BANK OF CHINA LIMITED, JOHANNESBURG BRANCH

Bank of China Limited Johannesburg Branch Q4 Pillar 3 Disclosures (2022)

Table of contents- Quarterly

1. Regulatory Framework for Disclosures

Bank of China Limited, Johannesburg Branch (“the 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 Branch'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 4 ending 31 December 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 all the risks of the Branch and delegates certain responsibilities internally to various committees which are aligned to South African regulatory requirements and Bank of China Head Office’s management framework. The Finance Department (“FD”) is responsible to prepare the reports and Internal Audit Department (“IAD”) will perform independent review quarterly and semi-annually and External Auditors PricewaterhouseCoopers (“PwC”) will perform the independent review annually before the reports to be published on the BOC website. The Branch also will follow the website publish rules set by Head Office to ensure the accuracy and timeliness.

4. Key Prudential Metrics

4.1 Table 1: Key metrics (KM1)

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

		December 2022 ('m)	September 2022 ('m)	June 2022 ('m)	March 2022 ('m)	December 2021 ('m)
		a	b	c	d	e
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1)	9,119	9,108	9,137	9,170	9,182
1a	Fully loaded ECL accounting model	9,119	9,108	9,137	9,170	9,182
2	Tier 1	9,119	9,108	9,137	9,170	9,182
2a	Fully loaded ECL accounting model Tier 1	9,119	9,108	9,137	9,170	9,182
3	Total capital	9,444	9,409	9,446	9,461	9,352
3a	Fully loaded ECL accounting model total capital	9,444	9,409	9,446	9,461	9,352
	Risk-weighted assets (amounts)					
4	Total risk-weighted assets (RWA)	28,641	28,272	27,242	25,822	26,884
4a	Total risk-weighted assets (pre-floor)	28,641	28,272	27,242	25,822	26,884
	Risk-based capital ratios as a percentage of RWA					
5	CET1 ratio (%)	31.84	32.22	33.54	35.51	34.16
5a	Fully loaded ECL accounting model CET1 (%)	31.84	32.22	33.54	35.51	34.16
5b	CET1 ratio (%) (pre-floor ratio)	31.84	32.22	33.54	35.51	34.16
6	Tier 1 ratio (%)	31.84	32.22	33.54	35.51	34.16
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	31.84	32.22	33.54	35.51	34.16
6b	Tier 1 ratio (%) (pre-floor ratio)	31.84	32.22	33.54	35.51	34.16
7	Total capital ratio (%)	32.98	33.28	34.67	36.64	34.79
7a	Fully loaded ECL accounting model total capital ratio (%)	32.98	33.28	34.67	36.64	34.79
7b	Total capital ratio (%) (pre-floor ratio)	32.98	33.28	34.67	36.64	34.79
	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 (%)	0.08	-	-	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)	2.58	2.50	2.50	2.52	2.52
12	CET1 available after meeting the bank's minimum capital requirements (%)	23.89	24.72	26.04	27.99	26.63
	Basel III leverage ratio					
13	Total Basel III leverage ratio exposure measure	49,138	50,699	50,442	43,520	44,067
14	Basel III leverage ratio (%) (including the impact of any applicable temporary exemption of central bank reserves)	18.56	17.96	18.11	21.07	20.84
14a	Fully loaded ECL accounting model Basel III leverage ratio (including the impact of any applicable temporary exemption of central bank reserves) (%)	18.56	17.96	18.11	21.07	20.84
14b	Basel III leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	18.56	17.96	18.11	21.07	20.84
	Liquidity Coverage Ratio (LCR)					
15	Total high-quality liquid assets (HQLA)	18,464	16,191	14,237	14,209	14,217
16	Total net cash outflow	3,977	1,638	3,498	3,614	4,347
17	LCR ratio (%)	464	989	407	393	327
	Net Stable Funding Ratio (NSFR)					
18	Total available stable funding	27,406	29,388	27,858	25,986	22,368
19	Total required stable funding	18,311	18,037	15,742	15,980	17,343
20	NSFR ratio	150	163	177	163	129

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 decrease in the Liquidity Coverage Ratio (LCR) is due to the maturing of borrowing funds at 31 December 2022, which was partially offset by the additional of the SARB settlement account balance to the High-Quality Liquid Assets in accordance with D11/2022. The decrease in the Net Stable Funding Ratio (NSFR) is mainly due to the decrease on the Available Stable Funding as a result of the maturing of deposits at 31 December 2022.

4.2 Table 2: Overview of RWA (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
		Dec-22	Sep-22	T
1	Credit risk (excluding counterparty credit risk)	26,005	25,718	2,991
2	Of which: standardised approach (SA)	26,005	25,718	2,991
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)	29	1	3
7	Of which: standardised approach for counterparty credit risk	29	1	3
8	Of which: IMM	-	-	
9	Of which: other CCR	-	-	
10	Credit valuation adjustment (CVA)	67	2	8
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 approah (SEC-IRBA), including internal assessment approach (IAA)	-	-	
19	Of which: securitisation standardised approach (SEC-SA)	-	-	
20	Market risk	8	16	1
21	Of which: standardised approach (SA)	8	16	1
22	Of which: internal model approaches (IMA)	-	-	
23	Capital charge for switch between trading book and banking book	-	-	
24	Operational risk	2,271	2,292	261
25	Amounts below the thresholds for deduction (subject to 250% risk weight)	260	243	30
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)	28,641	28,272	3,294

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 18.56% as at 31 December 2022, up from 17.96% as at 30 September 2022. The movement was mainly due to the decrease on the on-balance exposures of R1.4 billion. 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	45,409
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	24
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)	3,705
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**	49,138

The leverage ratio exposure measure increased slightly by 0.6% quarter-on-quarter which was mainly due to the decrease on the on-balance exposures of R1.4 billion.

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 2022 ('m)	Sep 2022 ('m)
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	45,328	46,778
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)**	45,328	46,778
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)	81	0
9	Add-on amounts for potential future exposure associated with all derivatives transactions	24	2
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)**	105	2
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	3,705	3,919
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)**	3,705	3,919
Capital and total exposures			
23	**Tier 1 capital**	9,119	9,108
24	**Total exposures (sum of rows 7, 13, 18 and 22)**	49,138	50,699
Leverage ratio			
25	**Basel III leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)**	18.56%	17.96%
25a	Basel III leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	18.56%	17.96%
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 decrease on the on-balance exposures of R1.4 billion. 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 October to 31 December 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 October to 31 December 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		**18,464**
	Cash outflows		
2	**Retail deposits and deposits from small business customers, of which:**	**355**	**24**
3	Stable deposits		
4	Less stable deposits	238	24
5	**Unsecured wholesale funding, of which:**	**31,511**	**6,415**
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks		
7	Non-operational deposits (all counterparties)	9,756	6,415
8	Unsecured debt		
9	**Secured wholesale funding**		
10	**Additional requirements, of which:**	**8,466**	**792**
11	Outflows related to derivative exposures and other collateral requirements	38	38
12	Outflows related to loss of funding on debt products		
13	Credit and liquidity facilities	8,408	733
14	Other contractual funding obligations	20	20
15	Other contingent funding obligations		
16	**TOTAL CASH OUTFLOWS**		**7,230**
	Cash inflows		
17	**Secured lending (eg reverse repos)**		
18	**Inflows from fully performing exposures**	3,406	3,169
19	Other cash inflows	84	84
20	**TOTAL CASH INFLOWS**	**3,491**	**3,254**
	Total adjusted value		
21	**Total HQLA**		**18,464**
22	**Total net cash outflows**		**3,977**
23	**Liquidity Coverage Ratio (%)**		**464**

The quarter-on-quarter decrease in the average liquidity coverage ratio is due to the decrease in Net Cash Outflows caused by decrease in short-term lending funds and maturing of borrowing funds, which resulted in a lower Liquidity Coverage Ratio. The increase on total high-quality liquid assets was because of additional Treasury Bills purchased and the additional of the SARB settlement account balance to the High-Quality Liquid Assets in accordance with D11/2022.