

BANK OF CHINA LIMITED, JOHANNESBURG BRANCH



Bank of China Limited Johannesburg Branch Q3 Pillar 3
Disclosures (2022)

Table of contents- Quarterly

1. Regulatory framework for disclosures	3
2. Pillar 3 disclosures	3
3. Risk Governance and oversight	3
4. Key prudential metrics	4
4.1 Key Metrics (KM1)	4
4.2 Overview of RWA (OV1)	5
5. Leverage ratio	6
5.1 Summary comparison of accounting assets vs leverage ratio exposure (LR1)	6
5.2 Leverage ratio (LR2)	7
6. Liquidity Risk	8
6.1 Liquidity coverage ratio (LIQ1)	8

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 quarter 3 ending 30 September 2022 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.

	September 2022 ('m)	June 2022 ('m)	March 2022 ('m)	December 2021 ('m)	September 2021 ('m)	
	a	b	c	d	e	
Available capital (amounts)						
1	Common Equity Tier 1 (CET1)	9,108	9,137	9,170	9,182	9,193
1a	Fully loaded ECL accounting model	9,108	9,137	9,170	9,182	9,193
2	Tier 1	9,108	9,137	9,170	9,182	9,193
2a	Fully loaded ECL accounting model Tier 1	9,108	9,137	9,170	9,182	9,193
3	Total capital	9,409	9,446	9,461	9,352	9,384
3a	Fully loaded ECL accounting model total capital	9,409	9,446	9,461	9,352	9,384
Risk-weighted assets (amounts)						
4	Total risk-weighted assets (RWA)	28,272	27,242	25,822	26,884	27,558
4a	Total risk-weighted assets (pre-floor)	28,272	27,242	25,822	26,884	27,558
Risk-based capital ratios as a percentage of RWA						
5	CET1 ratio (%)	32.22	33.54	35.51	34.16	33.36
5a	Fully loaded ECL accounting model CET1 (%)	32.22	33.54	35.51	34.16	33.36
5b	CET1 ratio (%) (pre-floor ratio)	32.22	33.54	35.51	34.16	33.36
6	Tier 1 ratio (%)	32.22	33.54	35.51	34.16	33.36
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	32.22	33.54	35.51	34.16	33.36
6b	Tier 1 ratio (%) (pre-floor ratio)	32.22	33.54	35.51	34.16	33.36
7	Total capital ratio (%)	33.28	34.67	36.64	34.79	34.05
7a	Fully loaded ECL accounting model total capital ratio (%)	33.28	34.67	36.64	34.79	34.05
7b	Total capital ratio (%) (pre-floor ratio)	33.28	34.67	36.64	34.79	34.05
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 (%)	-	-	0.02	0.02	-
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)	2.50	2.50	2.52	2.52	2.50
12	CET1 available after meeting the bank's minimum capital requirements (%)	24.72	26.04	27.99	26.63	25.86
Basel III leverage ratio						
13	Total Basel III leverage ratio exposure measure	50,699	50,442	43,520	44,067	50,550
14	Basel III leverage ratio (%) (including the impact of any applicable temporary exemption of central bank reserves)	17.96	18.11	21.07	20.84	18.19
14a	Fully loaded ECL accounting model Basel III leverage ratio (including the impact of any applicable temporary exemption of central bank reserves) (%)	17.96	18.11	21.07	20.84	18.19
14b	Basel III leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	17.96	18.11	21.07	20.84	18.19
Liquidity Coverage Ratio (LCR)						
15	Total high-quality liquid assets (HQLA)	16,191	14,237	14,209	14,217	12,081
16	Total net cash outflow	1,638	3,498	3,614	4,347	1,717
17	LCR ratio (%)	989	407	393	327	704
Net Stable Funding Ratio (NSFR)						
18	Total available stable funding	29,388	27,858	25,986	22,368	26,039
19	Total required stable funding	18,037	15,742	15,980	17,343	19,392
20	NSFR ratio	163	177	163	129	134

The quarter-on-quarter increase in the Risk Weighted Assets (RWA), decrease in the Capital Adequacy Ratio (CAR) is due to increase in corporate loans and exchange rate fluctuations. The increase in the Liquidity Coverage Ratio (LCR) is due to additional Treasury Bills purchased which increased the Total high-quality liquid assets as at 30 September 2022. In addition, the decrease in net cash outflows is mainly due to the increase in the lending funds which increased cash inflows. The decrease in the quarter-on-quarter Net Stable Funding Ratio (NSFR) is mainly due to the increase in loan activities, which contributed to the increase in the Required 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 idiosyncratic ratio requirement for the Branch is not disclosed in the Pillar 3 disclosures.

		a	b	c
		RWA		Minimum capital requirements
		Sep-22	Jun-22	T
1	Credit risk (excluding counterparty credit risk)	25,718	24,739	2,958
2	Of which: standardised approach (SA)	25,718	24,739	2,958
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)	1	2	0
7	Of which: standardised approach for counterparty credit risk	1	2	0
8	Of which: IMM	-	-	
9	Of which: other CCR	-	-	
10	Credit valuation adjustment (CVA)	2	4	0
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 rating-based approach (SEC-IRBA), including internal assessment approach (IAA)	-	-	
19	Of which: securitisation standardised approach (SEC-SA)	-	-	
20	Market risk	16	15	2
21	Of which: standardised approach (SA)	16	15	2
22	Of which: internal model approaches (IMA)	-	-	
23	Capital charge for switch between trading book and banking book	-	-	
24	Operational risk	2,292	2,292	264
25	Amounts below the thresholds for deduction (subject to 250% risk weight)	243	190	28
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)	28,272	27,242	3,251

The quarter-on-quarter increase on the RWA is mainly due to an increase in corporate loans and exchange rate fluctuations.

5. Leverage Ratio

The leverage ratio calculated in accordance with the Banks Act and the Regulations relating to Banks was 17.96% as at 30 September 2022, down from 18.11% as at 30 June 2022. The slight movement was mainly due to the increase on the on-balance exposures of R320 million. The exposures that have been disclosed are balances as at each quarter end.

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	46,778
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	2
9	Adjustment for securities financing transactions (ie repurchase agreements and similar secured lending)	-
10	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of offbalance sheet exposures)	3,919
11	Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital	-
12	Other adjustments	-
13	Leverage ratio exposure measure	50,699

The leverage ratio exposure measure decreased slightly by 0.51% quarter-on-quarter which was mainly due to the increase in the on-balance exposures of R320 million as a result of increase in loans and exchange rate fluctuations.

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
		Sept 2022 ('m)	Jun 2022 ('m)
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	46,778	46,458
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)	-	-
4	(Adjustment for securities received under securities financing transactions that are recognised as an asset)	-	-
5	(Specific and general provisions associated with on-balance sheet exposures that are deducted from Basel III Tier 1 capital)	-	-
6	(Asset amounts deducted in determining Basel III Tier 1 capital and regulatory adjustments)	-	-
7	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 to 6)	46,778	46,458
Derivative exposures		Other risk	Other risk
8	Replacement cost associated with all derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	0	0
9	Add-on amounts for potential future exposure associated with all derivatives transactions	2	6
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)	2	6
Securities financing transaction exposures			
14	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	-	-
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
16	Counterparty 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	3,919	3,978
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)	3,919	3,978
Capital and total exposures			
23	Tier 1 capital	9,108	9,137
24	Total exposures (sum of rows 7, 13, 18 and 22)	50,699	50,442
Leverage ratio			
25	Basel III leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)	17.96%	18.11%
25a	Basel III leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	17.96%	18.11%
26	National minimum leverage ratio requirement	4.00%	4.00%
27	Applicable leverage buffers	0.00%	0.00%

The above quarter-on-quarter movements was mainly due to the increase in the on-balance exposures of R320 million. 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 Assets and Liabilities Committee (ALCO) is responsible for managing the Branch's liquidity and funding. The ALCO 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 July to 30 September 2022 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 July to 30 September 2022). 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	Total weighted value
		(average)	(average)
	High-quality liquid assets		
1	Total HQLA		16,191
	Cash outflows		
2	Retail deposits and deposits from small business customers, of which:	338	24
3	Stable deposits		
4	Less stable deposits	240	24
5	Unsecured wholesale funding, of which:	29,465	5,613
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks		
7	Non-operational deposits (all counterparties)	9,516	5,613
8	Unsecured debt		
9	Secured wholesale funding		
10	Additional requirements, of which:	8,503	914
11	Outflows related to derivative exposures and other collateral requirements	87	87
12	Outflows related to loss of funding on debt products		
13	Credit and liquidity facilities	8,408	819
14	Other contractual funding obligations	8	8
15	Other contingent funding obligations		
16	TOTAL CASH OUTFLOWS		6,551
	Cash inflows		
17	Secured lending (eg reverse repos)		
18	Inflows from fully performing exposures	6,459	6,009
19	Other cash inflows	21	21
20	TOTAL CASH INFLOWS	6,480	6,029
	Total adjusted value		
21	Total HQLA		16,191
22	Total net cash outflows		1,638
23	Liquidity Coverage Ratio (%)		989

The quarter-on-quarter increase in the average liquidity coverage ratio is due to the increase on the total high-quality liquid assets, which resulted in a higher Liquidity Coverage Ratio. The increase on total high-quality liquid assets was because of additional Treasury Bills purchased. In addition, the decrease in net cash outflows is mainly due to the increase in the lending funds which increased cash inflows.