BANK OF CHINA LIMITED, JOHANNESBURG BRANCH

Q4 Pillar 3 Disclosures

December 2021

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1. Regulatory framework for disclosures

Bank of China Limited, Johannesburg Branch ("Branch") is supervised by the Prudential Authority (PA) within the South African Reserve Bank, who determines the capital requirements for South African banks. The capital requirements are calculated based on the Banks Act 94 of 1990 (Banks Act), relevant regulations, directives and guidance notes issued by the PA. The Basel Committee's framework is structured around three 'pillars':

- Pillar 1 – minimum capital requirements;
- Pillar 2 – supervisory review process; and
- Pillar 3 – market discipline.

The purpose of the Pillar 3 Disclosure Report is to promote market discipline by providing investors/clients with key information relating to *inter-alia* a bank's regulatory capital and risk exposures. A key goal of the revised Pillar 3 Disclosure requirements is to improve comparability and consistency of disclosures. Pillar 3 requires all material risks to be disclosed, resulting in a comprehensive view of the Branch's risk profile.

2. Pillar 3 Disclosures

The Branch's Pillar 3 Disclosures for the period ending 31 December 2021 comprises all information required under Pillar 3, being both quantitative and qualitative. The numbers are reported in Rand millions if there are no specific units in the report.

3. Risk Governance and Oversight

The Branch's Executive Committee ("EXCO") is accountable for the risks of the Branch and delegates certain responsibilities to various internal committees which are aligned to South African regulatory requirements and Head Office's management framework.

4. Key prudential metrics

4.1 Table 1: Key Metrics (KM1)

The table provides an overview of the Branch's key prudential metrics.

		December 2021 ('m)	September 2021 ('m)	June 2021 ('m)	March 2021 ('m)	December 2020 ('m)
		a	b	c	d	a
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1)	9 182	9 193	9 194	8 418	8 518
1a	Fully loaded ECL accounting model	9 182	9 193	9 194	8 418	8 518
2	Tier 1	9 182	9 193	9 194	8 418	8 518
2a	Fully loaded ECL accounting model Tier 1	9 182	9 193	9 194	8 418	8 518
3	Total capital	9 352	9 384	9 405	8 702	8 799
3a	Fully loaded ECL accounting model total capital	9 352	9 384	9 405	8 702	8 799
	Risk-weighted assets (amounts)					
4	Total risk-weighted assets (RWA)	26 884	27 558	28 041	32 943	34 310
	Risk-based capital ratios as a percentage of RWA					
5	Common Equity Tier 1 ratio (%)	34,16	33,36	32,79	25,55	24,83
5a	Fully loaded ECL accounting model Common Equity Tier 1 (%)	34,16	33,36	32,79	25,55	24,83
6	Tier 1 ratio (%)	34,16	33,36	32,79	25,55	24,83
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	34,16	33,36	32,79	25,55	24,83
7	Total capital ratio (%)	34,79	34,05	33,54	26,41	25,65
7a	Fully loaded ECL accounting model total capital ratio (%)	34,79	34,05	33,54	26,41	25,65
	Additional CET1 buffer requirements as a percentage of RWA					
8	Capital conservation buffer requirement (%)	2,50	2,50	2,50	2,50	2,50
9	Countercyclical buffer requirement (%)	0,02	-	-	-	0,03
10	Bank G-SIB and/or D-SIB additional requirements (%)	N/A	N/A	N/A	N/A	N/A
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9 + row 10)	2,52	2,50	2,50	2,50	2,53
12	CET1 available after meeting the bank's minimum capital requirements (%)	26,63	25,86	25,29	18,55	17,81
	Basel III leverage ratio					
13	Total Basel III leverage ratio exposure measure	44 067	50 550	45 510	50 993	50 515
14	Basel III leverage ratio (%) (row 2 / row 13)	20,84	18,19	20,20	16,51	16,86
14a	Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2a / row13)	20,84	18,19	20,20	16,51	16,86
	Liquidity Coverage Ratio					
15	Total HQLA	14 217	12 081	11 306	10 924	9 825
16	Total net cash outflow	4 347	1 717	2 007	5 452	3 448
17	LCR ratio (%)	327	704	563	200	285
	Net Stable Funding Ratio					
18	Total available stable funding	22 368	26 039	25 718	27 557	27 829
19	Total required stable funding	17 343	19 392	19 884	23 098	25 658
20	NSFR ratio (%)	129	134	129	119	108

The quarter-on-quarter decrease in the Risk Weighted Assets (RWA), increase in the Capital Adequacy Ratio (CAR) is due to repayment of corporate loans and decrease in trade finance activities. The decrease in the Liquidity Coverage Ratio (LCR) is due to decrease in financial institutional cash inflows which resulted in an increase in net cash outflow during the quarter ended 31 December 2021. The decrease in the quarter-on-quarter Net Stable Funding Ratio (NSFR) is mainly due to the decrease in money market borrowings which contributed to the decrease in the Available Stable Funding.

4.2 Table 2: Overview of Risk Weighted Assets (OV1)

The below table provides an overview of total RWA forming the denominator of the risk-based capital requirements. The current minimum capital requirement to the RWA is 11.50% which is made up of 8% base minimum, 1% Pillar 2A add-on and 2.5% conservation buffer. The countercyclical buffer of 0.02% was disclosed as the foreign exposures exceed 2% of private sector risk weighted assets. The idiosyncratic ratio requirement for the Branch is not disclosed in the Pillar 3 disclosures.

		a	b	c
		RWA		Minimum capital requirements
		Dec-21	Sep-21	T
1	Credit risk (excluding counterparty credit risk)	24,431	25,151	2,816
2	Of which: standardised approach (SA)	24,431	25,151	2,816
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)	4	6	0
7	Of which: standardised approach for counterparty credit risk	4	6	0
8	Of which: Internal Model Method (IMM)	-	-	
9	Of which: other CCR	-	-	
10	Credit valuation adjustment (CVA)	9	16	1
11	Equity positions under the simple risk weight approach	-	-	
12	Equity investments in funds - look-through approach	-	-	
13	Equity investments in funds - mandate-based approach	-	-	
14	Equity investments in funds - fall-back approach	-	-	
15	Settlement risk	-	-	
16	Securitisation exposures in banking book	-	-	
17	Of which: securitisation internal ratings-based approach (SEC-	-	-	
18	Of which: securitisation external rating-based approah (SEC-	-	-	
19	Of which: securitisation standardised approach (SEC-SA)	-	-	
20	Market risk	4	9	0
21	Of which: standardised approach (SA)	4	9	0
22	Of which: internal model approaches (IMA)	-	-	
23	Capital charge for switch between trading book and banking book	-	-	
24	Operational risk	2,311	2,284	266
25	Amounts below the thresholds for deduction (subject to 250%	125	92	14
26	Floor adjustment			
27	Total (1 + 6 + 10 + 11 + 12 + 13 + 14 + 15 + 16 + 20 + 23 + 24 +	26,884	27,558	3,098

The quarter-on-quarter decrease on the RWA is mainly due to a decrease in corporate loans.

5. Leverage Ratio

The leverage ratio calculated in accordance with the Banks Act and the Regulations relating to Banks was 20.84% as at 31 December 2021, up from 18.19% as at 30 September 2021. The movement was mainly due to the decrease on the on-balance exposures of R7 billion mainly due to repayment of loans and decrease in trade finance activities compared to last quarter. The exposures that have been disclosed are balances as at each quarter.

5.1 Table 3: Summary comparison of accounting assets vs leverage ratio exposure (LR1)

The table below reflects the reconciliation of the total assets in the financial statements to the leverage ratio exposure measure.

	Item	R'm
1	Total consolidated assets as per published financial statements	40 076
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 fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-
4	Adjustments for derivative financial instruments	12
5	Adjustment for securities financing transactions (ie repos and similar secured lending)	-
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off- balance sheet exposures)	3 979
7	Other adjustments	-
8	**Leverage ratio exposure**	44 067

The leverage ratio exposure decreased by 14.78% quarter-on-quarter which was mainly due to the decrease in the consolidated assets because of decreased trade financing activities and loan repayments.

5.2 Table 4: Leverage ratio (LR2)

The table below provides a detailed breakdown of the components of the leverage ratio.

	Item	T	T-1
On-balance sheet exposures		Dec 2021 ('m)	Sept 2021 ('m)
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	40 074	47 024
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	-	-
3	**Total on-balance sheet exposures (excluding derivatives and**	40 074	47 024
Derivative exposures		**Other risk**	**Other risk**
4	Replacement cost associated with *all* derivatives transactions (ie net of eligible cash variation margin)	2	4
5	Add-on amounts for PFE associated with *all* derivatives transactions	12	19
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework		
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)		
8	(Exempted CCP leg of client-cleared trade exposures)		
9	Adjusted effective notional amount of written credit derivatives		
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)		
11	**Total derivative exposures (sum of lines 4 to 10)**	14	23
Securities financing transaction exposures			
12	Gross SFT *assets* (with no recognition of netting), after adjusting for sales accounting transactions		
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)		
14	CCR exposure for SFT assets		
15	Agent transaction exposures		
16	**Total securities financing transaction exposures (sum of lines 12 to 15)**	-	-
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	3 979	3 504
18	(Adjustments for conversion to credit equivalent amounts)	-	-
19	**Off-balance sheet items (sum of lines 17 and 18)**	3 979	3 504
Capital and total exposures			
20	**Tier 1 capital**	9 182	9 193
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	44 067	50 550
Leverage ratio			
22	**Basel III leverage ratio**	20,84%	18,19%

The above quarter-on-quarter movements was mainly due to the decrease on the on-balance exposures of R7 billion mainly as a result of decrease in trade financing activities as well as repayment of loans. The exposures that have been disclosed are balances as at each quarter-end.

6. Liquidity Risk

Liquidity risk is the risk of the Branch potentially not having sufficient financial resources to meet its obligations as they become due or will have to access such resources at excessive cost. The risk arises from mismatches in the timing of cash flows. The Branch follows the Bank of China Group's (the Group) liquidity framework.

The objective of the Group's internal liquidity and funding risk management framework is to allow it to withstand very severe liquidity stresses and be adaptable to changing business models, markets and regulations.

The primary sources of funding are customer deposits and intergroup borrowings. Within the Branch, the Asset, Liability and Liquidity Management Committee (ALLMC) is responsible for managing the Branch's liquidity and funding. The ALLMC members also manage the liquidity risk and interest rate risk in the banking book. The majority of the liquidity is invested in central bank deposits, South African treasury bills and government securities.

6.1 Table 5: Liquidity coverage ratio (LIQ1)

LCR promotes short-term resilience of the Branch's 30 calendar day liquidity risk profile by ensuring it has sufficient HQLA to meet potential outflows in a stressed environment. The simple average is used in the table where the daily LCR from 1 October to 31 December 2021 is used. This means a total of **92 data points** was used to calculate the Average LCR (which is the number of calendar days during the period 1 October to 31 December 2021). Un-weighted value represents the outstanding balances maturing or callable within 30 days for cash inflows and cash outflows. Total weighted value is calculated after application of weightings of cash inflows and outflows.

		Total unweighted value (R'm)	**Total weighted value (R'm)**
		(average)	(average)
	High-quality liquid assets		
1	Total HQLA		**14 217**
	Cash outflows		
2	**Retail deposits and deposits from small business customers, of which:**	**319**	**26**
3	Stable deposits		
4	Less stable deposits	262	26
5	**Unsecured wholesale funding, of which:**	**33 272**	**6 918**
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks		
7	Non-operational deposits (all counterparties)	11 266	6 918
8	Unsecured debt		
9	**Secured wholesale funding**		
10	**Additional requirements, of which:**	**7 977**	**948**
11	Outflows related to derivative exposures and other collateral requirements	19	19
12	Outflows related to loss of funding on debt products		
13	Credit and liquidity facilities	7 783	754
14	Other contractual funding obligations	175	175
15	Other contingent funding obligations		
16	**TOTAL CASH OUTFLOWS**		**7 892**
	Cash inflows		
17	**Secured lending (eg reverse repos)**		
18	**Inflows from fully performing exposures**	3 636	3 527
19	Other cash inflows	18	18
20	**TOTAL CASH INFLOWS**	**3 654**	**3 545**
	Total adjusted value		
21	**Total HQLA**		**14 217**
22	**Total net cash outflows**		**4 347**
23	**Liquidity Coverage Ratio (%)**		**327**

The quarter-on-quarter decrease in the average liquidity coverage ratio is due to the decrease on cash inflows from financial institutions which resulted in an increase in the net cash outflows. The decrease on cash inflows was as a result of a decrease in trade finance activities.