BANK OF CHINA LIMITED, JOHANNESBURG BRANCH

Bank of China Limited Johannesburg Branch Q1 Pillar 3 Disclosures

2024

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1. <u>Regulatory Framework for Disclosures</u>

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 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. <u>Pillar 3 Disclosures</u>

The Branch's Pillar 3 Disclosures for Quarter 1 ending 31 March 2024 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. <u>Risk Governance and Oversight</u>

The Branch's Executive Committee ("EXCO") are accountable for the risks of the Bank and segregates certain responsibilities to various internal committees which are aligned to South African regulatory requirements and Head Office management framework. The Finance Department ("FD") is responsible for preparing the reports and Internal Audit Department ("IAD") will perform independent review on a quarterly and semi-annual basis and External Auditors, PricewaterhouseCoopers ("PwC") will perform the independent review annually before the reports are published on the BOC website. The Branch will also follow the website publishing rules set by Head Office to ensure the accuracy and timeliness thereof.

4. Overview of Risk Management and RWA

4.1 Table 1: Key metrics (KM1)

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

		March 2024 ('m)	December 2023 ('m)	September 2023 ('m)	June 2023 ('m)	March 2023 ('m)
		a	b	c	d	e
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1)	9 139	9 197	9 043	9 112	9 147
1a	Fully loaded ECL accounting model	9 139	9 197	9 043	9 112	9 147
2	Tier 1	9 139	9 197	9 043	9 112	9 147
2a	Fully loaded ECL accounting model Tier 1	9 139	9 197	9 043	9 112	9 147
3	Total capital	9 496	9 521	9 358	9 420	9 453
3a	Fully loaded ECL accounting model total capital	9 496	9 521	9 358	9 420	9 453
	Risk-weighted assets (amounts)					
4	Total risk-weighted assets (RWA)	31 469	28 743	27 926	27 270	31 872
4a	Total risk-weighted assets (pre-floor)	31 469	28 743	27 926	27 270	31 872
	Risk-based capital ratios as a percentage of RWA					
5	CET1 ratio (%)	29,04	32,00	32,38	33,42	28,70
5a	Fully loaded ECL accounting model CET1 (%)	29,04	32,00	32,38	33,42	28,70
5b	CET1 ratio (%) (pre-floor ratio)	29,04	32,00	32,38	33,42	28,70
6	Tier 1 ratio (%)	29,04	32,00	32,38	33,42	28,70
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	29,04	32,00	32,38	33,42	28,70
6b	Tier 1 ratio (%) (pre-floor ratio)	29,04	32,00	32,38	33,42	28,70
7	Total capital ratio (%)	30,18	33,13	33,51	34,54	29,66
7a	Fully loaded ECL accounting model total capital ratio (%)	30,18	33,13	33,51	34,54	29,66
7b	Total capital ratio (%) (pre-floor ratio)	30,18	33,13	33,51	34,54	29,66
	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	0,18	0,19	0,00	0,09
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	2,68	2,69	2,50	2,59
12	CET1 available after meeting the bank's minimum capital requirements (%)	21,09	23,94	24,32	25,54	20,74
	Basel III leverage ratio					
13	Total Basel III leverage ratio exposure measure	55 449	53 752	51 864	57 691	53 625
14	Basel III leverage ratio (%) (including the impact of any applicable temporary exemption of central bank reserves)	16,48	17,11	17,44	15,80	17,06
14a	Fully loaded ECL accounting model Basel III leverage ratio (including the impact of any applicable temporary exemption of central bank reserves) (%)	16,48	17,11	17,44	15,80	17,06
14b	Basel III leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	16,48	17,11	17,44	15,80	17,06
	Liquidity Coverage Ratio (LCR)					
15	Total high-quality liquid assets (HQLA)	21 975	22 349	21 075	20 484	19 442
16	Total net cash outflow	8 296	8 357	4 357	5 079	2 418
17	LCR ratio (%)	265	267	484	403	804
	Net Stable Funding Ratio (NSFR)					
18	Total available stable funding	26 327	26 713	27 274	28 101	28 999
19	Total required stable funding	23 076	21 400	18 597	18 281	19 121
20	NSFR ratio	114	125	147	154	152

The quarter-on-quarter increase in Risk Weighted Assets (RWA) and decrease in Capital Adequacy Ratio (CAR) is mainly due to the increase in corporate loans to Sasol Financing International for USD 140 million (R2.6 billion) and exchange rate fluctuations. The leverage ratio decrease is mainly due to the increase in on-balance sheet exposures by R2.2 billion. The decrease in Liquidity Coverage Ratio (LCR) is mainly due to the decrease in High Quality Liquid Assets for caused by a maturity of a USD debt security for R660 million and purchasing of new Government Bonds. The Net Stable Funding Ratio (NSFR) have decreased from 125% on 31 December 2023 to 114% on 31 March 2024 mainly due to the increase in the required stable funding as a result of an increase in performing loans in March 2024.

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 11.5% 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
		March 2024 ('m)	December 2023 ('m)	T
1	Credit risk (excluding counterparty credit risk)	28,641	26,023	3,294
2	Of which: standardised approach (SA)	28,641	26,023	3,294
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)	-	2	-
7	Of which: standardised approach for counterparty credit risk	-	2	-
8	Of which: IMM	-	-	-
9	Of which: other CCR	-	-	-
10	Credit valuation adjustment (CVA)	3	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 approah (SEC-IRBA), including internal assessment approach (IAA)	-	-	-
19	Of which: securitisation standardised approach (SEC-SA)	-	-	
20	Market risk	31	32	4
21	Of which: standardised approach (SA)	31	32	4
22	Of which: internal model approaches (IMA)	-	-	-
23	Capital charge for switch between trading book and banking book	-	-	-
24	Operational risk	2,395	2,395	275
25	Amounts below the thresholds for deduction (subject to 250% risk weight)	399	287	46
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)	31,469	28,743	3,619

The quarter-on-quarter increase on the RWA is mainly due to the increase in corporate loans to Sasol Financing International for USD 140 million (R2.6 billion) and exchange rate fluctuations.

5. Leverage Ratio

The leverage ratio calculated in accordance with the Banks Act and the Regulations relating to Banks was 16.48% as at 31 March 2024, decreased from 17.11 % as at 31 December 2023. The leverage ratio decrease is mainly due to the increase in on-balance sheet exposures by R2.2 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 measure (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	51,504
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	9
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)	3,935
11	Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital	-0
12	Other adjustments	-
13	**Leverage ratio exposure measure**	55,449

The leverage ratio exposure measure decreased by 0.63% quarter-on-quarter which was mainly due to an increase in the on-balance sheet exposures by R2.2 billion.

5.2 Table 4: Leverage ratio (LR2)

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

	Item	a	b
		T	T-1
On-balance sheet exposures		March 2024 ('m)	December 2023 ('m)
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	51,503	49,233
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)	-0	-0
7	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 to 6)**	51,503	49,233
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)	1	3
9	Add-on amounts for potential future exposure associated with all derivatives transactions	9	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)**	10	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	3,935	4,514
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)**	3,935	4,514
Capital and total exposures			
23	**Tier 1 capital**	9,139	9,197
24	**Total exposures (sum of rows 7, 13, 18 and 22)**	55,449	53,752
Leverage ratio			
25	**Basel III leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)**	16.48%	17.11%
25a	Basel III leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	16.48%	17.11%
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 sheet exposures by R2.2 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 January to 31 March 2024 is used. This means a total of **91 data points** was used to calculate the Average LCR (which is the number of calendar days during the period 1 January to 31 March 2024). 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.

		a	b
		Total unweighted value	**Total weighted value**
		(average)	(average)
	High-quality liquid assets		
1	Total HQLA		**21 975**
	Cash outflows		
2	**Retail deposits and deposits from small business customers, of which:**	**448**	**29**
3	Stable deposits	**-**	-
4	Less stable deposits	227	29
5	**Unsecured wholesale funding, of which:**	**31 920**	**10 507**
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	-	-
7	Non-operational deposits (all counterparties)	16 724	10 507
8	Unsecured debt	-	-
9	**Secured wholesale funding**		**-**
10	**Additional requirements, of which:**	**9 825**	**992**
11	Outflows related to derivative exposures and other collateral requirements	0	0
12	Outflows related to loss of funding on debt products	-	-
13	Credit and liquidity facilities	9 716	883
14	Other contractual funding obligations	109	109
15	Other contingent funding obligations	-	-
16	**TOTAL CASH OUTFLOWS**	-	**11 529**
	Cash inflows		
17	**Secured lending (eg reverse repos)**	**-**	
18	**Inflows from fully performing exposures**	3 454	3 233
19	Other cash inflows	0	0
20	**TOTAL CASH INFLOWS**	**3 454**	**3 233**
	Total adjusted value		
21	**Total HQLA**		**21 975**
22	**Total net cash outflows**		**8 296**
23	**Liquidity Coverage Ratio (%)**		**265**

The quarter-on-quarter decrease in the average Liquidity Coverage Ratio (LCR) is mainly due to the decrease in High Quality Liquid Assets for caused by a maturity of a USD debt security for R660 million and purchasing of new Government Bonds.