South African Government Bonds (ZAR and USD denominated) has resulted in movements in risk-weighted assets, capital adequacy and net stable funding ratios.*

[2] *Three month average*

OVA: Bank risk management approach

The Branch's business activities expose it to a variety of financial risks regarding analysis, evaluation, acceptance and management. The Branch's aim is to achieve an appropriate balance between risks and returns and minimise potential adverse effects on the Branch's financial performance. The main types of financial risks are credit risk, liquidity risk, operational risk and market risk and including interest rate risk.

The Branch's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, monitor the risks and to control the risk limits through reliable and up-to-date information systems. The Branch regularly reviews its risk management policies and systems to reflect changes in markets and products and the latest best practice.

The Board of Directors of Head Office sets out risk management strategies, overall risk preference and risk tolerance level. The senior management establishes risk management policies and procedures according to the strategies set by the Board of Directors. The risk management division in each operation department at Head Office, in each domestic and overseas branch and in each subsidiary undertakes specific risk management function. Internal Audit Department is responsible for independent review of risk management and control environment.

Risk weighted assets of the Branch are calculated in accordance with the requirements of the Banks Act 94 of 1990 and the Regulations pertaining thereto. The Branch applied the following measurement approaches for the year ended 31 December 2021:

- Credit Risk: Standardised Approach
- Counterparty Credit Risk: Standardised Approach
- Operational Risk: Basic Indicator Approach
- Market Risk: Standardised Approach

The Branch has established a Risk Appetite Framework (RAF) in line with best practices as well as Head Office requirements. The Risk Appetite Statement (RAS) of the Branch combines both Head Office and local requirements and is aligned to the Branch's strategy, this includes:

- qualitative and quantitative statements;
- key risks faced by the Branch; and
- strategic and performance metrics.

<u>Risk governance structure</u>

Risk reports are submitted to Capital & Risk Management Committee (CRMC) on a quarterly basis. CRMC reviews the risk reports and if necessary, formally approves any adjustments to the risk profile or risk appetite of the Branch, taking into account the Bank's risk tolerance levels.

The Branch has established the following committees to monitor, challenge and manage risks:

- <u>Capital & Risk Management Committee (CRMC):</u> The CRMC is the decision-making body for overall risk management of the Branch. It undertakes to decide on risk strategy, tolerance and limits of the Branch, review internal policies on credit risks, market risks, liquidity risk, operational risks, country risk, compliance risks, etc. of the Branch, evaluate the management of above-mentioned risks of the Branch, as well as other major matters relating to overall risk management.
- <u>Asset & Liability Committee (ALCO):</u> Manages market risk, counterparty credit risk, foreign exchange risk, regulatory risk in terms of complying with prudential requirements (such as the liquidity ratios and 60/40 prudential ratio) and interest rate risk on the banking book. ALCO also has input into the pricing of products and service offerings and reviews macroeconomic assumptions. ALCO serves to provide strategic direction in terms of overall asset and liability mix and position-taking that would support business objectives while maintaining a sound financial position consistent with the Bank's risk appetite.
- <u>Credit Committee (CC):</u> Management of matters relating to credit decisions, including loan approvals.

<u>Risk systems</u>

The risk measurement systems used by the Branch are a combination of systems provided by Head Office and locally developed systems. These systems facilitate risk measurement and management as a whole. The table below provides a summary of the main systems used by the Branch:

System	**Functions**
Head Office core banking system	• General ledger system • Client profile system / clients database • Client transactions system • Credit limit monitoring • Risk monitoring and reporting tool • Reporting system linked to Head-Office core banking system • Generating automated reports • Generating adhoc reports as per specific request
Summit system	• Bank deals- Bonds • End of Day process • Bank deals- Foreign Exchanges Swaps, Interest Rate Swaps, etc. • Treasury Limit monitoring • Containing modified and deleted deals • Audit trail

<u>Risk information reporting</u>

Each risk is assigned to a Risk Owner with identified mitigating actions. In addition, reports on all significant risks are prepared and submitted to Head Office, the EXCO of the Branch as well as the relevant committees of the Branch.

Stress testing

The Stress Testing Framework defines the process of:

- Identifying and defining potential extreme adverse future economic scenarios, which are considered to be severe yet plausible;
- Measuring the sensitivity of the Branch's risk portfolios to changes in the economic variables associated with the defined stress scenarios;
- Comparing the results of the stress testing to risk appetite levels and taking management actions should the results of the stress tests exceed risk appetite;
- Assessing the impact on prudential ratios for ICAAP and recommending internal buffers; and
- Defining triggers for the Recovery Plan.

The stress-testing framework covers the following types of tests:

- Stresses demonstrating the effect of risks on the Branch's earnings over a period;
- Stresses and scenarios that demonstrate the effect of risks on the Branch's liquidity and capital;
- Scenarios of significant macroeconomic or operational events that may affect earnings, capital and liquidity.

These tests include a variety of techniques, for example stressing key drivers to illustrate the effects on earnings or capital, and consideration of scenarios and macroeconomic events that might affect the liquidity of the Bank.

The Branch has established a Risk Management Framework (RMF) to ensure that risks are managed in a coordinated, comprehensive and systematic manner that is in line with Head Office requirements, South African laws and regulation, and is consistent with internationally accepted standards and guidelines.

Risk mitigation

The Bank operates its business on the "Three Lines of Defense" principle to identify, manage, controls, report and challenge risk.

The Branch's comprehensive risk management process involves identifying, quantifying, managing and mitigating, reporting (through the risk register and established set of reports) and challenging the risks associated with each of the business units. Risk awareness, controls and compliance are embedded in all daily activities.

Risk Mitigation, depending on the risk type, may include techniques such as:

- ensuring that appropriate insurance policies are in place;
- upgrading processes and IT systems to control operational risk (IT risk, cyber risk etc.);
- hedging against market risk (Foreign exchange, interest rates etc.);
- holding collateral/guarantees against a credit risk;
- operating at set internal buffers to avoid any limit breach (internal or regulatory);
- contingency source of funding / liquidity;
- terms and conditions for conducting business;
- ongoing monitoring and assessment of internal controls to reduce operational risk;
- conducting various training;
- establishing sound policies and procedures; and
- establishing codes of conduct and ethics to mitigate risks such as reputation risk.

OV1: Overview of risk weighted assets

in R'000		RWA		Minimum capital requirements
		31 Dec 2021	30 Sep 2021	31 Dec 2021
1	Credit risk (excluding counterparty credit risk) [1]	3 335 257	117 861	391 893
2	Of which: standardised approach (SA) [1]	3 335 257	117 861	391 893
3	Of which: foundation internal ratings-based (F-IRB) approach	-	-	-
4	Of which: supervisory slotting approach	-	-	-
5	Of which: advanced internal ratings-based (A-IRB) approach	-	-	-
6	Counterparty credit risk (CCR)	-	-	-
7	Of which: standardised approach for counterparty credit risk	-	-	-
8	Of which: IMM	-	-	-
9	Of which: other CCR	-	-	-
10	Credit valuation adjustment (CVA)	-	-	-
11	Equity positions under the simple risk weight approach and the internal model method during the five-year linear phase-in period	-	-	-
12	Equity investments in funds – look-through approach	-	-	-
13	Equity investments in funds – mandate-based approach	-	-	-
14	Equity investments in funds – fall-back approach	-	-	-
15	Settlement risk	-	-	-
16	Securitisation exposures in banking book	-	-	-
17	Of which: securitisation IRB approach (SEC-IRBA)	-	-	-
18	Of which: securitisation external ratings-based approach (SEC-ERBA), including internal assessment approach (IAA)	-	-	-
19	Of which: securitisation standardised approach (SEC-SA)	-	-	-
20	Market risk	5 617	26	660
21	Of which: standardised approach (SA)	5 617	26	660
22	Of which: internal model approach (IMA)	-	-	-
23	Capital charge for switch between trading book and banking book	-	-	-
24	Operational risk	126 405	116 425	14 853
25	Amounts below the thresholds for deduction (subject to 250% risk weight)	-	-	-
26	Aggregate capital floor applied	-	-	-
27	Floor adjustment (before application of transitional cap)	-	-	-
28	Floor adjustment (after application of transitional cap)	-	-	-
29	**Total** (1 + 6 + 10 + 11 + 12 + 13 + 14 + 15 + 16 + 20 + 23 + 24 + 25 + 28)	**3 467 279**	**234 313**	**407 405**

[1] *Investment in South African Government Bonds (USD denominated) has resulted in movements in risk-weighted assets.*

3. LINKAGES BETWEEN FINANCIAL STATEMENTS AND REGULATORY EXPOSURES

LI1: Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

in R'000	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
	31 December 2021						
Assets							
Cash and cash equivalents [1]	240 902	240 902	234 465	-	-	50 387	-
Derivative financial assets [2]	19 096	19 096	19 096	110 820	-	19 096	-
Loans and advances to customers	41 704	41 704	89 945	-	-	-	-
Financial investments at amortised cost [3]	3 154 038	3 154 038	3 182 766	-	-	3 182 766	-
Financial investments at FVOCI	1 213 861	1 213 861	1 213 861	-	-	-	-
Property and equipment	25 038	25 038	25 038	-	-	-	-
Intangible assets	351	351	-	-	-	-	351
Deferred income tax assets	20 382	20 382	20 382	-	-	-	4 939
Other assets	4 595	4 595	4 595	-	-	-	-
Total assets	**4 719 967**	**4 719 967**	**4 790 148**	**110 820**	**-**	**3 252 249**	**5 290**
Liabilities							
Borrowings	3 182 336	3 182 336	-	-	-	3 182 336	-
Due to and placements from banks and other financial institutions	42 077	42 077	-	-	-	42 077	-
Derivative financial liabilities	22 219	22 219	-	-	-	22 219	-
Due to customers	1 369	1 369	-	-	-	-	-
Provisions	8 009	8 009	-	-	-	-	-
Other liabilities	9 423	9 423	-	-	-	-	-
Total liabilities	**3 265 433**	**3 265 433**	**-**	**-**	**-**	**3 246 632**	**-**

[1] *Cash and cash equivalents: The outstanding amount at the end of the reporting month is reported in the financial statements, whilst the daily average balance for the reporting month is subject to the credit risk framework as required by Regulation 23(3)(c)(ii).*

[2] *Derivative financial assets: The exposure at default (EAD) is reported as the amount which is subject to the counterparty credit risk framework, whilst the fair value is disclosed in the annual financial statements.*

[3] *Financial investments: The amount gross of credit impairments is subject to the credit risk and market risk frameworks, whilst the amounts disclosed in the annual financial statements are net of credit impairments.*

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

			Items subject to:			
		Total	Credit risk framework	Securitisation framework	Counterparty credit risk framework	Market risk framework
in R'000		31 December 2021				
1	Asset carrying value amount under scope of regulatory consolidation (as per LI1) [1]	4 719 967	4 790 148	-	110 820	3 252 249
2	Liabilities carrying value amount under regulatory scope of consolidation (as per LI1)	3 265 433	-	-	-	3 246 632
3	Total net amount under regulatory scope of consolidation [1]	1 454 534	4 790 148	-	110 820	5 617
4	Off-balance sheet amounts	48 016	48 016	-	-	-
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	Exposure amounts considered for regulatory purposes [1]	1 502 550	4 838 164	-	110 820	5 617

4. COMPOSITION OF CAPITAL

CC1: Composition of regulatory capital

in R'000		31 Dec 2021	Reference in CC2
Common Equity Tier 1 capital: instruments and reserves			
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	1 488 180	(h)
2	Retained earnings	-	
3	Accumulated other comprehensive income (and other reserves)	(11 875)	
4	Directly issued capital subject to phase-out from CET1 (only applicable to non-joint stock companies)	-	
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	-	
6	Common Equity Tier 1 capital before regulatory adjustments	1 476 305	
Common Equity Tier 1 capital: regulatory adjustments			
7	Prudent valuation adjustments	-	
8	Goodwill (net of related tax liability)	-	(a) minus (c)
9	Other intangibles other than mortgage servicing rights (net of related tax liability)	351	(b) minus (e)
10	Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability)	-	
11	Cash flow hedge reserve	-	
12	Shortfall of provisions to expected losses	-	
13	Securitisation gain on sale (as set out in paragraph 36 of Basel III securitisation framework25)	-	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	-	
15	Defined benefit pension fund net assets	-	
16	Investments in own shares (if not already subtracted from paid-in capital on reported balance sheet)	-	
17	Reciprocal cross-holdings in common equity	-	
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
20	Mortgage servicing rights (amount above 10% threshold)	-	(c) minus (f) minus 10% threshold
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	4 939	
22	Amount exceeding the 15% threshold	-	
23	Of which: significant investments in the common stock of financials	-	
24	Of which: mortgage servicing rights	-	
25	Of which: deferred tax assets arising from temporary differences	-	
26	National specific regulatory adjustments	-	
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	
28	Total regulatory adjustments to Common Equity Tier 1	313 932	
29	Common Equity Tier 1 capital (CET1)	1 157 084	

in R'000		31 Dec 2021	Reference in CC2
Additional Tier 1 capital: instruments			
30	Directly issued qualifying additional Tier 1 instruments plus related stock surplus	-	(i)
31	Of which: classified as equity under applicable accounting standards	-	
32	Of which: classified as liabilities under applicable accounting standards	-	
33	Directly issued capital instruments subject to phase-out from additional Tier 1	-	
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	-	
35	Of which: instruments issued by subsidiaries subject to phase-out	-	
36	Additional Tier 1 capital before regulatory adjustments	-	
Additional Tier 1 capital: regulatory adjustments			
37	Investments in own additional Tier 1 instruments	-	
38	Reciprocal cross-holdings in additional Tier 1 instruments	-	
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-	
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	
41	National specific regulatory adjustments	-	
42	Regulatory adjustments applied to additional Tier 1 due to insufficient Tier 2 to cover deductions	-	
43	Total regulatory adjustments to additional Tier 1 capital	-	
44	Additional Tier 1 capital (AT1)	-	
45	Tier 1 capital (T1 = CET1 + AT1)	1 157 084	
Tier 2 capital: instruments and provisions			
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	-	
47	Directly issued capital instruments subject to phase-out from Tier 2	-	
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-	
49	Of which: instruments issued by subsidiaries subject to phase-out	-	
50	Provisions	28 626	
51	**Tier 2 capital before regulatory adjustments**	28 626	
Tier 2 capital: regulatory adjustments			
52	Investments in own Tier 2 instruments	-	
53	Reciprocal cross-holdings in Tier 2 instruments and other TLAC liabilities	-	
54	Investments in the capital and other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-	
54a	Investments in the other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation and where the bank does not own more than 10% of the issued common share capital of the entity: amount previously designated for the 5% threshold but that no longer meets the conditions (for G-SIBs only)	-	
55	Significant investments in the capital and other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
56	National specific regulatory adjustments	-	
57	Total regulatory adjustments to Tier 2 capital	-	
58	Tier 2 capital (T2)	28 626	
59	Total regulatory capital (TC = T1 + T2)	1 185 710	
60	Total risk-weighted assets	3 467 279	

in R'000		31 Dec 2021	Reference in CC2
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of risk-weighted assets)	33.37%	
62	Tier 1 (as a percentage of risk-weighted assets)	33.37%	
63	Total capital (as a percentage of risk-weighted assets)	34.20%	
64	Institution-specific buffer requirement (capital conservation buffer plus countercyclical buffer requirements plus higher loss absorbency requirement, expressed as a percentage of risk-weighted assets)		
65	Of which: capital conservation buffer requirement	2.5%	
66	Of which: bank-specific countercyclical buffer requirement	0.00%	
67	Of which: higher loss absorbency requirement	0.00%	
68	Common Equity Tier 1 (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirements*	11.75%	
National minima (if different from Basel III)			
69	National Common Equity Tier 1 minimum ratio (if different from Basel III minimum)	4.50%	
70	National Tier 1 minimum ratio (if different from Basel III minimum)	6.00%	
71	National total capital minimum ratio (if different from Basel III minimum)	8.00%	
Amounts below the thresholds for deduction (before risk weighting)			
72	Non-significant investments in the capital and other TLAC liabilities of other financial entities	-	
73	Significant investments in the common stock of financial entities	-	
74	Mortgage servicing rights (net of related tax liability)	-	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	-	
Applicable caps on the inclusion of provisions in Tier 2			
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	28 626	
77	Cap on inclusion of provisions in Tier 2 under standardised approach	-	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-	
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	-	
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and Jan 2022)			
80	Current cap on CET1 instruments subject to phase-out arrangements	-	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	
82	Current cap on AT1 instruments subject to phase-out arrangements	-	
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	
84	Current cap on T2 instruments subject to phase-out arrangements	-	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	

CC2: Reconciliation of regulatory capital to balance sheet

in R'000	Balance sheet as in published financial statements 31 Dec 2021	Under regulatory scope of consolidation 31 Dec 2021	Reference in CC1
Assets			
Cash and balances at central banks	19 070	19 070	
Items in the course of collection from other banks			
Trading portfolio assets			
Financial assets designated at fair value			
Derivative financial instruments	19 096	19 096	
Loans and advances to banks	221 603	221 603	
Loans and advances to customers	41 929	41 929	
Reverse repurchase agreements and other similar secured lending			
Available for sale financial investments	4 367 899	4 367 899	
Current and deferred tax assets	20 382	20 382	
Prepayments, accrued income and other assets	4 594	4 594	
Investments in associates and joint ventures			
Goodwill and intangible assets	351	351	
Of which: goodwill			(a)
Of which: other intangibles (excluding MSR)	351	351	(b)
Of which: MSR			(c)
Property, plant and equipment	25 038	25 038	
Total assets	**4 719 961**	**4 719 961**	
Liabilities			
Deposits from banks	3 224 408	3 224 408	
Items in the course of collection due to other banks			
Customer accounts	1 369	1 369	
Repurchase agreements and other similar secured borrowing			
Trading portfolio liabilities			
Financial liabilities designated at fair value			
Derivative financial instruments	22 219	22 219	
Debt securities in issue			
Accruals, deferred income and other liabilities	9 423	9 423	
Current and deferred tax liabilities			
Of which: deferred tax liabilities (DTL) related to goodwill			(d)
Of which: DTL related to intangible assets (excluding MSR)			(e)
Of which: DTL related to MSR			(f)
Subordinated liabilities			
Provisions	8 009	8 009	
Retirement benefit liabilities			
Total liabilities	**3 265 428**	**3 265 428**	

in R'000	Balance sheet as in published financial statements 31 Dec 2021	Under regulatory scope of consolidation 31 Dec 2021	Reference in CC1
Shareholders' equity			
Paid-in share capital	1 488 180	1 488 180	
Of which: amount eligible for CET1 capital	1 488 180	1 488 180	
Of which: amount eligible for AT1 capital	-	-	(h)
Retained earnings	(21 772)	(21 772)	(i)
Accumulated other comprehensive income	(11 875)	(11 875)	
Total shareholders' equity	**1 454 533**	**1 454 533**	

CCA: Main features of regulatory capital instruments and of other TLAC-eligible instruments

An amount of R1 488 180 000 has been provided by Head Office to the Branch, which has been set aside as endowment capital of the Branch and is held in the Republic. The endowment capital is unencumbered and is not subject to repayment by the Branch to Head Office.

5. LEVERAGE RATIO

The Leverage Ratio is intended as an indicator of excessive leverage in the Branch operations. It is calculated as an institution's capital measure divided by its total exposure measure and is expressed as a percentage.

South African banking regulatory requirements have been set above the requirements stated in the Basel III rules. The leverage ratio required for banks in South Africa is 4%., It's a measure aimed at avoiding excessive build-up of on and off-balance sheet leverage and intended to bringing the Branch's assets more in line with their capital in order to help mitigate destabilizing deleveraging processes in downturn situations. The Branch calculates the leverage ratio in accordance with the formula specified below:

Leverage Ratio = (Qualifying capital and reserve funds) / (Non-risk sensitive exposure) x 100 > 4%

During the reporting period, the leverage ratio of the Branch was 25.60%.

LR1: Summary comparison of accounting assets vs leverage ratio exposure measure

in R'000		31 Dec 2021
1	Total consolidated assets as per published financial statements	4 719 961
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	
3	Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference	
4	Adjustments for temporary exemption of central bank reserves (if applicable)	
5	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	
6	Adjustments for regular-way purchases and sales of financial assets subject to trade date accounting	
7	Adjustments for eligible cash pooling transactions	
8	Adjustments for derivative financial instruments	(100 752)
9	Adjustment for securities financing transactions (i.e. repurchase agreements and similar secured lending)	
10	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	4 802
11	Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital	292 160
12	Other adjustments	5 290
13	**Leverage ratio exposure measure**	**4 519 037**

LR2: Leverage ratio common disclosure template

in R'000		31 Dec 2021	Sep 2021
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	4 719 961	1 490 141
2	Gross-up for derivatives collateral provided where deducted from balance sheet assets pursuant to the operative accounting framework	-	-
3	(Deductions of receivable assets for cash variation margin provided in derivatives transactions)	19 096	-
4	(Adjustment for securities received under securities financing transactions that are recognized as an asset)	-	-
5	(Specific and general provisions associated with on-balance sheet exposures that are deducted from Basel III Tier 1 capital)	292 160	-
6	(Asset amounts deducted in determining Basel III Tier 1 capital and regulatory adjustments)	5 290	405
7	Total on-balance sheet exposure (excluding derivatives and SFTs) (sum of rows 1 to 6)	4 403 415	1 489 736
Derivative exposures			
8	Replacement cost associated with all derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	4 386	-
9	Add-on amounts for potential future exposure associated with all derivative transactions	106 434	-
10	(Exempted central counterparty (CCP) leg of client-cleared trade exposures)	-	-
11	Adjusted effective notional amount of written credit derivatives	-	-
12	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-	-
13	Total derivative exposures (sum of rows 8 to 12)	110 820	-
Securities financing transaction exposures			
14	Gross SFT assets (with no recognition of netting), after adjustments for sale accounting transactions	-	-
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
16	Counterpart credit risk exposure for SFT assets	-	-
17	Agent transaction exposures	-	-
18	**Total securities financing transaction exposures (sum of rows 14 to 17)**	-	-
Other off-balance sheet exposures			
19	Off-balance sheet exposure at gross notional amount	4 802	-
20	(Adjustments for conversion to credit equivalent amounts)	-	-
21	(Specific and general provisions associated with off-balance sheet exposures deducted in determining Tier 1 capital)	-	-
22	Off-balance sheet items (sum of rows 19 to 21)	4 802	-
Capital and total exposures			
23	Tier 1 capital	1 157 084	1 471 203
24	Total exposures (sum of rows 7, 13, 18 and 22)	4 519 037	1 489 736
Leverage ratio			
25	Basel III leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)	26.25%	98.76%
25a	Basel III leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	26.25%	98.76%
26	National minimum leverage ratio requirement	4.00%	4.00%
27	Applicable leverage buffers	-	-

in R'000		31 Dec 2021	Sep 2021
Disclosure of mean values			
28	Mean value of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables	-	-
29	Quarter-end value of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables	-	-
30	Total exposures (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	4 408 217	1 489 736
30a	Total exposures (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	4 408 217	1 489 73
31	Basel III leverage ratio (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	26.25%	98.76%
31a	Basel III leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables)	26.25%	98.76%

6. LIQUIDITY

LIQA – LIQUIDITY RISK MANAGEMENT

Liquidity risk is the risk that occurs when the Branch cannot obtain sufficient funds in time and at a reasonable cost to repay debts when they are due, fulfil other payment obligations, or meet other funding needs in the normal course of business. The Branch's liquidity risk mainly comes from depositors' early or centralised withdrawals, borrowers' deferred repayment of loans, the amount of assets and liabilities and maturity mismatches.

The Branch implements centralised management of liquidity risk and based on forecasting liquidity requirements, formulates corresponding liquidity management plans and actively manages the liquidity of the Bank. The specific measures mainly include:

- Pay close attention to changes in the macroeconomic situation, central bank monetary policy, capital market dynamics, etc.
- Enhance weighting of core deposits as a percentage of liabilities, so as to improve the stability of liabilities;
- Monitor and manage liquidity position bank-wide by implementing a series of indicators and restrictions;
- Liquidity position management and cash utilisation functions are centralised by the Head offices;
- Maintain an appropriate level of central bank reserves, overnight inter-bank transactions, highly liquid debt investment, actively involved in capital management through open market, monetary market and bond market in order to ensure optimal financing capability at market places;
- Minimise liquidity risk by proper management of asset maturity structures and multi-level liquidity portfolios.

Assets available to repay all of the liabilities and fulfill loan commitments include "due from and placements with banks and other financial institutions". In addition, financial investments at fair value through other comprehensive income can also be disposed of when necessary to obtain funds for repayment of matured debts or, in stressed scenarios, to meet unexpected cash flows.

Determination of fair value and valuation techniques

Certain financial assets and liabilities of the Branch are measured at fair value or with fair value disclosed for financial reporting purposes. The fair value has been determined using appropriate valuation techniques and inputs for fair value measurements. The appropriateness of the valuation techniques and the inputs to the fair value measurements are reviewed by the Branch Asset and Liability Management Committee (ALCO) periodically.

Fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The fair value of financial instruments with unadjusted quoted prices for identical instruments in active markets is determined by the open market quotations. These instruments are classified as level 1.

The amortised cost of cash and cash equivalents approximates the fair value as it is available on demand. The amortised cost of the following assets and liabilities approximates their fair values:

- Due from and placements with banks and other financial institutions
- Loans and advances to customers
- Financial investments
- Trade receivables
- Borrowings
- Due to and placements from banks and other financial institutions
- Due to customers
- Trade and other payables

There was no transfer between the three levels during the reporting period.

The interest rate associated with the borrowing from Head Office is variable in nature and approximates prevailing market interest rates for instruments with similar terms and characteristics. As such, the carrying amount in the balance sheet is a reasonable approximation of fair value. In addition, the amortised cost of the "financial instruments at amortised cost" has been adjusted as part of the application of hedge accounting. As such, the carrying amount is a reasonable approximation of the fair value.

The Branch uses valuation techniques to determine the fair value of financial instruments when an open market quotation in active markets is not obtainable. If the key parameters used in valuation techniques for financial instruments are observable and obtainable from active open market, the instruments are classified as level 2.

LIQ1: Liquidity coverage ratio (LCR)

in R'000		Total unweighted value (average) 31 Dec 2021	Total weighted value (average) 31 Dec 2021
High-quality liquid assets			
1	Total HQLA	1 177 598	1 177 598
Cash outflows			
2	Retail deposits and deposits from small business customers, of which:	-	-
3	Stable deposits	-	-
4	Less stable deposits	-	-
5	Unsecured wholesale funding, of which:	-	-
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-
7	Non-operational deposits (all counterparties)	18 855	1 422
8	Unsecured debt	-	-
9	Secured wholesale funding	-	-
10	Additional requirements, of which:	8 939	8 939
11	Outflows related to derivative exposures and other collateral requirements	-	-
12	Outflows related to loss of funding of debt products	-	-
13	Credit and liquidity facilities	-	-
14	Other contractual funding obligations	51 173	50 677
15	Other contingent funding obligations	-	-
16	Total cash outflows	78 967	61 039
Cash inflows			
17	Secured lending (eg reverse repo)	-	-
18	Inflows from fully performing exposures	750 353	664 794
19	Other cash inflows	-	-
20	Total cash inflows	750 353	664 794
21	Total HQLA	1 177 598	1 177 598
22	Total net cash outflows	15 260	15 260
23	Liquidity coverage ratio (%)	27 053%	27 053%

LIQ2: Net stable funding ratio (NSFR)

		Unweighted value by residual maturity				
		No maturity	<6 months	6 months to <1 year	≥1 year	Weighted value
in R'000		31 Dec 2021				
Available stable funding (ASF) item						
1	Capital:	1 476 305	-	-	-	1 476 305
2	Regulatory capital	1 476 305	-	-	-	1 476 305
3	Other capital instruments	-	-	-	-	-
4	Retail deposits and deposits from small business customers:	-	-	-	-	-
5	Stable deposits	-	46 422	-	3 177 980	3 177 980
6	Less stable deposits	-	-	-	-	-
7	Wholesale funding:	-	1 369	-	-	685
8	Operational deposits	-	-	-	-	-
9	Other wholesale funding	-	-	-	-	-
10	Liabilities with matching interdependent assets	-	-	-	-	-
11	Other liabilities:	3 123	8 733	1 531	7 168	7 933
12	NSFR derivative liabilities	3 123	-	-	-	-
13	All other liabilities and equity not included in the above categories	-	8 733	1 531	7 168	7 933
14	Total ASF					4 662 903

in R'000		Unweighted value by residual maturity				Weighted value
		No maturity	<6 months	6 months to <1 year	≥1 year	
		31 Dec 2021				
Required stable funding (RSF) item						
15	Total NSFR high-quality liquid assets (HQLA)	19 070	25 234	15 215	1 173 411	61 647
16	Deposits held at other financial institutions for operational purposes	66 117	-	-	-	33 059
17	Performing loans and securities:	-	-	-	-	-
18	Performing loans to financial institutions secured by Level 1 HQLA	-	-	-	-	-
19	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	-	155 804	-	-	23 371
20	Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	-	60 999	-	-	20 965
21	With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit	-	-	-	-	-
22	Performing residential mortgages, of which:	-	-	-	-	-
23	With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk	-	-	-	-	-
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	-	38 885	11 927	3 131 534	2 687 210
25	Assets with matching interdependent liabilities	-	-	-	-	-
26	Other assets:	-	-	-	-	-
27	Physical traded commodities, including gold	-	-	-	-	-
28	Assets posted as initial margin for derivative contracts and contributions to default funds of	-	-	-	-	-
29	NSFR derivative assets	-	-	-	-	-
30	NSFR derivative liabilities before deduction of variation margin posted	-	-	-	-	-
31	All other assets not included in the above categories	348 853	-	-	-	348 853
32	Off-balance sheet items	-	-	-	48 016	5 524
33	Total RSF					3 180 627
34	Net Stable Funding Ratio (%)					147%

7. CREDIT RISK

CRA: General information about credit risk

Credit risk is the risk of loss that a borrower or counterparty fails to or is unwilling to meet its obligations.

Credit risk arises principally from:

- financial investments at amortised cost and at FVOCI;
- loans and advances; and
- due from and placements with banks and other financial institutions.

The Credit Committee of the Branch oversees the credit policies and standards, credit portfolio limits and portfolio performance. The Credit Committee of the Branch is the body that conducts credit review of the "performing corporate credit customers" and "Financial institutions subject to examination and approval as required" and provides review opinions formed through collective deliberation to the persons with approval authority. The business beyond the authority of the Branch will be submitted to the Head Office for approval after being reviewed by the Branch Credit Committee.

Loans and advances to customers and off-balance sheet commitments

As for corporate loans, the Branch's relationship managers are responsible for receiving application files submitted by the applicants, conducting pre-loan investigation, assessing the credit risk and raising the proposed rating. The Branch adopts the hierarchical approval system at the Branch and Head Office level based on the credit approval authority. Credit line is determined by taking into account the credit record, financial position, collaterals and guarantees of the applicant, overall credit risk of the credit portfolio, macroeconomic regulation and control policies and relevant laws and regulations.

The Branch keeps a close eye on the economic and financial trend and credit risk profile in the industry and provides more guidance on credit investment by formulating guidance for different industries, strengthens daily risk pre-warning, monitoring and specific risk investigation, identify customers under major risks and material potential risk points, enhances the refinement of post-loan management. The Credit Committee of the Branch will review the business within the authority of the Branch. The business beyond the authority of the Branch will be submitted to the independent Loan Granting Centre of the Head Office for approval after being reviewed by the Branch Credit Committee. The independent Loan Granting Centre shall review the compliance, completeness and effectiveness of relevant credit files before loan granting according to the applications for drawdown of credit line. The Branch's relationship managers are primarily responsible for post-loan management. The Branch adopts a series of tools and approaches, such as risk filtering, list management, risk warning and risk investigation, in daily risk monitoring of corporate loans.

The Branch manages non-performing loans mainly through (1) collection; (2) restructuring; (3) disposal of collaterals or recourse to the guarantors; (4) litigation or arbitration.

Treasury business

For treasury business (including debt investments), the Branch chooses banks and other financial institutions prudently and balances the credit risk and return rate of investments. By making reference to internal and external credit rating information, the Branch approves credits of different levels and uses an appropriate credit limit management system to review and adjust credit lines, aiming to manage the credit risk exposed to the treasury business.

For debt securities, internal and external ratings (such as Standard and Poor's) are used by the Branch when available for managing the credit risk exposed to debt securities and bills. The investment in those debts and bills is to have better credit quality assets while maintaining readily available liquidity resource. The bond issuers involved with the Branch are subject to the credit granting review and approval of the Head Office and credit limits are placed on such issuers.

As for derivative instruments, the Branch maintains strict limits on net open derivative investment positions (i.e. the difference between long and short contracts), by both amount and maturity. At any time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Branch (i.e. assets where their fair value is positive), which, in relation to derivative instruments, is only a fraction of the contract's notional amount used to express the amount outstanding.

This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market fluctuations. The management has set limits of these contracts according to counterparty, and regularly monitor and control the actual credit risk when the Branch concludes foreign exchange and interest rate contracts with other financial institutions and clients.

The Branch manages the credit quality of due from and placements with banks and other financial institutions by considering the size, financial position, the internal and external credit rating of the banks and financial institutions. The Head Office monitors and reviews the credit risk of due from and placements with banks and other financial institutions by counterparties periodically. Limits are placed on different counterparties.

Credit-related commitments

Credit risk exposures to financial guarantees are the same as that of loans. However, commercial letters of credit are usually pledged by the relevant shipped goods and therefore are subject to lower risk compared with direct loans.

Credit-related commitments are included in the management of overall credit line granted to the applicant. For customers with transactions beyond the credit limit or infrequent transactions, the applicant shall be requested to provide relevant guarantee in order to reduce credit risk exposures.

Credit risk quality

The Branch has established a loan credit risk classification system and performs credit risk management based on loan classification in one of the following 3 stages:

- The stage 1: Overdue for 30 days or less and the internal rating is less than 11.
- The stage 2: Special Mention stage or overdue for more than 30 days or internal rating no less than 11 or relative rating change of more than 2 grades.

- The stage 3: Loss stage or overdue for more than 90 days.

Expected credit loss (ECL)

The Branch measures the ECL of financial instruments at amortised cost or debt investments at fair value through other comprehensive income. The Branch divides them into 3 stages by assessing whether there has been a significant increase in credit risk since initial recognition.

The Branch measures the ECL of a financial instrument in a way that reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money;
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Stage classification

The Branch divides them into 3 stages. Stage 1 is “financial assets without significant increase in credit risk since initial recognition”, at which the Branch only needs to measure ECL in the next 12 months. Stage 2 is “financial assets with significant increase in credit risk” and stage 3 is “credit-impaired financial assets”, at both of which the Branch needs to measure lifetime ECL.

Definition of credit-impaired

The Branch considers a financial instrument is default, when it is credit-impaired. In general, the financial instruments that are more than 90 days past due are identified as in default.

The Branch considers a financial instrument to be credit-impaired when one or more of the following criteria have been met:

- Principal (including advances, applies to below) or interest of the asset is more than 90 days past due;
- The issuer or obligor is in significant financial difficulty, or has already become insolvent
- It is becoming probable that the obligor will enter bankruptcy;
- An active market for that financial asset has disappeared because of financial difficulties of issuers; and / or
- Other objective evidence indicating impairment of the financial asset.

A significant increase in credit risk

The Branch assesses quarterly whether the credit risk on a financial instrument has increased significantly since initial recognition. In determining the stage classification of a financial asset, the Branch considers all reasonable and supportable information, which reflects whether there have been significant changes in credit risk, including that which is forward-looking.

Based on an individual financial instrument or a portfolio of financial instruments with similar credit risk characteristics, the Branch compares risk of default occurring at reporting date as with initial recognition, in order to determine possible changes in risk of default occurring during the expected life of the financial instrument. The Branch considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following criteria have been met:

- Principal or interest of the instrument is more than 30 days past due;
- Credit rating of obligor changes significantly. Credit rating is based on both internal and external rating results, and the criteria are as follow: (a) a significant increase in credit risk is determined when internal and external rating during the reporting period is below the Branch’s credit acceptance standards; (b) When the borrower’s internal rating is downgraded to a certain level, there has been a significant increase in credit risk. Criteria to determine significant increase in credit risk varies based on the original internal rating upon initial recognition;
- Significant adverse issues have negative impacts on obligator’s repayment ability;
- Other circumstances of significant increase in credit risk. For example, appearance of other risk alarm indicators which imply growing potential risk, and could cause losses of financial assets to the Branch.

The financial assets are moveable between stages. For instance, financial instruments originally classified at stage 1 should be downgraded to stage 2 if events occur such as a significant increase in credit risk. Financial instruments at stage 2 could be upgraded to stage 1 if credit risk decreases and the criteria for the determination of “a significant increase in credit risk” are no longer met.

Description of parameters, assumptions and estimation techniques

The Branch recognises a loss allowance to different financial instruments at an amount equal to 12-month or lifetime expected credit loss based on whether there has been a significant increase in credit risk and whether the financial instrument is credit-impaired. ECL is the result of discounted product of the weighted average of “probability of default (PD)”, “loss given default (LGD)”, “exposure at default (EAD)” under the three scenarios, which are defined as follows:

- Probability of default (PD) is the probability of default occurring of a client and its assets in a given period of time in the future.
- Exposure at default (EAD) represents the total amount of on-balance sheet and off-balance sheet exposure at the time of default by debtor, reflecting the total amount of possible losses likely to be incurred. In general, this includes the utilised credit limit, interest receivable, the anticipated usage of unused credit facilities as well as the related expenses to be incurred.
- Loss given default (LGD) represents the percentage of amount of loss to be incurred, in the event of default to the total risk exposure. It is expressed as the loss percentage per unit of exposure, which typically varies by nature of debtor, type and seniority of claim and the availability of collaterals or other credit enhancements.
- Definition of default has been consistently applied to model establishment of probability of default (PD), exposure at default (EAD), loss given default

(LGD) in ECL calculation throughout the Branch.
- Forward-looking information: scenarios and weights of economic indicators - The Bank has established a macro-economic forecast model driven by Gross Domestic Product (GDP) growth rate to forecast values of macro-economic indicators in multiple categories including national accounts, price index, foreign trade, fixed asset investment, money supply, and interest under three economic scenarios (i.e., Optimistic scenario, Basic scenario, and Pessimistic scenario) annually. The forecasts, after evaluation and confirmation by economic experts of the Bank, are used in the impairment model. Basic scenario is defined as the most probable situation, which will become benchmark for other scenarios. Optimistic and pessimistic scenarios are possible scenarios, which are better or worse than basic scenario respectively, and can also become a source of sensitivity analysis. These three scenarios apply to all portfolios.
- Estimation of ECL: the impairment models - The impairment models adopt a top-down approach. Through grouping, the models cover the risk exposures of financial institutions, companies and retailers and reveal the regressive relationship between different macro-economic indicators (such as national accounts, price index, foreign trade, fixed asset investment, money supply, and interest) and risk parameters. The result of macro-economic indicator forecasts will form the basis for impairment calculation and represent "forward looking" elements of credit risk allowance in different scenarios. Where impairment models cannot be established due to lack of data support, the Branch endeavours to select appropriate methods in order to make prospective estimation.
- Grouping of instruments with similar risk characteristics - To calculate the relevance between ECL allowance modelled on a collective basis and macro-economic indicators, a grouping of exposure is performed on the basis of shared risk characteristics, so that risk exposures within a group are homogenous. In performing this grouping, there must be sufficient information for the Branch to be statistically credible. Where sufficient information is not available internally, the Branch has considered benchmarking internal/external supplementary data for modelling purposes. Non-retail assets of the Branch are mainly grouped according to industries.

Derivative instruments

Derivatives are only used for economic hedging purposes and not as speculative investments. The Branch entered into interest rate swaps that have similar critical terms as the hedged item, such as reference rate, reset dates, payment dates, maturities and notional amount. As all critical terms matched during the year, there is an economic relationship.

Derivative instruments are presented as non-current assets and liabilities to the extent they are not expected to be settled within 12 months after the end of the reporting period.

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments, to ensure that an economic relationship exists between the hedged item and hedging instrument.

Actual credit risk exposures are regularly monitored and controlled by the management. The credit risk-weighted amount is zero and is calculated with reference to the guidelines issued by the South African Prudential Authority.

Credit concentration risk

Concentration risk is a factor during the credit review process. Large exposure limits required by the Prudential Authority for branches are based on the capital of the Bank, instead of the Branch. Any exposure to a non-bank or a public sector entity greater than 10% of the Bank's capital and reserves, requires Head Office Credit Committee approval and exposures greater than 25% of the Bank's capital and reserves requires the prior approval of the Prudential Authority. Collateral is not taken into account in the calculation of the above-mentioned thresholds. Furthermore, the total of all large exposures exceeding 10% of the Bank's qualifying capital and reserve funds may not exceed 800% of the Bank's qualifying capital and reserve funds. The key internal limits are highlighted below:

Indicator	Description of the indicator	Internal limit
Large exposure limit for non-financial institutions	The Branch sets the internal large exposure limit for non-financial institution client must not exceed 100% of the Branch´s qualifying capital.	100% of the eligible capital
Large exposure limit for financial institutions	Unsecured exposure to a financial institution and/or its connected entities in the non-trading book of the Branch must not exceed 200% of the Branch´s qualifying capital.	200% of the eligible capital

For supra-national entities, sovereign bonds and government agencies, the Branch adopts a name-list access approach. This list is provided by the Head Office. Counterparties contained in the list are de facto authorised, and the limit above does not apply to them.

CR1: Credit quality of assets

in R'000		Gross carrying values of		Allowances / impairments	Of which ECL accounting provisions for credit losses on standardised approach exposures		Of which ECL accounting provisions for credit losses on IRB exposures	Net values (a+b-c)
		Defaulted exposures	Non-defaulted exposures		Allocated in regulatory category of specific	Allocated in regulatory category of general		
		31 December 2021						
1	Loans	-	263 851	318	-	318	-	263 533
2	Debt securities	-	4 396 207	28 308	-	28 308	-	4 367 899
3	Off-balance sheet exposures	-	48 016	-	-	-	-	48 016
4	Total	-	4 708 073	28 626	-	28 626	-	4 679 447

CR3: Credit risk mitigation techniques – overview

in R'000		Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral of which: secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees of which: secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives of which: secured amount
		31 December 2021						
1	Loans	263 533	-	-	-	-	-	-
2	Debt securities	4 367 899	-	-	-	-	-	-
3	Off-balance sheet exposures	48 016	-	-	-	-	-	-
4	Total	4 679 447	-	-	-	-	-	-

CR4: Standardised approach – credit risk exposure and credit risk mitigation effects

in R'000		Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
		On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
Asset classes		31 December 2021					
1	Sovereigns and their central banks	4 396 207	-	4 396 207		3 182 236	95.42%
2	Non-central government public sector entities	-	-	-		-	0 00%
3	Multilateral development banks	-	-	-		-	0 00%
4	Banks	234 490	-	234 490		42 745	1.28%
	Of which: securities firms and other financial institutions	-	-	-		-	0 00%
5	Covered bonds	-	-	-		-	0 00%
6	Corporates	41 929	48 016	41 929	48 016	41 929	1.26%
	Of which: securities firms and other financial institutions	-	-	-	-	-	0 00%
	Of which: specialised lending	-	-	-	-	-	0 00%
7	Subordinated debt, equity and other capital	-	-	-	-	-	0 00%
8	Retail	-	-	-	-	-	0 00%
9	Real estate	-	-	-	-	-	0 00%
	Of which: general RRE	-	-	-	-	-	0 00%
	Of which: IPRRE	-	-	-	-	-	0 00%
	Of which: general CRE	-	-	-	-	-	0 00%
	Of which: IPCRE	-	-	-	-	-	0 00%
	Of which: land acquisition, development and construction	-	-	-	-	-	0 00%
10	Defaulted exposures	-	-	-	-	-	0 00%
11	Other assets	68 236	-	68 236	-	68 236	2.05%
12	**Total**	**4 740 863**	**48 016**	**4 740 863**	**48 016**	**3 335 257**	**100 00%**

CR5: Standardised approach – exposures by asset classes and risk weights

	in R'000	0%	20%	50%	100%	150%	Other	Total credit exposure amount (post-CCF and post-CRM)
		31 December 2021						
1	Sovereigns and their central banks	1 213 861	-	-	3 182 346	-	-	4 396 207

	in R'000	20%	50%	100%	150%	Other	Total credit exposure amount (post-CCF and post-CRM)
		31 December 2021					
2	Non-central government public sector entities	-	-	-	-	-	-

	in R'000	0%	20%	30%	50%	100%	150%	Other	Total credit exposure amount (post-CCF and post-CRM)
		31 December 2021							
3	Multilateral development banks	-	-	-	-	-	-	-	-

	in R'000	0%	20%	40%	50%	75%	100%	150%	Other	Total credit exposure amount (post-CCF and post-CRM)
		31 December 2021								
4	Banks	19 096	215 395	-	-	-	-	-	-	234 490
	Of which: securities firms and other financial institutions	-	-	-	-	-	-	-	-	-

in R'000		10%	15%	20%	25%	35%	50%	100%	Other	Total credit exposure amount (post-CCF and post-CRM)
		31 December 2021								
5	Covered bonds	-	-	-	-	-	-	-	-	-

in R'000		0%	50%	65%	75%	80%	85%	100%	130%	150%	Other	Total credit exposure amount (post-CCF and post-CRM)
		31 December 2021										
6	Corporates	48 016	-	-	-	-	-	41 929	-	-	-	89 945
	Of which: securities firms and other financial institutions	-	-	-	-	-	-	-	-	-	-	-
	Of which: specialised lending	-	-	-	-	-	-	-	-	-	-	-

in R'000		100%	150%	250%	400%	Other	Total credit exposure amount (post-CCF and post-CRM)
		31 December 2021					
7	Subordinated debt, equity and other capital	-	-	-	-	-	-

in R'000		45%	75%	100%	Other	Total credit exposure amount (post-CCF and post-CRM)
		31 December 2021				
8	Retail	-	-	-	-	-

in R'000		0%	20%	25%	30%	35%	40%	45%	50%	60%	65%	70%	75%	85%	90%	100%	105%	110%	150%	Other	Total credit exposure amount (post-CCF and post-CRM)
		31 December 2021																			
9	Real estate	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Of which: general RRE	-	-	-	-		-		-		-	-	-	-		-			-	-	-
	Of which: no loan splitting applied	-	-	-	-		-		-		-	-	-	-		-			-	-	-
	Of which: loan splitting applied (secured)		-																	-	-
	Of which: loan splitting applied (unsecured)	-	-		-		-		-		-		-	-		-			-	-	-
	Of which: IPRRE				-	-		-		-			-				-		-	-	-
	Of which: general CRE	-	-		-		-		-	-	-		-	-		-			-	-	-
	Of which: no loan splitting applied	-	-		-		-		-	-										-	-
	Of which: loan splitting applied (secured)									-										-	-
	Of which: loan splitting applied (unsecured)	-	-		-		-		-		-		-	-		-			-	-	-
	Of which: IPCRE											-			-			-	-	-	-
	Of which: land acquisition, development and construction															-			-	-	-

in R'000		50%	100%	150%	Other	Total credit exposure amount (post-CCF and post-CRM)
		31 December 2021				
10	Defaulted exposures	-	-	-	-	-

in R'000		0%	20%	100%	1250%	Other	Total credit exposure amount (post-CCF and post-CRM)
		31 December 2021					
11	Other assets	-	-	50 013	-	351	50 364

Exposure amounts and CCFs applied to off-balance sheet exposures, categorised based on risk bucket of converted exposures:

in R'000		On-balance sheet exposure	Off-balance sheet exposure (pre-CCF)	Weighted average CCF*	Exposure (post-CCF and post-CRM)
Risk weight		**31 December 2021**			
1	Less than 40%	1 448 351	48 016	-	1 496 367
2	40-70%	-	-	-	-
3	75%	-	-	-	-
4	85%	-	-	-	-
5	90-100%	3 224 275	-	-	3 224 275
6	105-130%	-	-	-	-
7	150%	-	-	-	-
8	250%	-	-	-	-
9	400%	-	-	-	-
10	1250%	-	-	-	-
11	**Total exposures**	**4 672 626**	**48 016**	-	**4 720 642**

** weighting is based on off-balance sheet exposure (pre-CCF)*

8. COUNTERPARTY CREDIT RISK

The derivative financial instruments are utilised by the Branch for hedging purposes.

Interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of interest rates (i.e. fixed-for-floating swaps).

The Branch's credit risk associated with the interest rate contracts is nil as the hedge is entered into with Head Office. The notional amounts provide a reference of the amounts recognised in the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and therefore, do not indicate the Branch's exposure to credit risks.

The derivative financial instruments may become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The fair values of derivative financial instruments held are set out in the table below:

	Notional amount	Fair values Assets	Fair values Liabilities
	R'000	*R'000*	*R'000*
Interest rate contracts	3 024 611	19 096	(22 219)
Derivative financial instruments recognised as at 31 December 2021	**3 024 611**	**19 096**	**(22 219)**

CCR1: Analysis of CCR exposures by approach

in R'000		Replacement cost	Potential future exposure	Effective EPE	Alpha used for computing regulatory EAD	EAD post-CRM	RWA
		31 December 2021					
1	SA-CCR (for derivatives)*	6 824	76 030		1.4	110 820	-
2	Internal models method (for derivatives and securities financing transactions, or SFTs)			-	-	-	-
3	Simple Approach for credit risk mitigation (for SFTs)					-	-
4	Comprehensive Approach for credit risk mitigation (for SFTs)					-	-
5	Value-at-risk (VaR) for SFTs					-	-
6	Total						-

CCR2: Credit valuation adjustment (CVA) capital charge

in R'000		EAD post-CRM	RWA
		31 December 2021	
Total portfolios subject to the Advanced CVA capital charge		-	-
1	(i) VaR component (including the 3×multiplier)		-
2	(ii) Stressed VaR component (including the 3×multiplier)		-
3	All portfolios subject to the Standardised CVA capital charge	-	-
4	Total subject to the CVA capital charge	-	-

CCR3: Standardised approach - CCR exposures by regulatory portfolio and risk weights

Risk weight→ Regulatory portfolio↓	0%	10%	20%	50%	75%	100%	150%	Others	Total credit exposure
in R'000					**31 December 2021**				
Sovereigns	-	-	-	-	-	-	-	-	-
Non-central government public sector entities	-	-	-	-	-	-	-	-	-
Multilateral development banks	-	-	-	-	-	-	-	-	-
Banks	110 820	-	-	-	-	-	-	-	110 820
Securities firms	-	-	-	-	-	-	-	-	-
Corporates	-	-	-	-	-	-	-	-	-
Regulatory retail portfolios	-	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-	-
Total	**110 820**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**110 820**

9. MARKET RISK

Market risk is risk of loss on the Branch's on-balance sheet banking book, which is originated from the unfavourable changes and fluctuations in interest rates and foreign exchange rates.

The Branch does not have a trading book. A significant portion of the Branch's balance sheet is currently denominated in USD. Certain foreign transactions are also conducted in EUR and CNY. Exchange rate risk results from currency mismatch between foreign currency assets and liabilities.

The Branch established an integrated market risk management system, formed a market risk management structure with the separation of front and middle-end platforms and specified the responsibilities the division of labor and the reporting route of the Executive Management and other relevant departments to ensure the compliance and effectiveness of market risk management.

With regard to the exchange rate risk, the Branch controls exchange rate risk by setting relevant limits taking the initiative to adjust the structure of foreign currency assets for a proper matching of currency structure of assets and liabilities.

The Branch conducts stress tests on hypothetical scenarios in the consideration of the Branch's major market risk factors.

	Position as at 31 December 2021	Mild stress scenarios (5%)	Moderate stress scenarios (10%)	Severe stress scenarios (15%)
	R'000	*R'000*	*R'000*	*R'000*
USD exposure	26 165	27 473	28 782	30 090

The USD position is the only significant position and is immaterial relative to the overall banking book. The assets and liabilities denominated in USD are matched and therefore will not result in a significant impact if the exchange rates fluctuate.

MR1: Market Risk under the SA

in R'000		Capital charge in SA 31 Dec 2021
1	General interest rate risk	-
2	Equity risk	-
3	Commodity risk	-
4	Foreign exchange risk	449
5	Credit spread risk – non-securitisations	-
6	Credit spread risk – securitisations (non-correlation trading portfolio)	-
7	Credit spread risk – securitisations (correlation trading portfolio)	-
8	Default risk – non-securitisations	-
9	Default risk – securitisations (non-correlation trading portfolio)	-
10	Default risk – securitisations (correlation trading portfolio)	-
11	Residual risk add-on	-
12	**Total**	**449**

10. INTEREST RATE RISK IN THE BANKING BOOK

IRRBBA: IRRBB risk management objectives and policies

The Branch's interest rate risk mainly arises from interest rate repricing and maturity mismatching of assets and liabilities and the fluctuation of market interest rates.

The interest risk of banking book net interest income simulation and gap analysis are the major tools used by the Branch to monitor the interest risk of its overall businesses. In addition, through adequate repricing management and interest rate contracts for significant assets and liabilities the Branch strives to maximise its rate of return while keeping its risks under control.

By using the gap analysis system the Branch regularly monitors the repricing maturity gap of interest rate-sensitive assets and liabilities throughout the Branch takes the initiative to adjust the proportion of interest-bearing assets at floating interest rates and fixed interest rates. During the reporting period the Branch closely monitored the interest rate trend conducted specific management of risk limits and strengthened comprehensive operations and limit monitoring.

The Branch has USD funding that is linked to LIBOR, as well as an interest rate contract used for hedging, but following the financial crisis, the reform of London Interbank-Offered Rate (LIBOR) has become a priority for global regulators. In March 2021, the Financial Conduct Authority (FCA) announced that after 2021, LIBOR in Sterling, Euro, Swiss Franc and Japanese Yen, as well as one-week and two-month LIBOR rates in US Dollar will be stopped and the remaining term LIBOR rates in US Dollar will cease to be provided in the middle of 2023. Regulatory authorities and working groups on benchmark interest rate reform of all nations are actively promoting LIBOR reform.

On 31 August 2020, the People's Bank of China (PBOC) has published the Paper – "Participating in International Benchmark Interest Rate Reform and Improving China's Benchmark Interest Rate System".

Based on international consensus and best practices, China is in line with the progress of the reform of international benchmark interest rates, simultaneously promoting the design and application of new benchmark contracts and the transition of benchmark interest rates of legacy LIBOR contracts, so as to promote the transition of international benchmark interest rates in a steady and orderly manner. The alternative benchmark for USD will be replaced by SOFR. The major difference between USD LIBOR and the alternative rate, SOFR, is that the former as a term rate, which means that it is published for a borrowing period and it is "forward-looking" as USD LIBOR is published at the beginning of the borrowing period. Alternative interest rate, SOFR, is a "backward-looking" rate. It's based on overnight rates from actual transactions and are published on the next trade day. In addition, the alternative benchmark SOFR is risk-free, while LIBOR includes a credit spread over the risk-free rate. Therefore, the USD LIBOR reform will bring about great changes to the interest rate rules of various financial products.

The Group has established a task force consisting of key finance, risk, information technology, treasury, business, legal and compliance personnel and representatives of overseas branches to speed up the implementation of the Group's LIBOR reform. The Group has put in place a reform implementation scheme covering multiple aspects such as exposure monitoring system updates, contract amendments, data procurement, risk management, model optimization, internal training, client communication and accounting issues etc., so as to ensure an orderly transition to the new benchmark interest rate and to minimise the risks arising from transition.

Overall, the reform progress of the Group is consistent with the market. The Group has initially established a relatively complete interest rate risk monitoring system. By using the gap analysis system, the Group regularly monitors the repricing maturity gap of interest rate-sensitive assets and liabilities throughout the Group, takes the initiative to adjust the proportion of interest-bearing assets at floating interest rates and fixed interest rates, and adjusts the repricing term structure of interest rate and manages interest rate risk by applying appropriate derivatives such as interest rate swaps based on allocation strategy of assets and liabilities.

The Branch will follow the Group's transition process as described above. The transition from LIBOR to SOFR will not have a material impact on the Branch's margin and the positions of these financial instruments will remain unchanged.

The Branch has hedged the interest rate risk in the financial investments at amortised cost to match the funding floating rate.

IRRBB1: Quantitative information on IRRBB

	∆EVE	∆NII
in R'000	**31 Dec 2021**	**31 Dec 2021**
Parallel up	601 386	5 963
Parallel down	(664 968)	(5 963)
Steepener	122 585	
Flattener	27 217	
Short rate up	295 670	
Short rate down	(309 446)	
Maximum	601 386	5 963
Period	**31 Dec 2021**	**31 Dec 2021**
Tier 1 capital	1 157 084	1 157 084

11. REMUNERATION

REMA: Remuneration policy

Due to the size and complexity of its business operations the remuneration governance is driven from Head Office to the General Manager of the Branch, who further delegates such authority to the Head of General Administration and Human Resources.

The remuneration policy from Head Office supports the Branch's overall approach to risk management, ensuring that it is not undermined. Staff remuneration is composed of fixed remuneration and variable remuneration. The fixed remuneration for staff is determined by staff seniority and job responsibilities, which is inclusive of monthly benefits such as medical aid and on-site lunch allowances. The variable remuneration for staff is determined by staff performance and length of service. The variable remuneration is based on the approved bonus allocation provided by Head Office in accordance with the Branch's budget.

The Branch seeks to link performance during a performance measurement period with levels of remuneration with performance metrics which annual performance appraisals, which are reviewed when evaluating scores allocated by managers and employees and authorized management.

Scores and ratings are gathered, combined and a schedule is formulated by Human Resources, reviewed and approved by the Executive Committee. This varies from year to year based on approved bonus allocation provided by Head Office in accordance with the Branch's budget.

The remuneration structure is in line with South African regulations and Head Office procedures.

Key management personnel are considered to be the Executive Committee members of the Branch, as well as the Head of Branch Internal Audit.

REM1: Remuneration awarded during the reporting period

in R'000			Senior management 31 Dec 2021	Other material risk-takers 31 Dec 2021
1	Fixed remuneration	Number of employees	10	-
2		Total fixed remuneration (3 + 5 + 7)	19 733	-
3		Of which: cash-based	19 733	-
4		Of which: deferred	-	-
5		Of which: shares or other share- linked instruments	-	-
6		Of which: deferred	-	-
7		Of which: other forms	-	-
8		Of which: deferred	-	-
9	Variable remuneration	Number of employees	10	-
10		Total variable remuneration (11 + 13 + 15)	464	-
11		Of which: cash-based	464	-
12		Of which: deferred	-	-
13		Of which: shares or other share- linked instruments	-	-
14		Of which: deferred	-	-
15		Of which: other forms	-	-
16		Of which: deferred	-	-
17	**Total remuneration (2 + 10)**		**20 197**	**-**