# BANK OF CHINA LIMITED, JOHANNESBURG BRANCH

Bank of China Limited Johannesburg Branch Quarter 3 Pillar 3 Disclosure (2024)

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## 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, which 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 30 September 2024 comprises all information required under Pillar 3, being both quantitative and qualitative. Pillar 3 requirements may be met by inclusion in other disclosure reports. Where the Branch chooses to adopt this approach, references are made to the relevant pages of the Annual Report and Accounts or other locations. The numbers are reported in Rand millions if there are no specific units in the report.

### 2.1 Financial Position

As at the end of September 2024 the financial position of the Branch was as follows:

- Total assets R56.59 billion
- Total liabilities R46.57 billion
- Total equity R10.01 billion

Total assets increased by 19.29% compared to 30 September 2023.

### 2.2 Financial Performance

As at the end of September 2024 the Branch reported higher than projected budgeted operating revenue for 2024 and the budgeted operating expenses was reported to be within the 2024 budget. There has been a year-on-year increase in profits of 28% mainly driven by an increase in net interest income and a decrease in impairments.

## 3. Risk Governance and Oversight

The Branch's Executive Committee ("EXCO") is accountable for the risks of the Bank and segregates certain responsibilities to various internal committees which are aligned to the South African regulatory requirements and the Head Office management framework. The Finance Department ("FD") is responsible for preparing the reports, Internal Audit Department ("IAD") will perform independent review on a quarterly and semi-annual basis and External Auditors 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.

| | | September 2024 ('m) | June 2024 ('m) | March 2024 ('m) | December 2023 ('m) | September 2023 ('m) |
|---|---|---|---|---|---|---|
| | | a | b | c | d | e |
| | **Available capital (amounts)** | | | | | |
| 1 | Common Equity Tier 1 (CET1) | 9 257 | 9 119 | 9 139 | 9 197 | 9 043 |
| 1a | Fully loaded ECL accounting model | 9 257 | 9 119 | 9 139 | 9 197 | 9 043 |
| 2 | Tier 1 | 9 257 | 9 119 | 9 139 | 9 197 | 9 043 |
| 2a | Fully loaded ECL accounting model Tier 1 | 9 257 | 9 119 | 9 139 | 9 197 | 9 043 |
| 3 | Total capital | 9 564 | 9 453 | 9 496 | 9 521 | 9 358 |
| 3a | Fully loaded ECL accounting model total capital | 9 564 | 9 453 | 9 496 | 9 521 | 9 358 |
| | **Risk-weighted assets (amounts)** | | | | | |
| 4 | Total risk-weighted assets (RWA) | 27 255 | 29 515 | 31 469 | 28 743 | 27 926 |
| 4a | Total risk-weighted assets (pre-floor) | 27 255 | 29 515 | 31 469 | 28 743 | 27 926 |
| | **Risk-based capital ratios as a percentage of RWA** | | | | | |
| 5 | CET1 ratio (%) | 33,96 | 30,90 | 29,04 | 32,00 | 32,38 |
| 5a | Fully loaded ECL accounting model CET1 (%) | 33,96 | 30,90 | 29,04 | 32,00 | 32,38 |
| 5b | CET1 ratio (%) (pre-floor ratio) | 33,96 | 30,90 | 29,04 | 32,00 | 32,38 |
| 6 | Tier 1 ratio (%) | 33,96 | 30,90 | 29,04 | 32,00 | 32,38 |
| 6a | Fully loaded ECL accounting model Tier 1 ratio (%) | 33,96 | 30,90 | 29,04 | 32,00 | 32,38 |
| 6b | Tier 1 ratio (%) (pre-floor ratio) | 33,96 | 30,90 | 29,04 | 32,00 | 32,38 |
| 7 | Total capital ratio (%) | 35,09 | 32,03 | 30,18 | 33,13 | 33,51 |
| 7a | Fully loaded ECL accounting model total capital ratio (%) | 35,09 | 32,03 | 30,18 | 33,13 | 33,51 |
| 7b | Total capital ratio (%) (pre-floor ratio) | 35,09 | 32,03 | 30,18 | 33,13 | 33,51 |
| | **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 (%) | 0,07 | 0,08 | 0,08 | 0,18 | 0,19 |
| 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) | 2,57 | 2,58 | 2,58 | 2,68 | 2,69 |
| 12 | CET1 available after meeting the bank's minimum capital requirements (%) | 26,02 | 22,94 | 21,09 | 23,94 | 24,32 |
| | **Basel III leverage ratio** | | | | | |
| 13 | Total Basel III leverage ratio exposure measure | 59 947 | 57 454 | 55 449 | 53 752 | 51 864 |
| 14 | Basel III leverage ratio (%) (including the impact of any applicable temporary exemption of central bank reserves) | 15,44 | 15,87 | 16,48 | 17,11 | 17,44 |
| 14a | Fully loaded ECL accounting model Basel III leverage ratio (including the impact of any applicable temporary exemption of central bank reserves) (%) | 15,44 | 15,87 | 16,48 | 17,11 | 17,44 |
| 14b | Basel III leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves) | 15,44 | 15,87 | 16,48 | 17,11 | 17,44 |
| 14c | Basel III leverage ratio (%) (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values for SFT assets | 15,44 | 15,87 | 16,48 | 17,11 | 17,44 |
| 14d | Basel III leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values for SFT assets | 15,44 | 15,87 | 16,48 | 17,11 | 17,44 |
| | **Liquidity Coverage Ratio (LCR)** | | | | | |
| 15 | Total high-quality liquid assets (HQLA) | 22 633 | 22 704 | 21 975 | 22 349 | 21 075 |
| 16 | Total net cash outflow | 2 824 | 10 228 | 8 296 | 8 357 | 4 357 |
| 17 | LCR ratio (%) | 801 | 222 | 265 | 267 | 484 |
| | **Net Stable Funding Ratio (NSFR)** | | | | | |
| 18 | Total available stable funding | 28 796 | 30 520 | 26 327 | 26 713 | 27 274 |
| 19 | Total required stable funding | 22 314 | 23 717 | 23 076 | 21 400 | 18 597 |
| 20 | NSFR ratio | 129 | 129 | 114 | 125 | 147 |

## 4.1 Table 1: Key metrics (KM1) (continued)

The quarter-on-quarter decrease in Risk Weighted Assets (RWA) and increase in Capital Adequacy Ratio (CAR) is mainly due to the decrease in risk weighted assets related to corporate loans and exchange rate fluctuations. The leverage ratio decrease is mainly due to the increase in on-balance sheet exposures by R2.4 billion. The increase in Liquidity Coverage Ratio (LCR) is mainly due to the decrease in total net cash outflows for R7.4 billion compared with 30 June 2024 caused by an increase in inflows from fully performing exposures for R9 billion compared with 30 June 2024. The Net Stable Funding Ratio (NSFR) remained consistent in the quarter-on-quarter comparison.

## 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 |
| | | September 2024 ('m) | June 2024 ('m) | T |
| 1 | Credit risk (excluding counterparty credit risk) | 24 568 | 26 739 | 2 825 |
| 2 | Of which: standardised approach (SA) | 24 568 | 26 739 | 2 825 |
| 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) | 10 | - | 1 |
| 7 | Of which: standardised approach for counterparty credit risk | 10 | - | 1 |
| 8 | Of which: IMM | - | - | - |
| 9 | Of which: other CCR | - | - | - |
| 10 | Credit valuation adjustment (CVA) | 25 | - | 3 |
| 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 | 12 | 16 | 1 |
| 21 | Of which: standardised approach (SA) | 12 | 16 | 1 |
| 22 | Of which: internal model approaches (IMA) | - | - | - |
| 23 | Capital charge for switch between trading book and banking book | - | - | - |
| 24 | Operational risk | 2 458 | 2 458 | 283 |
| 25 | Amounts below the thresholds for deduction (subject to 250% risk weight) | 183 | 303 | 21 |
| 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) | 27 255 | 29 515 | 3 134 |

The quarter-on-quarter decrease in Risk Weighted Assets (RWA) is mainly due to the decrease 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 15.44% as at 30 September 2024, decreased from 15.87% as at 30 June 2024. The movement is mainly due to the increase in on-balance sheet exposures by R2.4 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 | 56 591 |
| 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 | 16 |
| 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) | 3 341 |
| 11 | Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital | 0 |
| 12 | Other adjustments | 0 |
| **13** | **Leverage ratio exposure measure** | 59 947 |

The leverage ratio exposure measure decreased by 0.43% quarter-on-quarter which is mainly due to an increase in on-balance sheet exposures by R2.4 billion. The material difference between the total assets per the financial statements and the leverage ratio exposure measure is the off-balance sheet items.

## 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** | | September 2024 ('m) | June 2024 ('m) |
| 1 | On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral) | 56 591 | 54 171 |
| 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)** | 56 591 | 54 171 |
| **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 | 16 | 0 |
| 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)** | 16 | - |
| **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 | 3 341 | 3 283 |
| 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)** | 3 341 | 3 283 |
| **Capital and total exposures** | | | |
| 23 | **Tier 1 capital** | 9 257 | 9 119 |
| 24 | **Total exposures (sum of rows 7, 13, 18 and 22)** | 59 947 | 57 454 |
| **Leverage ratio** | | | |
| 25 | **Basel III leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)** | 15,44% | 15,87% |
| 25a | Basel III leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) | 15,44% | 15,87% |
| 26 | **National minimum leverage ratio requirement** | 4,00% | 4,00% |
| 27 | **Applicable leverage buffers** | 0,00% | 0,00% |
| **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 | - | - |
| 29a | 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) | 59 947 | 57 454 |
| 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) | 59 947 | 57 454 |
| 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) | 15,44% | 15,87% |
| 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) | 15,44% | 15,87% |

The above quarter-on-quarter movements is mainly due to the increase in the on-balance sheet exposures by R2.4 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 having to access such resources, to meet its obligations, 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 (LCR) (LIQ1)

LCR promotes short-term resilience of the Branch's 1 calendar month 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 2024 is used. This means a total of 92 data points were used to calculate the Average LCR (which is the number of calendar days during the period 1 July to 30 September 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.

| | | Total unweighted value | Total weighted value |
|---|---|---|---|
| | | (average) ('m) | (average) ('m) |
| | **High-quality liquid assets** | | |
| 1 | Total HQLA | | **22 633** |
| | **Cash outflows** | | |
| 2 | **Retail deposits and deposits from small business customers, of which:** | **604** | **35** |
| 3 | Stable deposits | **-** | - |
| 4 | Less stable deposits | 604 | 35 |
| 5 | **Unsecured wholesale funding, of which:** | **34 832** | **10 589** |
| 6 | Operational deposits (all counterparties) and deposits in networks of cooperative banks | - | - |
| 7 | Non-operational deposits (all counterparties) | 17 228 | 10 589 |
| 8 | Unsecured debt | - | - |
| 9 | **Secured wholesale funding** | | **-** |
| 10 | **Additional requirements, of which:** | **6 808** | **673** |
| 11 | Outflows related to derivative exposures and other collateral requirements | 12 | 12 |
| 12 | Outflows related to loss of funding on debt products | - | - |
| 13 | Credit and liquidity facilities | 6 708 | 572 |
| 14 | Other contractual funding obligations | 89 | 89 |
| 15 | Other contingent funding obligations | - | - |
| 16 | **TOTAL CASH OUTFLOWS** | - | **11 297** |
| | **Cash inflows** | | |
| 17 | **Secured lending (eg reverse repos)** | **-** | |
| 18 | **Inflows from fully performing exposures** | 12 514 | 12 321 |
| 19 | Other cash inflows | 14 | 14 |
| 20 | **TOTAL CASH INFLOWS** | **12 527** | **12 334** |
| | **Total adjusted value** | | |
| 21 | **Total HQLA** | | **22 633** |
| 22 | **Total net cash outflows** | | **2 824** |
| 23 | **Liquidity Coverage Ratio (%)** | | **801** |

The quarter-on-quarter increase in the Liquidity Coverage Ratio (LCR) is mainly due to the decrease in total net cash outflows for R7.4 billion compared with 30 June 2024 caused by an increase in inflows from fully performing exposures for R9 billion compared with 30 June 2024.

The High-Quality Liquid Assets (HQLA) mainly comprises of Investment securities while the majority of funding sources is derived from deposits and borrowing funds. There has no significant currency mismatch on the LCR during the quarter.