Bank of China Limited, Johannesburg Branch

Annual Financial Statements

For the year ended 31 December 2019

Annual Audited Financial Statements

For the year ended 31 December 2019

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The Branch management's approval of the annual financial statements

The Branch management is responsible for monitoring the preparation of and the integrity and the objectivity of the annual financial statements and related information included in these annual financial statements.

In order for the Branch management to discharge its responsibilities, management has developed and continues to maintain a system of internal controls. The Branch management has ultimate responsibility for the system of internal controls and reviews its operation, primarily through various risk-monitoring committees.

The internal controls include a risk-based system of internal accounting and administrative controls designed to provide reasonable but not absolute assurance that assets are safeguarded and that transactions are executed and recorded in accordance with generally accepted business practices and the Branch's policies and procedures. These controls are implemented by trained, skilled personnel with an appropriate segregation of duties, are monitored by management and include a comprehensive budgeting and reporting system operating within strict deadlines and an appropriate control framework.

The annual financial statements are prepared in accordance with International Financial Reporting Standards and in the manner required by the Companies Act No 71 of 2008 South Africa and incorporate responsible disclosure in line with the accounting policy of the Branch. The annual financial statements are based on appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates.

The Branch management believes that the Branch will be a going concern in the year ahead. For this reason they continue to adopt the going concern basis in preparing the Branch's annual financial statements.

The annual financial statements for the year ended 31 December 2019 set out on pages 10 to 91 have been approved by the Branch management on 13 May 2020 and are signed on its behalf by:

Tao Li
Chief Executive Officer
Bank of China Johannesburg Branch
Date: 2020-05-13

Ashley Cameron
Senior Executive Vice President
Bank of China Johannesburg Branch
Date: 2020-05-13

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INDEPENDENT AUDITORS REPORT TO THE MANAGEMENT OF BANK OF CHINA LIMITED JOHANNESBURG BRANCH

To the management of Bank of China Limited Johannesburg Branch

Opinion

We have audited the financial statements of Bank of China Limited, Johannesburg branch ("the Branch") set out on pages 10 to 91, which comprise the statement of financial position as at 31 December 2019 and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Bank of China Limited, Johannesburg branch as at 31 December 2019, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Separate Financial Statements section of our report. We are independent of the company in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised January 2018), parts 1 and 3 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised November 2018) (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements of the company and in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits of the company and in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA code) and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) respectively. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

<table>
<tr><th>Key Audit Matter</th><th>How the matter was addressed in the audit</th></tr>
<tr><td>
Credit impairments of Loans and Advances and ECL provisioning adjustments.
At year end, the value of Loans and advances to banks and customers amounted to R 31 862 million representing 68% of total in the statement of financial position of the Branch.
The IFRS 9 standard requires management to incorporate forward-looking information, including the Probability of Default (“PD”) and loss given default (“LGD”), which results in considerable judgement as to how changes in the macroeconomic factors will affect the expected credit losses (‘ECL’) used in determining the credit impairment of loans and advances to banks and customers.
We have identified the audit of the ECL allowances as a key audit matter as it required significant auditor attention because the underlying model development and validation takes place on a continuous basis, the inputs into the model are subject to a high degree of judgement, and use specific assumptions over forward looking information which change on an annual basis. This also necessitated significant input from our EY Quantitative specialists. The specific areas requiring auditor attention and the use of specialists in the current year include:
the probabilities of Default (“PD”) and the losses given default (“LGD”) required specific auditor attention. Specifically, effort was required to understand and support the assumptions which were made in respect of adjustments to externally sourced
</td><td>
Our procedures included, amongst others:

We obtained an understanding of changes to management’s process and control environment over credit origination and monitoring through enquiry and considered and accounted for any changes in the key controls that were tested.
We involved our quantitative specialists who supported how we evaluated the PD and LGD inputs of managements ECL model with reference to industry and localized benchmarks.
Our EY Quantitative specialists further supported us and assessed the completeness and accuracy of managements ECL provision at year end by independently recalculating the provision using independently sourced PD’s from external ratings agencies and LDG’s issued by the South African Reserve Bank (“SARB”).
We performed a sensitivity analysis over the key assumptions and judgements applied by management in their ECL model to determine the impact that a range of reasonable expected risk-based changes to the PD’s and LGD’s could have on the ECL output from managements model.
We assessed managements judgement on the value and timing of projected cash flows for settlement related to stage 3 loans and advances ECL’s through consideration of the past experience

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forward looking data by management in determining their model. • the assumptions made by management concerning the expected amount and timing of future cash flows, related to the settlement of stage 3 loans and advances as defined by the IFRS 9 standard required specific audit effort to validate the specific assumption for the specific loans in light of the risk associated with specific counterparties and market factors. • the assumptions made by management concerning the value and recoverability of subordination agreements or collateral held over stage 3 loans and advances required individual specific attention as the factors driving the value of such collateral and agreements depends on the specific conditions and types of collateral. The disclosure related to credit impairments of loans and advances to banks and customers are disclosed in the following notes of the Annual Financial Statements: ▪ Note 6: Credit Impairments ▪ Note 28.4: Credit Risk	regarding the specific counter parties and completeness of the current market conditions accounted for in the projected cash flows. • We assessed the value and recoverability of subordination or collateral agreements in place for stage 3 loans and advances in light of the underlying contractual agreements and market conditions as they relate to the types of collateral held by vouching to quoted market prices or publicly accessible valuation databases. • We have assessed the accuracy and completeness of the qualitative and quantitative disclosure requirements of the IFRS 9 standard.

Other Information

Management is responsible for the other information. The other information comprises the information included in the 93-page document titled “Bank of China Limited, Johannesburg Branch, Annual financial statements for the year ended 31 December 2019”, which includes the Branch management’s approval of the annual financial statements report and Branch management report. The other information does not include the financial statements and our auditor’s reports thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management for the Financial Statements

Management are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management are responsible for assessing the Branch's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Branch or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.
As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Branch's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of managements' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Branch's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures

are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Branch to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide management with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with management, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Ernst + Young Inc.

Ernst & Young Inc.
Director: Kubenderan Moodley CA(SA)
Registered Auditor

102 Rivonia Road
Sandton
2194
13 May 2020

The Branch management's report

The Branch management have pleasure in presenting their report for the year ended 31 December 2019.

Bank of China Limited, Johannesburg Branch has been registered as an external company in terms of the South African Companies Act 71 of 2008. As it is a foreign company, it is not subject to Chapter 3 of the aforementioned Act and therefore is not required to prepare and submit audited annual financial statements to the Commissioner.

Registered office	Postal address
14-16th Floor	PO Box 782616
Alice Lane Tower	Sandton
15 Alice Lane	Johannesburg
Sandton	2146
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Telephone	Telefax
(011) 520-9600	(011) 783-2336

Board of Directors – Bank of China Limited
A full register of directors can be inspected at the Bank of China Limited, Johannesburg Branch's offices.
The Members of the Board of Directors of Bank of China Limited in office during the year and as at the date of this report are:

CHEN Siqing	Chairman	Resigned, effective 2019/04/28
LIU Lianghe	Chairman	Appointed, effective 2019/06/28
Martin Cheung Kong Liao	Non-Executive Director	Appointed, effective 2019/09/04
LU Zhengfei	Independent Non-Executive Director	Retired, effective 2019/08/01
LEUNG Cheuk Yan	Independent Non-Executive Director	Retired, effective 2019/09/04
LI Jucai	Non-executive director	Resigned, effective 2019/06/25
WANG Changyun	Independent Non-Executive Director	
LIN Jingzhen	Executive Director	Appointed, effective 2019/02/03
WU Fulin	Executive Director	Appointed, effective 2019/02/03
XIAO Lihong	Non-executive director	
WANG Xiaoya	Non-executive director	
ZHAO Jie	Non-executive director	
CHAO Angela	Independent Director	
JIANG Guohua	Non-executive director	
LIAO Qiang	Non-executive director	
ZHANG Jiangang	Non-executive director	Appointed, effective 2019/07/29

All of the above directors are citizens of the People's Republic of China, except for Martin Cheung Kong Liao who is a citizen of Hong Kong and Angela Chao from USA.

Secretary

The current company secretary is Mr Scotty Pillay. Ashley Cameron has been appointed as the new Company Secretary effective from 2020/01/14.

Holding company

Bank of China Ltd, Johannesburg Branch is a branch of Bank of China Limited, a company incorporated in the People’s Republic of China.

Auditors

Ernst & Young Incorporated was appointed as external auditors as from the financial year end 31 December 2013 in accordance with section 90(2) of the Companies Act, 2008.

Business and postal address:

Ernst & Young Incorporated	Private Bag X14
102 Rivonia Road	Sandton
Sandton	2146
2194	

Nature of business

The principal business of the Branch is that of corporate banking comprising primarily corporate lending and trade finance facilities.

Branch Capital

The Branch capital is R5, 800 million (31 December 2018: R5, 800 million).

Financial results

Total comprehensive income of R654 million (31 December 2018: R598 million) has been reported for the year ended 31 December 2019.

Material subsequent events

No material subsequent events occurred between the financial year end of the Branch and the date of this report.

Going Concern

The Branch management believes that the Branch will be a going concern in the year ahead. For this reason, the going concern basis is adopted in preparing the Branch’s annual financial statements.

Statement of comprehensive income for the year ended 31 December 2019

In thousands of ZAR	Note	2019	2018
Interest income	2	2,645,710	2,492,548
Interest expense	2	(1,922,471)	(1,982,700)
Net interest income		723,239	509,848
Fee and commission income	3	130,248	120,043
Fee and commission expense	3	(15,180)	(12,120)
Net fee and commission income		115,068	107,923
Other operating income	4	343,924	476,538
Operating income		1,182,231	1,094,309
Personnel expenses	5	(169,595)	(151,605)
Other operating expenses	5	(64,557)	(64,976)
Operating expenses		(234,152)	(216,581)
Net ECL Impairment reversal/(expense) on financial assets	6	(48,679)	(39,802)
Profit before income tax		899,400	837,926
Income tax expense	7	(282,771)	(254,733)
Profit for the year		616,629	583,193
Other comprehensive income			
Items that may be reclassified to Profit or Loss			
Credit impairment on financial assets measured at fair value through OCI	22	2,078	(4,003)
Income tax relating to components of other comprehensive income	22	(13,308)	(2,935)
Gain on Fair Value through Other comprehensive Income Instruments	22	49,088	21,247
Re-classifications of gains Fair Value through Other comprehensive Income Instruments to profit or loss	22	-	780
Other comprehensive income, net of tax		37,858	15,089
Total comprehensive income for the year		654,487	598,282

Statement of financial position as at 31 December 2019

In thousands of ZAR	Note	2019	2018
Assets			
Non-current assets			
Property, plant and equipment	13	23,731	16,764
Intangible asset	14	-	170
Deferred income tax	15	104,678	128,041
Derivative financial instruments	9	-	92,454
Loans and advances to banks	10	3,922,713	5,098,168
Loans and advances to customers	11	13,794,461	12,891,164
Investment securities	12	3,124,412	3,579,899
Current assets			
Cash and cash equivalents	8	2,796,446	5,001,118
Derivative financial instruments	9	79,194	7,828
Loans and advances to banks	10	5,214,048	1,840,013
Loans and advances to customers	11	8,930,475	11,972,296
Current income tax assets	26.1	11,979	64,202
Investment securities	12	8,022,576	2,928,226
Other assets	16	824,407	768,891
Total assets		46,849,120	44,389,234
Liabilities			
Non-current liabilities			
Deposits from customers	18	65,280	4,864
Deposits from banks	17	8,996,557	5,758,123
Commercial paper	25	-	3,589,187
Current liabilities			
Deposits from customers	18	16,875,314	14,065,449
Derivative financial instruments	9	7,236	130,525
Deposits from banks	17	8,730,738	10,587,058
Provisions	19	75,974	77,134
Commercial paper	25	3,500,408	2,183,307
Other liabilities	20	161,445	211,905
Total liabilities		38,412,952	36,607,552
Equity			
Branch capital	21	5,800,000	5,800,000
Accumulated profit		2,546,261	1,929,633
Fair value reserves	22	89,907	52,049
Total equity		8,436,168	7,781,682
Total liabilities and equity		46,849,120	44,389,234

Statement of changes in equity for the year ended 31 December 2019

In thousands of ZAR	Note	Branch capital	Accumulated profit/(loss)	Fair value reserves	Total
Balance at 1 January 2018		3,300,000	1,346,439	36,960	4,683,399
Capital injection		2,500,000	-	-	2,500,000
Total comprehensive income		-	583,193	15,089	598,282
Profit for the year		-	583,193	-	583,193
Other comprehensive income	22	-	-	15,089	15,089
Balance at 31 December 2018		5,800,000	1,929,632	52,049	7,781,681
Balance at 1 January 2019		5,800,000	1,929,632	52,049	7,781,681
Total comprehensive income		-	616,629	37,858	654,487
Profit for the year		-	616,629	-	616,629
Other comprehensive income	22	-	-	37,858	37,858
Balance at 31 December 2019		5,800,000	2,546,621	89,907	8,436,168

Statement of cash flows for the year ended 31 December 2019

In thousands of ZAR	Note	2019	2018
Cash flows from operating activities			
Profit before taxation	26.3&23	899,400	837,926
Adjustments for non-cash flow items and non-operating:			
Interest income on investment securities	2&12	(682,954)	(458,195)
Interest expense on commercial paper	2	286,467	399,455
Expected Credit loss on financial assets	6	48,201	40,923
Other non-cash income items		(3,638)	(2,141)
Depreciation and amortisation	13&14	18,859	6,764
Fair value (gain)/loss on derivatives	4&9	(102,201)	439,882
Increase in operating lease accrual	20	-	389
Decrease in provisions (excl. impairment)	19	5,547	(206)
		469,681	1,264,797
Change in working capital:			
Increase in loans and advances (excl. impairment)	10&11	97,860	(142,646)
Loan write-off	11	(211,702)	-
Increase/(Decrease) in deposits	17&18	4,252,395	(1,250,446)
Increase in other assets	16	(79,864)	(11,025)
(Decrease)/Increase in other liabilities	20	(35,893)	37,475
Cash generated from operations		4,492,477	(101,845)
Income tax paid	26.1	(216,377)	(258,141)
Net cash generated from operating activities		4,276,100	(359,986)
Cash flows from investing activities			
Purchase of investment securities	12	(8,844,891)	(4,610,499)
Sale of investment securities	12	4,676,570	3,554,704
Coupons received from investment securities	12	261,500	401,410
Purchase of property and equipment	13	(1,309)	(4,376)
Net cash generated from investing activities		(3,908,130)	(658,761)
Cash flows from financing activities			
Interest on lease liabilities	2	(1,865)	-
Payment of principal portion of lease liabilities		(12,701)	-
Proceeds from issue of commercial paper	25	-	723,000
Repayment of commercial paper	25	(2,248,757)	(2,229,608)
Coupon interest paid on commercial paper	25	(309,796)	(453,718)
Branch capital	21	-	2,500,000
Net cash used in financing activities		(2,573,119)	539,674
Net decrease in cash and cash equivalents		(2,205,150)	(479,093)
Cash and cash equivalents at the beginning of the year		5,002,239	5,481,312
Cash and cash equivalents at the end of the year	8	2,797,089	5,002,239

Total interest paid during the year is R1,914,960 and the total interest received is R2,710,712. Detailed disclosure is made in Note 26.2.

Notes to the annual financial statements for the year ended 31 December 2019

1. Accounting policies

The significant accounting policies applied in the preparation of the annual financial statements are set out below. The accounting policies set out below have been applied consistently to all periods presented in these financial statements except where otherwise indicated.

1.1 Statement of compliance

The annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations as issued by the International Accounting Standards Board (IASB) and in a manner required by the Companies Act No 71 of 2008, of South Africa, where applicable.

1.2 Basis of preparation

The annual financial statements are presented in South African Rand (ZAR) rounded to the nearest thousand, and have been prepared under the historical cost convention, except for Financial Assets measured at Fair Value through OCI, derivative assets and liabilities and Financial Liabilities that have been measured at fair value through profit and loss. The annual financial statements provide comparative information in respect of the previous period.

The preparation of the annual financial statements is in conformity with IFRS which requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that is not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. Where there is uncertainty relating to the assumptions, these are re-assessed based on the latest information provided to management to ensure that the forecast relating to the future period is accurate. The macroeconomic indicator pool currently used by BOC's models is an indicator produced by the BOC's stress testing team, and the stress testing team will publish forecasts for nine quarters of macroeconomic indicators under different macro scenarios.

Information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements pertains to the disclosure of the fair value. The assumptions on the fair value are based on observable data inputs that were readily available and are discussed in Note 28. Other significant areas such as Expected Credit Losses are disclosed in note 1.7.

Notes to the annual financial statements for the year ended 31 December 2019

1. Accounting policies (Continued)

1.2 Basis of preparation (Continued)

Significant accounting judgments, estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Branch bases its assumptions and estimates on parameters available when the annual financial statements were prepared. In addition, the assumptions about the future are made based on forecasted information provided to management. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Branch. Such changes are reflected in the carrying amount when they occur.

Expected Credit losses on loans and advances

The Branch reviews its loans and advances individually at each statement of financial position date to assess whether an Expected Credit Loss should be recorded in the profit or loss statement. In particular, management's judgment is required in the estimation of the amount and timing of future cash flows when determining the Expected Credit loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance. In determining the provision, certain data is considered, such as collateral pledged by the customer, and the credit grading of these customers which in turn drives the probability of default on the exposure. Credit gradings are obtained from the Branch’s CCMS based on an individual client review process. The Branch’s classifies the credit rating according to the probability that debtors will default in the next year. The Branch employs the PD-based statistical models to calculate the customers' Probability of Default (PD) in the next year, and determine the customers’ credit rating accordingly. Refer to note 28.4 for a detailed description of the Branch's credit risk management. IFRS 9 requires the Branch to record an allowance for ECLs for all loans and other financial assets not held at FVPL, together with loan commitments (refer to 1.11) and financial guarantee contracts (refer to 1.12). The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. The impairments for the Branch are determined by using both qualitative and quantitative methods.

The Branch makes its assumptions on the forward- looking information of the expected credit losses by making sound judgements based on Historical data (such as the payments made by the client) as well macroeconomic information provided at the time. The Branch identifies the key macroeconomic indicators that affect the credit risk and ECL of various business types, such as GDP, PPI, CPI, Investment in fixed assets, Home price index, Aggregate financing to the real economy. The impact of these economic indicators on the PD and the LGD varies according to different types of business. The Branch predicts these economic indicators on a quarterly basis and determines the impact of these economic indicators on the PD and the LGD by conducting regression analysis.

In accordance with IFRS 9 requirements, based on the change in credit quality since the initial recognition of the financial instruments, ECL under different periods of time should be recognised, and the new standard outlines a “three-stage” model

Notes to the annual financial statements for the year ended 31 December 2019

1. Accounting policies (Continued)

1.2 Basis of preparation (Continued)

to calculate the ECL as follows:

(1) Stage 1: The financial instruments without significant increases in credit risk after initial recognition apply the Stage I Model of the ECL to calculate its expected credit loss allowance at an amount equivalent to the ECL of the financial instrument for the next 12 months;

(2) Stage 2: Financial instruments that have had a significant increase in credit risk since initial recognition but have no objective evidence of expected credit losses apply the Stage II Model of the ECL, with their expected credit loss provision measured at an amount equivalent to the ECL over the lifetime of the financial instruments;

(3) Stage 3: Financial assets with objective evidence of impairment at the balance sheet date apply the Stage III Model of ECL, with their expected credit loss provisions measured at the amount equivalent to the ECL for the lifetime of the financial instruments.

Going Concern

The Branch has taken full cognizance of the significant slowdown in domestic business growth traction since the beginning of 2020. Coupled with this, the impact that COVID-19 is having on the global macro outlook, will intensify the risk spectrum facing the Branch of which management is critically aware.

On-going forecasts are being conducted to ascertain the requisite optimum level of funding from the controlling Head Office as a result of the captioned increased risks and to ensure constant and continual compliancy to the South African legislative and statutory requirements in addition to IFRS obligations. To-date supplementary borrowings from the controlling Head Office have been injected into minimum reserves held at the South African Reserve Bank and utilized to purchase additional Government Bonds and Treasury Bills to underline the emphasis that management places on maintaining adequate liquidity.

Notwithstanding the proactive initiatives pertaining to liquidity, management has in addition implemented a fully integrated Business Continuity Management Plan to maintain its operational ability and customer service capability.

The Branch has full appreciation of the anticipated subdued economic growth outlook and persistence of a myriad of risk factors, however management believes in the Branch's resilience and the support of its global operation to ensure its ability to operate as a going concern and forecasts an enhanced year-on-year financial performance albeit at lower than projected levels.

Notes to the annual financial statements for the year ended 31 December 2019

1. Accounting policies (Continued)

1.3 Changes in accounting policies and disclosures

New and Amended Standards and Interpretations
The Group has not early adopted any standards, interpretations or amendments that have been issued, but are not yet effective.

IFRS 16 Leases

The Group applied IFRS 16 Leases for the first time on 1 January 2019. The nature and effect of the changes as a result of adoption of this accounting standard is described below.

Several other amendments and interpretations apply for the first time in 2019, but does not have an impact on the financial statements of the Branch. The Branch has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

IFRS 16 leases replace IAS 17 leases along with three Interpretations (IFRIC 4 'Determining whether an Arrangement contains a lease', SIC 15 'Operating Lease-Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a lease'). The Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

Lessor Accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 does not have an impact for leases where the Group is the lessor.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application. The Group elected to use the transition practical expedient to reassess whether or not a contract is, or contains a lease at 1 January 2019.

Instead, the Branch applied the standard only to contracts that were previously identified as leases by applying IAS 17 and IFRIC 4 at the date of initial application.

The Branch assesses at contract inception whether a contract is, or contains, a lease. That Is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Notes to the annual financial statements for the year ended 31 December 2019

1. Accounting policies (Continued)

1.3 Changes in accounting policies and disclosures (Continued)

Transition

The effect of adoption of IFRS 16 as at 1 January 2019 increase/(decrease) is as follows:

In thousands of ZAR	
Assets	
Property, plant and equipment	24,348
Total Assets	24,348
Liabilities	
Deferred tax liabilities	-
Other liabilities	24,348
Total Liabilities	24,348

Note: Property, plant and equipment consists of the Right-of-use asset while other liabilities consist of the lease liabilities.

The Branch has lease contracts for buildings and rentals for expatriate employees.

Short-term lease exemption

The Branch applies the short-term lease recognition exemption to its short-term leases housing rentals of expatriate employees.

In addition, the Branch applied the short-term lease recognition on the sub-lease agreement (where the Branch was a lessor for the agreement) as the head lease had a lease term of 12 less from commencement date and do not contain purchase option

Low-value lease exemption

It also applies the lease of low-value recognition exemption to the leases of gym equipment that is considered to be low value.

Lease payments on short-term lease and leases of low-value assets are recognised as an expense on straight line basis over the lease term.

Notes to the annual financial statements for the year ended 31 December 2019

1. Accounting policies (Continued)

1.3 Changes in accounting policies and disclosures (Continued)

IAS 17 Policy –Prior to 1 January 2019

Branch as lessee

Leases of assets are classified as operating leases if the lessor effectively retains all the risks and rewards of ownership. Payments made under operating leases, net of any incentives received from the lessor, are recognized in profit or loss on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

IFRS 16 Policy – After 1 January 2019

The Branch as a lessee

The Branch applies a single recognition and measurement approach for all leases, with the exception of short-term leases and low-value assets. The Branch recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Lease liabilities

At the commencement date of the lease, the Branch recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Branch and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of the lease payments, the Branch uses its incremental borrowing rate at the lease commencement date when the interest rate implicit in the lease is not available. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of the lease liabilities is remeasured if there is a modification, changes in the lease term, changes in the lease payments (e.g. Changes to future lease payments resulting from the change in index or rate used to determine such lease payments) or change in the assessment of an option to purchase the underlying asset.
The Branch's lease liabilities are included in Other Liabilities on the Balance Sheet while the detailed breakdown of the lease liabilities is disclosed in Note 24 of the Financial Statements.

Notes to the annual financial statements for the year ended 31 December 2019

1. Accounting policies (Continued)

1.3 Changes in accounting policies and disclosures (Continued)

Right of Use Assets

Initial Measurement

The Branch's Right of use asset is measured at an amount equal to the lease liabilities adjusted by the lease accrual/prepayment at the date of initial application of IFRS 16 (1 January 2019). The Branch's Right of use Assets is included under Note 13 of the Financial Statements.

Subsequent measurement

The Branch's Right of use asset is depreciated on a straight-line basis over the period of the lease.

Practical expedients

Low-value lease exemption

The Branch applies the low-value lease exemption on leases of low-value assets based on a threshold which is set by Head Office. The threshold is set at R120 000.

Short-term lease exemption

The Branch applies the short-term lease exemption on leases that have a lease term of 12 months or less from commencement date and do not contain purchase option.

Other practical expedients

Other practical expedients applied by the Branch are that we have applied a single discount rate to a portfolio of leases with reasonably similar characteristics.

IFRIC 23

The Branch has adopted IFRIC 23 in the current year of assessment. However, it did not have a material impact on the financial statements as there are no identified uncertain tax positions in the current financial reporting period.

Notes to the annual financial statements for the year ended 31 December 2019

1. Accounting policies (Continued)

1.4. Property and equipment

Property and equipment is held at cost less accumulated depreciation and accumulated impairment losses. Costs include expenditure that is directly attributable to the acquisition of the items. Where property and equipment comprise major components with different useful lives, the components are accounted for as separate items of property and equipment.

Depreciation is provided on a straight-line basis over the estimated useful lives of each part of an item of the property and equipment. The current estimates for this purpose are:

Motor vehicles	5 years
Computer equipment	
- Main frame/Servers/Communication systems	3 years
Office equipment	
- Telephone equipment	5 years
- TV equipment	6 years
- Office furniture	6 years
- Office fittings	5 years
Security Devices and equipment	4 years
- Cameras	

Computer equipment include IT equipment, main frame, servers and communication systems. Office equipment includes telephone equipment, TV equipment, office furniture and office fittings. Security Devices include cameras. Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Subsequent expenditure relating to property and equipment is capitalised when it is probable that future economic benefits from the use of assets will flow to the Branch and its cost can be measured reliably. All other subsequent expenditure that does not meet the recognition criteria is recognised as an expense in the period in which it is incurred.

Gains or Losses on the disposal of property and equipment are recognised in profit and loss in the period in which they occur. The Gain or Loss is the difference between the net disposal proceeds and the carrying amount of the assets.

The carrying amount of an item of property and equipment shall be derecognised:
(a) on disposal; or
(b) when no future economic benefits are expected from its use or disposal.

Notes to the annual financial statements for the year ended 31 December 2019

1. Accounting policies (Continued)

1.5 Intangible assets

Intangible assets are stated at historical cost less accumulated amortisation and accumulated impairment losses. Amortisation is provided on a straight line basis on the cost of the assets, over their expected useful lives.

The current estimate for this purpose is:

Computer software	2 years

The useful life and amortisation method are reviewed annually.

An intangible asset shall be derecognised:
(a) on disposal; or
(b) when no future economic benefits are expected from its use or disposal.

Any gains or losses arising from the derecognition of the asset is recognised in profit or loss.

1.6 Taxation

Current tax
Current tax is the expected tax payable or the tax recoverable from the taxation authorities for the year. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects that uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

Deferred tax
Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:
- When the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not be reversed in the foreseeable future.

Notes to the annual financial statements for the year ended 31 December 2019

1. Accounting policies (Continued)

1.6 Taxation (Continued)

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.
Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Assets remeasured through OCI have a corresponding deferred tax entry through OCI. Deferred tax items are recognised in correlation to the underlying transaction either in OCI, profit and loss or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax Uncertain positions

The Branch is subject to various taxes and the calculation of the Branch’s tax charge and provisions for income taxes necessarily involve a degree of estimation and judgment. There are a number of transactions and calculations for which the ultimate tax treatment is uncertain. The Branch is subject to enquiries and requests for information by SARS as part of its normal business activities. There is uncertainty about both the timing and final outcome of such tax enquiries and as a result, the Branch takes into account existing information relating to tax treatment at the time the estimate was made. In the previous year, there was a SARS dispute relating to the 2016 income tax. However, this has since been settled and the Branch has not tax uncertain positions during the year. As such, IFRIC 23 does not have any material impact on the Financial Statements

Notes to the annual financial statements for the year ended 31 December 2019

1. Accounting policies (Continued)

1.7. Financial Instruments

1.7.1 Initial Recognition and measurement

The Branch recognises a financial asset or a financial liability when, and only when, it becomes a party to the contractual provisions of the instrument. An arm's length regular way purchase or sale of financial assets is recognised on the trade date at which the Branch commits to purchase or sell the asset.

When a financial asset or financial liability is recognised initially, the Branch measures it at its fair value plus/minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

1.7.2 Subsequent measurement

For the purposes of subsequent measurement, the Branch classifies financial assets and financial liabilities into the categories set out below:

Financial liabilities

The Branch classifies the financial liabilities at either fair value through profit or loss or amortised cost. Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held-for-trading if they are incurred for the purpose of repurchasing in the near term.

Gains or losses on liabilities held for trading are recognised in profit or loss under other income, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at Fair Value through Profit or Loss (FVPL). Such movements are presented in OCI with no subsequent reclassification to the income statement. The Branch has not designated any financial liability as at fair value through profit or loss. Interest-bearing loans borrowings (including commercial paper), deposits and other liabilities are subsequently measured at amortised cost using the effective interest rate method.

Financial Assets

The Branch classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost
- FVOCI
- FVPL

Notes to the annual financial statements for the year ended 31 December 2019

1. Accounting policies (Continued)

1.7. Financial Instruments (Continued)

Business model assessment

The key factors which are taken into account when the Branch determines a business model of financial assets mainly includes: how the asset's future cash flow will be collected at the time of recognition, how the performance of the financial assets held within that business model are evaluated and reported to key management personnel and how managers of the portfolio of financial assets are compensated.

The SPPI test

Assessing the cash flow characteristics is to identify whether the cash flow is solely payments of principal and interest on the outstanding principal. If the financial assets are held within a business model whose objective is achieved by collecting future cash flows at the time of initial recognition or by both collecting contractual future cash flows and selling financial assets, the Branch will assess whether financial instrument's cash flows are solely payments of principal and outstanding interest on the principal amount. When making the assessment, the Branch takes into account whether the contractual cash flows are consistent with the basic lending arrangements. If the terms of the contract trigger a risk or exposure fluctuation that is inconsistent with the basic lending arrangements, the relevant financial assets are classified as being measured at fair value through profit or loss.

The Branch classifies financial assets or financial liabilities as held for trading when they have been purchased or issued primarily for short-term profit making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking. Held-for-trading assets and liabilities are recorded and measured in the statement of financial position at fair value. Changes in fair value are recognised in other income. Interest and dividend income or expense is recorded in other income according to the terms of the contract, or when the right to payment has been established.

Included in all classifications as amortised cost are loans to banks and customer that have been acquired principally for the purposes of collecting the contractual cash flows of the financial asset.

Included in all classifications at fair value through other comprehensive income are investment securities that have been acquired principally for the purposes of collecting the contractual cash flows.

Debt instruments at FVOCI

The Branch measures the debt instruments at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets
- The contractual terms of the financial asset meet the SPPI test

Notes to the annual financial statements for the year ended 31 December 2019

1. Accounting policies (Continued)

1.7. Financial Instruments (Continued)

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income, expected credit losses and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost as explained in Note 28. The ECL calculation for Debt instruments at FVOCI is explained in Note 6. Where the Branch holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. On de-recognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

Reclassification of financial assets and liabilities
The Branch did not reclassify any of its financial assets or liabilities in 2019 and 2018.

Modification
Modification that results in de-recognition
Financial Assets
The Branch treatment to modification resulting in de-recognition is that the Branch would de-recognise the original financial asset and then recognise the 'new' financial asset. Any difference between the existing financial asset and the 'new' financial asset is recognised as profit or loss.

The following below are indicators where the Branch would identify a loan modification would result in de-recognition:

- Change in currency of the loan
- Introduction of an equity feature
- Change in counterparty
- The borrower is granted arrangements due to financial difficulties of the borrower in terms of economic condition or contract, which would not be granted in any other cases.

Financial Liabilities
The treatment for modification resulting in de-recognition for financial liabilities is the same under the financial assets.
Modification that does not result in de-recognition

Financial Assets
When the Branch amends or re-negotiates contracts with counterparty which can lead to changes of cash flow rather than termination of financial assets, the balance of the financial assets will be recalculated using re-negotiated or amended contractual cash flow discounted at the original effective interest rate. Based on the change in cash flows discounted at the original effective interest rate, the Branch records a modification gain or loss, to the extent that an Expected Credit loss has not already been recorded.

Notes to the annual financial statements for the year ended 31 December 2019

1. Accounting policies (Continued)

1.7. Financial Instruments (Continued)

The difference between the carrying amount of the assets immediately before the modification and the sum of the present value of the cash flow of the modified assets discounted at the original Effective interest rate should be recognised in profit or loss. If the modification does not result in cash flows that are substantially different, the modification does not result in de-recognition. The Branch determines whether the credit risk increased significantly by comparing default risk on the reporting date based on amended contractual articles and the initial recognition date based on the original contract, provided the asset was not derecognized when the contract was amended. The policy relating to the credit risk of financial assets is further discussed below.

Financial Liability
When the Branch amends or re-negotiates contracts with counterparty which can lead to changes of cash flow rather than termination of financial liability, the balance of the financial liabilities will be recalculated using re-negotiated or amended contractual cash flow discounted at the original effective interest rate. The difference between the carrying amount of the liability immediately before the modification and the sum of the present value of the cash flow of the modified liability discounted at the original Effective interest rate should be recognised in profit or loss. If the modification does not result in cash flows that are substantially different, the modification does not result in de-recognition.

Derecognition
Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. The Branch also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Branch has transferred the financial asset if, and only if, either:

- The Branch has transferred its contractual rights to receive cash flows from the financial asset

Or

- The Branch has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates
- The Branch cannot sell or pledge the original asset other than as security to the eventual recipients
- The Branch has to remit any cash flows it collects on behalf of the eventual recipients without material delay.

In addition, the Branch is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

Notes to the annual financial statements for the year ended 31 December 2019

1. Accounting policies (Continued)

1.7. Financial Instruments (Continued)

A transfer only qualifies for derecognition if either:
- The Branch has transferred substantially all the risks and rewards of the asset

Or
- The Branch has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

The Branch considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Branch has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Branch's continuing involvement, in which case, the Branch also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Branch has retained.

Financial liabilities

De-recognition
A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.
When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in profit or loss.

Impairment of financial assets

Expected credit losses are credit losses of the financial instruments weighted by default risks. Credit loss is the difference between all cash flows discounted at the original effective interest rate, in accordance with the contract and all the cash flows that the Branch expects to receive. For financial assets purchased which are originated credit impaired (i.e. financial assets are those for which one or more events that have a detrimental impact on the estimated future cash flows have already occurred), the Branch discounts them using the Credit adjusted effective interest rate. When estimating cash flows, the Branch considers all contractual terms (such as prepayments, extension, call options or other similar options etc.) over the expected life of the financial instrument, and the cash flows from the sale of the collateral held as well as the cash flows from other credit enhancement within the contractual terms.

Notes to the annual financial statements for the year ended 31 December 2019

1. Accounting policies (Continued)

1.7. Financial Instruments (Continued)

The Branch measures expected credit losses of a financial instrument in a way which reflects: an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; the time value of money; reasonable and supportable information that is available without undue cost or effort at the reporting date about past events.

The Branch conducted expected credit loss assessment consolidating forward-looking information in which complex models and a large number of assumptions are applied in measuring expected credit losses. These models and assumptions relate to the future macroeconomic conditions and borrower's creditworthiness (e.g. the default possibility of a customer and the relevant losses). The Branch applies judgments, assumptions and estimation technology in the measurement of expected credit losses in accordance with the requirements of accounting standards, e.g.:

- Criteria for assessing the significant increase in credit risk
- Definition of default and impaired assets
- Parameters measuring expected credit loss
- Forward-looking information relating to macroeconomic indicators

The Branch assesses at each reporting date whether the credit risk of the relevant financial instrument has increased significantly since initial recognition. In assessing whether the credit risk has significantly increased since initial recognition, the Branch considers reasonable and reliable information that is available without undue cost or effort, including qualitative and quantitative analysis based on the historical data of the Branch, external credit risk rating and forward-looking information. Based on the individual financial instrument or the portfolio of financial instruments with similar credit risk characteristics, the Branch compares the default risk of financial instruments at the balance sheet date with that on the initial recognition date to determine the changes of default risk over the expected lifetime of the financial instrument.

The Branch classifies financial assets into three stages to calculate the expected credit losses using changes to the credit risk of financial instruments since initial recognition

Stage one: Financial assets with no significant increase in credit risk since initial recognition are classified in stage one in the expected credit loss model, and are measured at the amount equal to the expected credit losses arising from default events on a financial instrument that are possible within the 12 months after the reporting date;

Stage two: Financial assets whose credit risk increases significantly from the initial recognition, but there is no objective evidence of expected credit loss are classified in stage two of the expected credit loss model, over the lifetime period of the financial instrument;

Notes to the annual financial statements for the year ended 31 December 2019

1. Accounting policies (Continued)

1.7. Financial Instruments (Continued)

Stage three: Financial assets with objective evidence of expected credit loss at the reporting date are classified in stage three of the expected credit loss model, and their expected credit loss provisions are measured at the amount equivalent to the expected credit losses over the lifetime period of the financial instrument;

When one or more quantitative, qualitative or past due indicators in the following are triggered, the Branch determines that the credit risk on a financial instrument has increased significantly:

Criteria for judging significant increases in credit risk

The Branch assesses whether the credit risk of the relevant financial instruments has increased significantly since the initial recognition at each balance sheet date. While determining whether the credit risk has significantly increased since initial recognition or not, the Branch considers the reasonable and substantiated information that is accessible without exerting unnecessary cost or effort, including qualitative and quantitative analysis based on the historical data of the Branch, external credit risk rating, and forward-looking information. Based on the single financial instrument or the combination of financial instruments with similar characteristics of credit risk, the Branch compares the risk of default of financial instruments on the balance sheet date with that on the initial recognition date in order to determine the changes of default risk in the expected lifetime of financial instruments.

The Branch considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

- At the reporting date, the increase in remaining lifetime probability of default (PD) is considered significant, comparing with the one at initial recognition.
- The determination of what is 'significant' requires judgment. In making this judgment, the Branch evaluates, among other factors, the changes in internal operating results of the borrower; changes expected increase in interest rates and internal price indicators of credit risk.
- Consideration is also given to credit rating of a counterparty, means of guarantee and category of collateral as well as means of repayment based on the analysis of the historical statistics.

Credit Risk Characteristics for "Stage 2" Financial Assets

The Branch currently uses the following criteria to identify Stage 2 assets

- The contractual payments of the debtor's any principal, advances, interest or corporate bond are more than 30 days past due.
- The asset is classified as Special Mention based on the 5 tier classification.

Notes to the annual financial statements for the year ended 31 December 2019

1. Accounting policies (Continued)

1.7. Financial Instruments (Continued)

In accordance with the requirements of IFRS 9, the following non-exhaustive list of information may be relevant in assessing significant increases since initial recognition of credit risk:

- Significant changes in internal price indicators of credit risk as a result of a change in credit risk since inception, including, but not limited to, the credit spread that would result if a particular financial instrument or similar financial instrument with the same terms and the same counterparty were newly originated or issued at the reporting date.
- Significant changes in external market indicators of credit risk for a particular financial instrument or similar financial instruments with the same expected life. Changes in market indicators of credit risk include, but are not limited to:

a) The length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;

b) Other market information related to the borrower, such as changes in the price of a borrower's debt and equity instruments.

c) An actual or expected significant change in the financial instrument's external credit rating.

d) An actual or expected internal credit rating downgrade for the borrower or decrease in behavioural scoring used to assess credit risk internally. Internal credit ratings and internal behavioural scoring are more reliable when they are mapped to external ratings or supported by default studies.

e) Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant change in the borrower's ability to meet its debt obligations, such as an actual or expected increase in interest rates or an actual or expected significant increase in unemployment rates.

f) Significant increases in credit risk on other financial instruments of the same borrower.

g) Actual or expected significant adverse change in the regulatory, economic, or technological environment of the borrower that results in a significant change in the borrower's ability to meet its debt obligations, such as a decline in the demand for the borrower's sales product because of a shift in technology.

h) Significant changes, such as reductions in financial support from a parent entity or other affiliate or an actual or expected significant change in the quality of credit enhancement, that are expected to reduce the borrower's economic incentive to make scheduled contractual payments. Credit quality enhancements or support include the consideration of

the financial condition of the guarantor and/or, for interests issued in securitisations, whether subordinated interests are expected to be capable of absorbing expected credit losses (for example, on the loans underlying the security).

i) Significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the group (for example, an increase in the expected number or extent of delayed contractual payments or significant increases in the expected number of credit card borrowers who are expected to approach or exceed their credit limit or who are expected to be paying the minimum monthly amount).

j) Changes in the entity's credit management approach in relation to the financial instrument; i.e. based on emerging indicators of changes in the credit risk of the financial instrument, the entity's credit risk management practice is expectedto become more active or to be focused on managing the instrument, including the instrument becoming more closely monitored or controlled, or the entity specifically intervening with the borrower.

k) Past due information.

Notes to the annual financial statements for the year ended 31 December 2019

1. Accounting policies (Continued)

1.7. Financial Instruments (Continued)

Characteristics of Default– "Stage 3" Assets

The Branch currently uses the following criteria to identify Stage 3 assets

- The debtor leaves any of the principal, advances, interest or investments in corporate bonds of the Branch overdue for more than 90 days.
- The asset is classified as Sub-standard, Doubtful or Loss Loans (Non-performing) based on the 5 tier classification and the characteristics of default criteria

The standard adopted by the Branch to determine whether default occurs under IFRS 9 is consistent with the internal credit risk management objectives of the relevant financial instrument, taking into account quantitative and qualitative criteria. When the Branch assesses whether the default of debtor occurred, the following factors are mainly considered:

a) Significant financial difficulty of the issuer or the debtor;

b) Debtors are in breach of contract, such as defaulting on interest or becoming overdue on interest or principal payments overdue

c) The creditor of the debtor, for economic or contractual reasons relating to the debtor's financial difficulty, having granted to the debtor a concession that the creditor would not otherwise consider;

d) It is becoming probable that the debtor will enter bankruptcy or other financial reorganization;

- The disappearance of an active market for that financial asset because of financial difficulties; or
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses;

The Expected credit loss on a financial asset may be caused by the combined effect of multiple events and may not be necessarily due to a single event. Customers would be included on the watchlist when the client's credit asset risk profile has increased to a level which alerts the branch to monitor the client loan/bond (e.g. Stage 2). The instances that increase the clients credit asset risk profile would include potential default as a result of difficult trading conditions, interest rate changes and rating changes. Significant increases in credit risk categorisation is considered independently from the availability of guarantees or collateral.

The Branch classifies the financial instruments based on an internal classification methodology. This is mapped to the ECL stages as follows:

Stage 1 Financial Assets according to the ECL Model (12 months)

- Performing financial instruments: The borrower is able to honour contracts and there is no reason to doubt that the loan principal and interest cannot be repaid fully and timely.

Stage 2 Financial Assets according to the ECL Model (Lifetime)

- Performing financial instruments: Although the borrower is currently capable of repaying loan principal and interest, there are factors that may have an adverse impact on the repayment.

Notes to the annual financial statements for the year ended 31 December 2019

1. Accounting policies (Continued)

1.7. Financial Instruments (Continued)

Stage 3 Financial Assets according to the ECL Model (Lifetime)
• Substandard financial instruments: The borrower has obvious problems in its repayment capability and cannot completely rely on its normal operating income to repay the loan principal and interest in full. The Branch may bear certain losses even if executing against guarantee or collateral.
• Doubtful financial instruments: The borrower cannot fully repay loan principal and interest, causing substantial losses to the lender even if executing against guarantee or collateral.
• Loss financial instruments: The lender cannot recover loan principal and interest or can only recover an insignificant part after taking all possible actions or going through all necessary legal procedures.
Expected Credit loss of a financial asset may be impacted by many factors simultaneously rather than individually

The Branch measure Expected Credit loss based on expected credit loss of 12-month or lifetime credit loss for different assets, depending on whether credit risk increases significantly or credit loss has been incurred. The key parameter of measuring expected credit loss includes probability of default, loss given default and exposure at default.

Default
To determine whether a default occurred under IFRS 9, the Branch makes use of the internal credit risk management for financial instruments, and considers both quantitative and qualitative indicators. When the Branch assesses whether a borrower is in default, the following factors are mainly considered:
- The borrower experiences financial difficulties.
- The debtors are in breach of contract, such as defaulting in repayment of interest or principal, repayment of interest or principal past due

The following definitions are listed below:
Non-performing loans is a loan on which the borrower is not making interest payments or repaying any principal within 90 days.
Default is the failure to pay interest or principal on a loan or security when due. This occurs when the debtor is unable to meet the obligations of the debt re-payment.
Probability of default (PD) is the probability that a given borrower will default during a given 12-month period or over the expected lifetime.
Loss given default (LGD) is estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the Exposure at default.
Exposure at default (EAD) is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.

Notes to the annual financial statements for the year ended 31 December 2019

1. Accounting policies (Continued)

1.7. Financial Instruments (Continued)

The Group built the expected credit loss model with probability of default, loss given default, exposure at default, considering quantitative analysis of historic statistics (such as credit rating of a counterparty, means of guarantee and category of collateral, means of repayment etc.) and forward-looking information based on the current risk management model and the requirements of IFRS 9.

The assessment of a significant increase in credit risk and the calculation of ECL both involve forward-looking information. Through the analysis of historical data, the Branch identifies the key economic indicators that affect the credit risk and ECL of various business types.

The impact of these economic indicators on the PD and the LGD varies according to different types of business. The Branch applied experts' judgment in this process, according to the result of experts' judgment; the Branch predicts these economic indicators on a quarterly basis and determines the impact of these economic indicators on the PD and the LGD by conducting regression analysis.

In addition to providing a baseline economic scenario, the Branch combines statistical analysis with experts' judgment to determine the weight of other possible scenarios. The Branch measures the 12 month and lifetime ECL on a weighted average basis. The weighted average ECL above is calculated by multiplying the ECL for each scenario by the weight of the corresponding scenario.

Write-off

The Branch would consider writing off the financial asset under the following circumstances:

- There is no possibility of collecting the principal and interest of a financial asset and a loss has been already recognised.
- The borrower has experienced financial difficulties and the Branch is unable to collect the principal and interest. However, restructuring plan has been put in place.
- The write-off will occur at the conclusion of legal procedures and judgment has been finalised.

If the amount to be written off is greater than the Expected Credit loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to expected credit loss expense.

Curing of loans

The Branch performs an annual credit risk assessment on the Financial Assets and should the borrower's ability to repay debts and honour contracts improve or should there be changes in the credit rating, the financial assets would move into a lower stage.

Notes to the annual financial statements for the year ended 31 December 2019

1. Accounting policies (Continued)

1.8. Foreign exchange transactions

Foreign exchange transactions are recorded at the exchange rate ruling at the transaction date and time. Monetary items derived from foreign exchange transactions are recorded at the exchange rate ruling at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at the spot rate of exchange ruling at the reporting date. Gains and losses arising on translation are recorded in profit or loss and included in other operating income.

The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in the foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

1.9 Fee and commission income

Fee and commission income arise on financial services provided by the Branch.

Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. The fee and commission income which are integral to the effective interest rate measurement form part of IFRS 9 and therefore excluded from the IFRS 15 adjustment.

The Branch has the following revenue streams relating to fee and commission income: Services fees, loan fees, syndication fees, guarantee fees and loan commitment fees. The various commission fee incomes are recognised in the following manner:

Service and Other income fees

The Branch generates Service fees from service provided for card fees, banking fees or when the Branch delivers a specific transaction. The performance obligation is the services provided by the Branch to the customer and the obligation is satisfied after the performance of the transaction. These transactions are recognised at a point in time.

Loan and guarantee fees

The Branch generates Service fees from service provided relating to the transactions and administration fees relating to the loans. The performance obligation is the delivery of the services relating to the transactions or the administration of the loans and this is satisfied when the transaction relating to the loan is made. These transactions are recognised at a point in time.

Notes to the annual financial statements for the year ended 31 December 2019

1. Accounting policies (Continued)

1.9 Fee and commission income (Continued)

Syndication fees

The Branch generates Service fees from service provided relating to the transactions and administration fees relating to the Syndication loans. The performance obligation is the delivery of the services relating to the transactions or the administration of the loans and this is satisfied when the transaction relating to the syndication loans is made. These transactions are recognised at a point in time.

Loan commitment fees

The Branch generates loan commitments fees which is initially recognised when the agreement is signed and when the loan commitment is not expected to result in the draw-down of the loan. The performance obligation is the signing of the loan commitment and the performance obligation is met when they have signed the agreement. The fees are recognised on a straight-line basis over the term of the loan commitment agreement

1.10 Provisions

Provisions are recognised when the Branch has a present legal or constructive obligation that can be measured reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Where the effect of discounting is material, provisions are discounted. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

1.11 Contingencies and commitments

Transactions are classified as contingencies where the Branch’s possible obligations depend on uncertain future events not wholly within the control of the Branch, or a present obligation that is not recognised as it is not probable that an outflow of resources will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability. These in principle consist of third party obligations.

1.12 Financial guarantee contracts

Financial guarantees are contracts that require the Branch to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee.

Notes to the annual financial statements for the year ended 31 December 2019

1. Accounting policies (Continued)

1.12 Financial guarantee contracts (Continued)

Subsequent Measurement

Financial Instruments

The Branch measures Financial Guarantees under the Expected Credit Loss model in terms of IFRS 9.
Under IFRS 9 Financial Guarantees are subsequently measured at the higher of:

- IFRS 9 Expected Credit Loss allowance
- Amount initially recognised (i.e. fair value) less any cumulative amount of income/amortisation recognized.

1.13 Fair value measurement

The Branch measures financial instruments, such as, derivatives, at fair value at each reporting date. Also, fair values of financial instruments measured at amortised cost are disclosed in note 28.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:
(a) In the principal market for the asset or liability, or
(b) In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Branch.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Branch uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Notes to the annual financial statements for the year ended 31 December 2019

1. Accounting policies (Continued)

1.13 Fair value measurement (Continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:
(a) Level 1- Quoted (unadjusted) market prices in active markets for identical assets or liabilities
(b) Level 2- Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
(c) Level 3- Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Branch determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

1.14 New Standards and amendments

The Branch has adopted the following new standards and amendments became effective as of 1 January 2019
- IFRS 16 Leases

The Branch also assessed that the following standard will not have a material impact
- IFRIC Interpretation 23 Uncertainty over Income Tax Treatments
- Amendments to IFRS 9 Prepayment Features with Negative Compensation
- AIP IAS 12 Income Taxes - Income tax consequences of payments on financial instruments classified as equity
- AIP IAS 23 Borrowing Costs - Borrowing costs eligible for capitalization

1.15 Standards issued but not yet effective

The standards and interpretations listed below will become effective after 1 January 2020:
- The Conceptual Framework for Financial Reporting

1.16 Compliance to King IV

In terms of section 5.7 of the JSE debt listing requirements, the Branch is required to disclose any significant post material sheet events occurring subsequent to the issue of the latest audited financial statements and how the branch with the

Notes to the annual financial statements for the year ended 31 December 2019

1. Accounting policies (Continued)

1.16 Compliance to King IV (Continued)

King IV requirements

There were no material post balance sheet events occurring subsequent to the issue of the latest audited financial statements.

Management has established code of conducts and performance evaluations in order to comply with the requirement that the governing body leads the Branch ethically and effectively. Audited Annual Financial Statements are submitted on an annual basis to the Financial Services (FASB) and all other reports (such as the Pillar 3 disclosures) required by the governing boards (such as the Prudential Authority) are published onto the Branch's website. As this is a branch, the board and committees are established in the Parent Company Bank of China Limited, a company incorporated in China.

Notes to the annual financial statements for the year ended 31 December 2019

2. Net interest income

In thousands of ZAR	2019	2018
Interest income		
Cash and cash equivalents	173,628	210,300
Loans and advances to banks	305,274	290,572
Loans and advances to customers	1,477,873	1,533,481
Investment securities	682,954	458,195
Other Interest	5,981	-
Total interest income	2,645,710	2,492,548
Interest expense		
Deposits from banks	(457,882)	(575,408)
Deposits from customers	(1,149,671)	(1,007,527)
Certificate of deposits	(24,713)	(310)
Commercial paper	(286,467)	(399,455)
Interest on lease liabilities	(1,865)	-
Other Interest	(1,873)	-
Total interest expense	(1,922,471)	(1,982,700)
Net interest income/(expense)	723,239	509,848

The total interest income balance includes related parties interest income of R106 626 (2018: R160 844). The total interest expense balance includes related parties interest expense of R399 168 (2018: R408 474).

3. Net fee and commission income

In thousands of ZAR	2019	2018
Fee and commission income		
Service charges	4,610	4,905
Guarantee fees	1,912	2,080
Loan fees	123,174	112,163
Other fees*	552	895
Total fee and commission income	130,248	120,043
Fee and commission expense		
Brokerage fees	-	-
Other fees*	(15,180)	(12,120)
Total fee and commission expense	(15,180)	(12,120)
Net fee and commission income	115,068	107,923

Notes to the annual financial statements for the year ended 31 December 2019

3. Net fee and commission income (Continued)

The disclosures above are a disaggregation of the following fees and commission income of the branch in terms of IFRS 15.
* The other fee income includes telecom fees and margin on foreign exchange which are recognised in the same manner as Service fees as per 1.9. The other fee expense include the financial enterprise fee.

Recon of Contract Liability
The following shows the recon of contract Liability

In thousands of ZAR	2019	2018
Opening Balance contract liability	110,795	102,266
Revenue recognised in current period	(163,401)	(120,043)
Commissions received in advance	191,129	128,572
Closing Balance Contract liability	138,523	110,795

4. Other operating income

In thousands of ZAR	2019	2018
Other income	184	238
Profit on sale of assets	6	2,733
Profit and loss from foreign exchange swaps	160,982	675,660
Profit and loss from cross currency interest rate swaps	93,093	178,342
Foreign exchange gain or loss on monetary items	(12,542)	59,447
Foreign exchange gain or loss on FEC's	102,201	(439,882)
Total operating income	343,924	476,538

5. Operating expenses

In thousands of ZAR	2019	2018
Personnel expenses	(169,599)	(151,605)
Depreciation and amortization	(18,860)	(6,763)
Short-term and low value lease expenses/rental expense	(6,466)	(20,225)
Other professional service fees	(5,650)	(6,833)
Auditor's fees	(3,514)	(3,435)
IT expenses	(2,576)	(2,887)
Head office management expenses	(10,492)	(9,782)
Other expenses	(16,999)	(15,051)
Total operating expenses	(234,156)	(216,581)

The other expenses include marketing fees, membership fees and operating fees.

Notes to the annual financial statements for the year ended 31 December 2019

6. Credit impairment (Continued)

An analysis of changes in the gross carrying amount and the each ECL allowances is, as follows:

Loans and advances to Banks

2019

In thousands of ZAR

	Total	Stage 1	Stage 2	Stage 3
Gross Carrying Balance at 1 January 2019	6,956,094	6,956,094	-	-
New assets purchased	4,546,673	4,546,673	-	-
Assets derecognised or repaid (excluding write offs)	(2,197,736)	(2,197,736)	-	-
Foreign exchange adjustments	(145,039)	(145,039)	-	-
Gross Carrying Balance at 31 December 2019	9,159,992	9,159,992	-	-

Impairment Allowances

In thousands of ZAR

	Total	Stage 1	Stage 2	Stage 3
Balance at 1 January 2019	(17,913)	(17,913)	-	-
New assets purchased	(10,429)	(10,429)	-	-
Assets derecognised or repaid (excluding write offs)	1,496	1,496	-	-
Changes to models used for ECL calculations	3,232	3,232	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	383	383	-	-
Balance at 31 December 2019	(23,231)	(23,231)	-	-
Net Balance at 31 December 2019	9,136,761	9,136,761	-	-

Notes to the annual financial statements for the year ended 31 December 2019

6. Credit impairment

Loans and advances to Banks

2018

In thousands of ZAR

	Total	Stage 1	Stage 2	Stage 3
Gross Carrying Balance at 1 January 2018	5,760,896	5,760,896	-	-
New assets purchased	3,803,662	3,803,662	-	-
Assets derecognised or repaid (excluding write offs)	(2,608,464)	(2,608,464)	-	-
Changes to contractual cash flows due to modifications not resulting in derecognition	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
Gross Carrying Balance at 31 December 2018	6,956,094	6,956,095	-	-

Impairment Allowances

In thousands of ZAR

	Total	Stage 1	Stage 2	Stage 3
Balance at 1 January 2018	(10,071)	(10,071)	-	-
New assets purchased	(9,351)	(9,351)	-	-
Assets derecognised or repaid (excluding write offs)	5,883	5,883	-	-
Changes to models used for ECL calculations	(4,374)	(4,374)	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
Balance at 31 December 2018	(17,913)	(17,913)	-	-
Net Balance at 31 December 2018	6,938,181	6,938,182	-	-

Notes to the annual financial statements for the year ended 31 December 2019

6. Credit impairment (Continued)

Loans and advances to Customers
2019
In thousands of ZAR

	Total	Stage 1	Stage 2	Stage 3
Gross Carrying Balance at 1 January 2019	25,813,568	23,083,134	1,897,665	832,769
New assets purchased	13,302,938	13,302,938	-	-
Assets derecognised or repaid (excluding write offs)	(15,235,729)	(13,447,679)	(1,758,091)	(29,959)
Transfers from Stage 1 to Stage 2	-	(2,198,126)	2,198,126	-
Amounts written off	(211,702)	-	-	(211,702)
Foreign exchange adjustments	(158,387)	202,571	(357,217)	(3,741)
Gross Carrying Balance at 31 December 2019	23,510,688	20,942,838	1,980,483	587,367

Impairment Allowances
In thousands of ZAR

	Total	Stage 1	Stage 2	Stage 3
Balance at 1 January 2019	(950,108)	(134,929)	(219,255)	(595,924)
New assets purchased	(63,633)	(63,633)	-	-
Assets derecognised or repaid (excluding write offs)	270,836	50,113	208,727	11,996
Transfers from Stage 1 to Stage 2	-	144,812	(144,812)	-
Changes to models used for ECL calculations	(264,661)	(89,237)	(6,119)	(169,305)
Amounts written off	211,702			211,702
Foreign exchange adjustments	10,112	1,736	4,759	3,617
Balance at 31 December 2019	(785,752)	(91,138)	(156,700)	(537,914)
Net Balance at 31 December 2019	22,724,936	20,851,700	1,823,783	49,452

Notes to the annual financial statements for the year ended 31 December 2019

6. Credit impairment (Continued)

Loans and advances to Customers
2018
In thousands of ZAR

	Total	Stage 1	Stage 2	Stage 3
Gross Carrying Balance at 1 January 2018	26,864,999	22,694,246	3,349,436	821,317
New assets purchased	11,568,457	11,568,457	-	-
Assets derecognised or repaid (excluding write offs)	(12,631,340)	(10,295,059)	(2,336,281)	-
Transfers from Stage 2 to Stage 1	-	356,828	(356,828)	-
Transfers from Stage 1 to Stage 2	-	(1,241,338)	1,241,338	-
Changes to contractual cash flows due to modifications not resulting in derecognition	11,452	-	-	11,452
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
Gross Carrying Balance at 31 December 2018	25,813,568	23,083,134	1,897,665	832,769

Impairment Allowances
In thousands of ZAR

	Total	Stage 1	Stage 2	Stage 3
Balance at 1 January 2018	(869,072)	(120,690)	(204,784)	(543,598)
New assets purchased	(58,168)	(58,168)	-	-
Assets derecognised or repaid (excluding write offs)	78,492	50,607	27,885	-
Transfers from Stage 2 to Stage 1	-	6,006	(6,006)	-
Transfers from Stage 1 to Stage 2	-	26,598	(26,598)	-
Changes to models used for ECL calculations	(101,360)	(39,282)	(9,752)	(52,326)
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
Balance at 31 December 2018	(950,108)	(134,929)	(219,255)	(595,924)
Net Balance at 31 December 2018	24,863,460	22,948,205	1,678,410	236,845

Notes to the annual financial statements for the year ended 31 December 2019

6. Credit impairment (Continued)

Cash and Cash Equivalents
2019
In thousands of ZAR

	Total	Stage 1
Carrying Balance at 1 January 2019	5,002,239	5,002,239
New assets purchased	-	-
Assets derecognised or repaid (excluding write offs)	(2,787,089)	(2,787,089)
Carrying Balance at 31 December 2019	2,205,150	2,205,150

Impairment Allowances
In thousands of ZAR

	Total	Stage 1
Carrying Balance at 1 January 2019	(1,121)	(1,121)
New assets purchased	-	-
Assets derecognised or repaid (excluding write offs)	478	478
Carrying Balance at 31 December 2019	(643)	(643)

Cash and Cash Equivalents
2018
In thousands of ZAR

	Total	Stage 1
Carrying Balance at 1 January 2018	5,481,312	5,481,312
New assets purchased	-	-
Assets derecognised or repaid (excluding write offs)	(479,072)	(479,072)
Carrying Balance at 31 December 2018	5,002,239	5,002,239

Impairment Allowances
In thousands of ZAR

	Total	Stage 1
Carrying Balance at 1 January 2018	-	-
Additional impairment on IFRS 9 transition	(1,121)	(1,121)
Carrying Balance at 31 December 2018	(1,121)	(1,121)

Notes to the annual financial statements for the year ended 31 December 2019

6. Credit impairment (Continued)

Investment Securities
2019
In thousands of ZAR

	Total	Stage 1
Carrying Balance at 1 January 2019	6,508,125	6,508,125
New assets purchased	8,844,891	8,844,891
Assets derecognised or repaid (excluding write offs)	(4,206,028)	(4,206,028)
Carrying Balance at 31 December 2019	11,146,988	11,146,988

Impairment Allowances
In thousands of ZAR

	Total	Stage 1
Carrying Balance at 1 January 2019	(15,388)	(15,388)
New assets purchased	(9,486)	(9,486)
Assets derecognised or repaid (excluding write offs)	4,306	4,306
Changes to models used for ECL calculations	3,101	3,101
Carrying Balance at 31 December 2019	(17,467)	(17,467)

Investment Securities
2018
In thousands of ZAR

	Total	Stage 1
Carrying Balance at 1 January 2018	5,373,518	5,373,518
New assets purchased	5,090,721	5,090,721
Assets derecognised or repaid (excluding write offs)	(3,956,114)	(3,956,114)
Carrying Balance at 31 December 2018	6,508,125	6,508,125

Impairment Allowances
In thousands of ZAR

	Total	Stage 1
Carrying Balance at 1 January 2018	(19,391)	(19,391)
New assets purchased	(9,217)	(9,217)
Assets derecognised or repaid (excluding write offs)	10,052	10,052
Changes to models used for ECL calculations	3,168	3,168
Carrying Balance at 31 December 2018	(15,388)	(15,388)

Notes to the annual financial statements for the year ended 31 December 2019

6. Credit impairment (Continued)

Guarantees and Commitments
2019
In thousands of ZAR

	Total	Stage 1	Stage 2	Stage 3
Gross Carrying Balance at 1 January 2019	4,529,905	4,500,555	-	29,350
New assets purchased	3,752,426	3,752,426	-	-
Assets derecognised or repaid (excluding write offs)	(1,137,499)	(1,137,499)	-	-
Transfer from Stage 1 to Stage 2	-	(457,064)	457,064	-
Gross Carrying Balance at 31 December 2019	7,144,832	6 658 418	457,064	29,350

Impairment Allowances
In thousands of ZAR

	Total	Stage 1	Stage 2	Stage 3
Balance at 1 January 2019	(20,413)	(5,738)	-	(14,675)
New assets purchased	(11,324)	(11,324)	-	-
Assets derecognised or repaid (excluding write offs)	18,031	3,458	-	14,573
Transfer from Stage 1 to Stage 2	-	1,581	(1,581)	14,573
Balance at 31 December 2019	(13,706)	(12,023)	(1,581)	102

Notes to the annual financial statements for the year ended 31 December 2019

6. Credit impairment (Continued)

Guarantees and Commitments
2018
In thousands of ZAR

	Total	Stage 1	Stage 2	Stage 3
Gross Carrying Balance at 1 January 2018	2,629,564	2,522,758	50,831	55,975
New assets originated or purchased	3,828,516	3,828,516	-	-
Assets derecognised or repaid (excluding write offs)	(1,928,175)	(1,850,719)	(50,831)	(26,625)
Foreign exchange adjustments	-	-	-	-
Gross Carrying Balance at 31 December 2018	4,529,905	4,500,555	-	29,350

Impairment Allowances
In thousands of ZAR

	Total	Stage 1	Stage 2	Stage 3
Balance at 1 January 2018	(65,486)	(37,426)	(73)	(27,987)
New assets originated or purchased	(36,294)	(36,294)	-	-
Assets derecognised or repaid (excluding write offs)	81,367	67,982	73	13,312
Foreign exchange adjustments	-	-	-	-
Balance at 31 December 2018	(20,413)	(5,738)	-	(14,675)

Notes to the annual financial statements for the year ended 31 December 2019

7. Income tax expense

The major components of income tax for the years ended 31 December 2019 and 2018 are:

In thousands of ZAR	2019	2018
Statement of profit or loss		
Current tax expense:	(272,716)	(223,666)
Current year income tax charge	(243,382)	(239,057)
Withholding income tax	(348)	(142)
(Under)/over provision of tax	(28,986)	15,533
Deferred tax expense:		
Relating to the origination and reversal of temporary differences	(10,055)	(31,067)
Income tax expense reported in the statement of profit or loss	(282,771)	(254,733)
Statement of OCI		
Deferred tax expense related to items recognised in OCI during the year		
Financial assets at FVOCI	(13,308)	(2,935)
Deferred tax expense income reported in OCI	(13,308)	(2,935)

Reconciliation of tax expense and the accounting profit multiplied by the tax rate for 2019 and 2018:

	2019		2018	
	%	Amount	%	Amount
Accounting profit before income tax		899,400		837,926
At income tax rate	28.00	(251,832)	28.00	(234,619)
(Under)/over provision of tax	3.22	(28,986)	(1.85)	15,533
Withholding tax	0.04	(348)	0.02	(142)
Recognised in OCI	0.05	(437)		
Non-deductible expenses	0.13	(1,168)	4.24	(35,505)
Total income tax expense	31.44	(282,771)	30.40	(254,733)
Income tax expense reported in the statement of comprehensive income		(282,771)		(254,733)

Non-deductible expenses include interest expenses (R524), employee costs (R594) and donations (R50). Recognised in OCI relates to the impairment of the bonds which is recognised in OCI (R437). These are denominated in thousands.

Notes to the annual financial statements for the year ended 31 December 2019

8. Cash and cash equivalents

In thousands of ZAR	2019	2018
Cash at banks and on hand	626,023	612,722
Cash placements	2,171,066	4,389,517
Gross Cash and Cash Equivalents	2,797,089	5,002,239
Expected Credit Loss Provision	(643)	(1,121)
Total cash and cash equivalents	2,796,446	5,001,118

Total amount of R2,796,446 (2018: R5,001,118) includes related parties' deposits of R2,646,544 (2018: R4,711,237).

9. Derivative financial instruments

In thousands of ZAR	2019	2018
Derivative financial assets:		
Balance at the beginning of the year	100,282	633,270
Fair value loss	(21,088)	(532,988)
Balance at the end of the year	79,194	100,282
Derivative financial liabilities:		
Balance at the beginning of the year	(130,525)	(223,631)
Fair value gain	123,289	93,106
Balance at the end of the year	(7,236)	(130,525)
Net derivative financial instruments	71,958	(30,243)

Derivative Financial Instruments relate to forward exchange contracts (FEC) and interest rate swaps. The derivative financial instruments are held for risk management purposes. Derivative financial instruments are disclosed at fair value and comprise foreign exchange contracts held for short-term risk management purposes.

Notes to the annual financial statements for the year ended 31 December 2019

10. Loans and advances to banks

In thousands of ZAR	2019	2018
Non-current assets	3,922,713	5,098,168
Syndicated loans	2,827,836	3,386,304
Wholesale loans	840,912	863,580
Placement loans	266,289	863,580
Less: impairment	(12,324)	(15,296)
Current assets	5,214,048	1,840,013
Syndicated loans	2,940,159	1,242,388
Wholesale loans	282,169	413
Trade finance loans	1,161,455	590,508
Placement loans	841,172	8,200
Less: impairment	(10,907)	(1,496)
	9,136,761	6,938,181

Syndicated loans are structured term loans with financial institutions. In addition, the Branch has forfeited loans disclosed in trade finance amounting to R1,161,455 (2018: R329,475). Forfeited loans are loans that are purchased by the Branch at the nominal value. These are transferred to and from other branches within the group.

Notes to the annual financial statements for the year ended 31 December 2019

11. Loans and advances to customers

In thousands of ZAR	2019	2018
Non-current assets	13,794,461	12,891,164
Syndicated loans	10,442,788	8,561,315
Wholesale loans	2,908,943	3,839,946
Individual term loans	590,442	774,662
Housing loans	22,619	27,250
Less: impairment	(170,331)	(312,009)
Current assets	8,930,474	11,972,296
Syndicated loans	2,011,159	2,175,024
Wholesale loans	6,946,216	9,475,795
Trade finance loans	-	84,594
Individual term loans	1,053	42,087
Housing loans	101	126
Non-accrued loans	587,367	832,768
Less: impairment	(615,422)	(638,098)
	22,724,935	24,863,460

12. Investment securities

In thousands of ZAR	2019	2018
Opening Balance	6,508,125	5,373,518
Purchases	8,844,891	4,610,499
Maturities	(4,676,570)	(2,923,869)
Coupons received	(261,500)	(401,410)
Sale	-	(630,835)
Interest income accrued	682,954	458,195
Fair value movement through OCI gain	49,088	22,027
Balance at the end of the year	11,146,988	6,508,125
Total investment securities	11,146,988	6,508,125
Current assets	8,022,576	2,928,226
Non-current assets	3,124,412	3,579,899

Investment securities relate to investments in government bonds and treasury bills. The investment securities are classified as Fair value through OCI to comply with the Regulations 27 of the South African Reserve Bank, as stipulated in BA310 as well the requirements of IFRS 9.

Notes to the annual financial statements for the year ended 31 December 2019

13. Property, plant and equipment

In thousands of ZAR	Computer equipment	Office equipment	Motor vehicles	Right of Use Asset	Total
Cost					
Balance at 1 January 2018	9,379	31,909	4,123	-	45,411
Acquisitions	1,172	660	2,544	-	4,376
Disposals/Write off	(1,495)	(499)	(418)	-	(2,412)
Balance at 31 December 2018	9,056	32,070	6,249	-	47,375
Balance at 1 January 2019	9,056	32,070	6,249	-	47,375
Acquisitions	1,025	284	-	-	1,309
Additions from adoption of IFRS 16	-	-	-	24,348	24,348
Disposals/Write off	(1,851)	-	-	-	(1,851)
Balance at 31 December 2019	8,230	32,354	6,249	24,348	71,181
Accumulated depreciation and impairment expenses					
Balance at 1 January 2018	7,717	15,243	3,501	-	26,461
Depreciation	1,306	4,802	454	-	6,562
Disposals/Write off	(1,495)	(499)	(418)	-	(2,412)
Balance at 31 December 2018	7,528	19,546	3,537	-	30,611
Balance at 1 January 2019	7,528	19,546	3,537	-	30,611
Depreciation	804	4,834	740	12,312	18,690
Disposals/Write off	(1,851)	-	-	-	(1,851)
Balance at 31 December 2019	6,481	24,380	4,277	12,312	47,450
Carrying amounts					
Balance at 1 January 2019	1,528	12,524	2,712	-	16,764
Balance at 31 December 2019	1,749	7,974	1,972	12,036	23,731
Movement for 2019	221	(4,550)	(740)	12,036	6,967

The Right-of-use asset which is disclosed in terms of IFRS 16 consists of Buildings and Residential accommodation for expatriate employees.

Notes to the annual financial statements for the year ended 31 December 2019

14. Intangible assets

In thousands of ZAR	Purchased Software	Total
Cost		
Balance at 1 January 2018	676	676
Acquisitions	-	-
Disposals/Write off	(275)	(275)
Balance at 31 December 2018	401	401
Balance at 1 January 2019	401	401
Acquisitions	-	-
Disposals/Write off	-	-
Balance at 31 December 2019	401	401
Amortisation and impairment expenses		
Balance at 1 January 2018	305	305
Amortisation	202	202
Disposals/Write off	(275)	(275)
Impairment	-	-
Balance at 31 December 2018	232	232
Balance at 1 January 2019	232	232
Amortisation	169	169
Disposals/Write off	-	-
Impairment	-	-
Balance at 31 December 2019	401	401
Carrying amounts		
Balance at 1 January 2019	170	170
Balance at 31 December 2019	-	-
Movement for 2019	170	170

Notes to the annual financial statements for the year ended 31 December 2019

15. Deferred tax asset

In thousands of ZAR	Opening Balance	Recognised in profit or loss	Recognised in OCI	Closing Balance
2019				
Expected Credit losses	95,782	(19,917)	-	75,865
Financial Assets measured at FVOCI	(9,769)	-	(13,308)	(23,077)
Audit fee provision	756	224	-	980
Leave provision	1,009	(9)	-	1,000
Bonus provision	8,428	1,708	-	10,136
Deferred commission	31,023	7,763	-	38,786
Lease	797	(5)		792
Property, Plant and Equipment	15	181	-	196
Total deferred tax asset	128,041	(10,055)	(13,308)	104,678

In thousands of ZAR	Opening Balance	IFRS 9	2017 Adjustment	Recognised in profit or loss	Recognised in OCI	Closing Balance
2018						
Expected Credit losses	8,668	75,760	45,327	(33,973)	-	95,782
Financial Assets measured at FVOCI	(6,833)	-	-	-	(2,936)	(9,769)
Audit fee provision	578	-	-	178	-	756
Leave provision	805	-	-	204	-	1,009
Bonus provision	8,603	-	-	(175)	-	8,428
Deferred commission	28,634	-	-	2,389	-	31,023
Lease	688	-	-	109	-	797
Property, Plant and Equipment	-	-	(186)	201	-	15
Total deferred tax asset	41,143	75,760	45,141	(31,067)	(2,936)	128,041

Notes to the annual financial statements for the year ended 31 December 2019

16. Other assets

In thousands of ZAR	2019	2018
Amounts receivable and prepayments	3,154	2,437
Restricted deposits with the central bank	821,253	766,455
Total other assets	824,407	768,891

Restricted deposits are non-interest bearing minimum reserves held to comply with the regulations of the South African Reserve Bank, which is stipulated in BA310. These balances do not form part of the Branch's cash management activities and therefore are not disclosed as part of cash and cash equivalents.

17. Deposits from banks

In thousands of ZAR	2019	2018
Non-Current Liabilities		
Deposits from intra-groups	8,996,557	5,758,123
Current Liabilities	8,730,738	10,587,058
Intra-group deposits and loans	6,680,187	8,875,064
Inter-bank deposits and loans	2,050,551	1,711,994
Total deposits from banks	17,727,295	16,345,181

Deposits from banks are mostly the money market loans that are used to fund the operations of the Branch except for the clearing accounts held for intra-group purposes.

18. Deposits from customers

In thousands of ZAR	2019	2018
Non-current liabilities	65,280	4,864
Term deposits	65,280	4,864
Current liabilities	16,875,314	14,065,449
Current deposits	5,059,951	3,492,158
Term deposits	11,673,558	10,423,688
Margin deposits	141,805	149,603
	16,940,594	14,070,313

Notes to the annual financial statements for the year ended 31 December 2019

19. Provisions

In thousands of ZAR	Bonuses and leave pay	IT fee and Head Office fee	Audit and other professional fees	Expected Credit Losses	Total
Opening balance at 1 January 2018	33,600	21,265	2,062	65,486	122,413
Arising during the year	100,383	20,016	2,139	3,022	125,560
Utilisation of provisions	(89,880)	(13,936)	(1,501)	(48,095)	(153,412)
Reversal of provisions	(10,401)	(7,026)	-	-	(17,428)
Closing balance at 31 December 2018	33,702	20,319	2,700	20,413	77,134
Opening balance at 1 January 2019	33,702	20,319	2,700	20,413	77,134
Arising during the year	108,427	18,997	3,500	7,258	138,182
Utilisation of provision	(95,347)	(17,900)	(2,700)	-	(115,947)
Reversal of provisions	(7,011)	(2,419)	-	(13,965)	(23,395)
Closing balance at 31 December 2019	39,771	18,997	3,500	13,706	75,974

Salaries and wages include the annual bonus provision as well as compensation and leave pay provisions. IT fees are charged from the centralized IT support center as well as Bank of China Limited. The impairment is the ECL raised for undrawn contractually committed facilities and guarantee contracts under IFRS 9. The Balance of Guarantees and commitments are shown in Note 6.

Notes to the annual financial statements for the year ended 31 December 2019

20. Other liabilities

In thousands of ZAR	2019	2018
Accounts payable	8,425	98,262
Contract liability	138,523	110,795
Operating lease accrual under IAS 17	-	2,848
Lease liabilities under IFRS 16	14,497	-
Total other liabilities	161,445	211,905

Accounts payable includes accrued expenses relating to inward remittances and other payables and advances from customers.

21. Branch capital

In thousands of ZAR	2019	2018
Balance at the beginning of the year	5,800,000	3,300,000
Equity contribution	-	2,500,000
Balance at the end of the year	5,800,000	5,800,000

22. Fair value reserve

In thousands of ZAR	2019	2018
Balance at the beginning of the year	52,049	36,960
Recognised directly in the statement of comprehensive income	37,858	15,089
Gain on Fair Value through Other comprehensive Income Instruments	49,088	21,247
Expected Credit Loss	2,078	(4,003)
Deferred tax expense	(13,308)	(2,935)
Re-classification Gain on Fair Value through Other comprehensive Income Instruments to profit or loss	-	780
Balance at the end of the year	89,907	52,049

The fair value reserve reflects the unrealised fair value gain or loss on investment securities, which comprise government bonds and treasury bills, adjusted for credit impairments and deferred tax.

Notes to the annual financial statements for the year ended 31 December 2019

23. Obligations under leases

The lease liabilities include building, parking and expatriates' accommodation as well as rentals of expatriates. In addition to the abovementioned lease contracts for the building, parking and expatriates' accommodation, the Branch also has leases for gym equipment, printers, water coolers and yoga mats which qualify as low value assets. As such, the Branch has adopted the IFRS 16 'low value' asset exemption to these items.

Set out below are the carrying amounts of the Right-of-use assets recognised and the movement during the period:

In thousands of ZAR	Building	Total
Balance at 1 January 2019	-	-
Adoption of IFRS 16	24,348	24,348
Depreciation	(12,312)	(12,312)
Balance at 31 December 2019	12,036	12,036

Set out below is the transition of the Branch's lease liabilities in terms of IFRS 16 as well the movements during the period.

Commitments as at 31 December 2018	27,010
Weighted Average Incremental Rate	8.66
Discounted Commitment as at 1 January 2019	24,626
Less: IAS 17 Operating lease adjustments	(2,848)
Adoption of IFRS 16	9,036
Less: Short-term/Low value lease exemption	(6,466)
Recalculated Amount as at 31 December 2018	24,348
Commitments as at 1 January 2019	24,348
Finance Cost	1,865
Payments made	(14,567)
Closing Balance as at 31 December 2019	11,647

Leasing activities

Most of the Branch's leasing activities are mainly for leases for buildings. The future cash flows that the Branch is potentially exposed to are for Extension options and termination options relating to the buildings. The options are negotiated by management to provide flexibility in managing the leased-asset portfolio to align with the Branch's business needs. Management exercises significant judgment in determining whether these extension and termination options are reasonably certain to be exercised. Set out below are the undiscounted potential rental payments following the exercise date of extension that is not included in the lease term. Management is reasonably certain that options to terminate will not be exercised and therefore excluded in the disclosure.

Notes to the annual financial statements for the year ended 31 December 2019

23. Obligations under leases (Continued)

In thousands of ZAR	Less than one year	Between one to five years	Total
Extension where option will not be exercised	12,813	1,682	14,495
Total lease commitments	12,813	1,682	14,495

Short-term and low-value Leases

In thousands of ZAR	2019
The following are the amounts recognised under Profit before tax:	
Depreciation expense of right of use assets	12,312
Interest expense on lease liabilities	1,865
Expense relating to leases of low-value assets (included in other operating expenses)	482
Expense relating to leases of short-term assets (included in other operating expenses)	5,984
Total amount recognised in profit or loss	20,643

The Branch had total cash outflows of R14,566 (of which R12,701 relates to principal payments of the lease liabilities).

Lease liabilities Maturity analysis

The Maturity Analysis relating to lease liabilities is shown below.

In thousands of ZAR	Undiscounted Amount	Finance cost	Discounted Amount
Less than one year	13,549	(736)	12,813
Between one to five years	1,701	(19)	1,682
Total	15,250	(755)	14,495

24. Contingent liabilities and commitments

In thousands of ZAR	2019	2018
Guarantees	396,809	547,981
Letters of credit	54,230	143,408
Loan commitments	6,693,793	3,838,516
Total contingent liabilities and commitments	7,144,832	4,529,905

Notes to the annual financial statements for the year ended 31 December 2019

24. Contingent liabilities and commitments (Continued)

The net exposures relating to the guarantees and commitments are shown as follows:

2019
In thousands of ZAR

	Total	Stage 1	Stage 2	Stage 3
Gross Exposure at 1 January 2019	7,144,832	6,658,418	457,064	29,350
ECL Allowances	(13,706)	(12,023)	(1,581)	(102)
Net exposure at 31 December 2019	7,131,126	6,646,395	455,483	29,248

2018
In thousands of ZAR

	Total	Stage 1	Stage 2	Stage 3
Gross exposure at 1 January 2018	4,529,905	4,500,555	-	29,350
ECL Allowances	(20,413)	(5,738)	(-)	(14,375)
Net exposure at 31 December 2018	4,509,492	4,494,817	-	14,675

The Branch provides financial guarantees and letters of credit to the performance of customers to third parties, and no material loss is anticipated as a result of these transactions. The Branch also provides loan commitments to customers.

Financial guarantees: All domestic guarantees are issued based on a facility with the Branch. These guarantees may run against an expiry date, or with no expiry date depending on the type of guarantee issued. Most common guarantee will be demand guarantee whereby it's guaranteed against a project, service or maintenance plan over a period of time. If there are late payments received or maintenance is not kept according to the contract, demand will be made to the Branch to effect payment.

International guarantees are issued against a counter guarantee a counter guarantee is a form of guarantee to the bank from the issuing bank that they will take full responsibility due to a default received from overseas inter group branches or other overseas banks. The issuing Bank will request the Branch to reissue a guarantee based on a counter guarantee. The Branch will re-issue the guarantee to the local client (beneficiary), and if complying demand (based on the guarantee requirements, there may be additional documentation to be obtained, or whether the guarantee is still valid or not) is received from the beneficiary the bank is liable for payment, the Branch will claim the funds against the counter guarantee for the payment due. The value of the guarantees received are R337 million (2018: R463 million).

Letters of credit: A letter from the Branch guaranteeing that a buyer's payment to a seller will be received on time and for the correct amount provided no discrepancies are noted on the documents presented under the L/C. In the event the buyer is unable to make payment on the purchase, the Branch will be required to cover the full or remaining amount of the purchase.

Notes to the annual financial statements for the year ended 31 December 2019

24. Contingent liabilities and commitments (Continued)

For all import letters of credit, the client is required to have a facility with the Branch before issuance. There are two types of import letters of credit – usance and sight. For usance once the acceptance of the bill has been done, if the client is unable to pay for the bill at the maturity date and the Branch is required to pay, the funds are then drawn down as a loan and paid on the clients' behalf. For sight, no documents will be released to the client unless payment has first been received. If by the 5th working day no funds have been received from the client to pay for the letter of credit, funds are then drawn down as a loan and paid on the client's behalf. The Branch will then claim principal and interest charges for late payment received.

25. Commercial paper

In thousands of ZAR	2019	2018
Non-current liabilities of which:	-	3,589,187
Principal amount	-	3,589,187
Current liabilities of which:	3,500,408	2,183,307
Principal amount	3,468,430	2,128,000
Accrued interest	31,978	55,307
Total	3,500,408	5,772,494

Short-term accrued interest includes interest accruals in respect of both the long-term and short-term commercial paper. Notional amounts outstanding on which coupon payments are due in the first three months of 2019.

In thousands of ZAR	2019	2018
Balance at the beginning of the year	5,772,494	7,333,365
Proceeds from issue of commercial paper	-	723,000
Repayment of commercial paper	(2,248,757)	(2,229,608)
Coupon interest paid on commercial paper	(309,796)	(453,718)
Interest recognised in profit or loss	286,467	399,455
Balance as at the end of 31 December 2019	3,500,408	5,772,494

Notes to the annual financial statements for the year ended 31 December 2019

26. Notes to the cash flow statement

26.1 Taxation paid

In thousands of ZAR	2019	2018
Balance at the beginning of the year	64,202	63,459
Under/(over) provision of tax in relation to prior years	4,116	(15,533)
Over provision of tax in relation to current year	-	(18,200)
Amounts charged to the income statement	(272,716)	(223,665)
Amount receivable at the end of the year	(11,979)	(64,202)
Amount paid to SARS during the current year	(216,377)	(258,141)
- With respect to prior years	(34,621)	14,374
- With respect to the current year	250,994	243,767
Tax paid	216,377	258,141

26.2 Cash flows from Interest received and paid

In thousands of ZAR	2019	2018
Interest received		
Interest received from operating activities	2,027,211	2,031,996
Interest received from investing activities	683,501	418,097
Total	2,710,712	2,942,548
Interest paid		
Interest paid from operating activities	(1,603,299)	(1,705,252)
Interests paid from financing activities	(311,661)	(453,719)
Amount paid to SARS during the current year	(1,914,960)	(2,158,971)

27. Capital management

The Branch maintains an actively managed capital base to cover risks inherent in the business and meet the capital adequacy requirements of the local banking supervisor, the South African Prudential Authority. The adequacy of the Branch's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BIS rules/ratios) as adopted by the South African Prudential Authority in supervising the Branch. During the past year, the Branch had complied in full with all its externally imposed capital requirements (2018: the same).

The primary objectives of the Branch's capital management policy are to ensure that the Branch complies with externally imposed capital requirements and maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise equity participants' value. The Branch manages its capital structure and makes adjustments to it and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Branch will determine the amount of dividend payments to equity participants, if any, return capital to equity participants or issue capital securities. No changes have been made to the objectives, policies and processes from the previous years. However, they are under constant review by the Risk committee. The Capital ratios as disclosed by the Branch is a measure of the Branch's Capital against the risk-weighted assets of the Branch. The target ratio set by the Branch is to exceed the minimum capital ratio which is determined by the South African Reserve Bank.

Regulatory capital:

In thousands of ZAR	2019	2018
Tier 1 Capital	7,819,540	7,198,318
Total Capital	8,104,856	7,529,009
Risk weighted assets	34,090,583	31,188,285
Tier 1 capital ratio	22.9375%	23.1585%
Total capital ratio	23.7745%	24.3179%

Regulatory capital consists of Tier 1 capital, which comprises share capital. Certain adjustments are made to IFRS–based results and reserves, as prescribed by the South African Reserve Bank.

Notes to the annual financial statements for the year ended 31 December 2019

28. Risk management disclosures

This section provides details of the Branch's exposure to risk and describes the methods used by management to control risk. The most important types of financial risk to which the Branch is exposed are credit risk, liquidity risk, market risk and operational risk. Market risk includes currency risk, interest rate risk and equity price risk.

28.1 Derivative financial instruments

The Branch enters into a variety of derivative financial instruments for risk management purposes. This section details the derivative financial instruments used by the Branch. Further details of the Branch's objectives and strategies in the use of derivatives are set out in the sections of this note under banking activities. Details of the nature and terms of derivative instruments outstanding at the reporting date are set out in note 9.

Derivative financial instruments used by the Branch include forward exchange contracts. Derivatives are either standardised contracts transacted through regulated exchanges (referred to as exchange-traded products) or individually negotiated over-the-counter contracts (referred to as OTC-products). A description of the main types of derivative instruments used by the Branch is set out below:

(i) Swaps

The Branch agrees with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed notional amount. The Branch is subject to credit risk arising from the respective counterparties' failure to perform. Market risk arises from the possibility of unfavorable movements in interest rates relative to the contractual rates.

(ii) Forward exchange contracts

Forward exchange contracts are commitments to either purchase or sell a currency at a specified future date for a specified price and may be settled in cash. Forward exchange contracts result in credit exposure to the counterparty. They also result in exposure to market risk based on changes in market prices relative to contractual amounts.

Below is a discussion of the various risks the Branch is exposed to as a result of its banking activities and the approach taken to manage those risks:

(i) Liquidity risk

Liquidity risk arises in the general funding of the Branch's activities and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

Notes to the annual financial statements for the year ended 31 December 2019

28.2 Banking activities

The Branch has access to Head Office funding. The Branch strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The Branch continually assesses liquidity risk by identifying and monitoring changes in funding required for business goals and targets set in terms of the overall Branch strategy.

In addition, the Branch holds a portfolio of liquid assets as part of its liquidity risk management strategy.

(ii) Interest rate risk

The Branch's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets (including investments) and interest-bearing liabilities mature or reprice at different times or in differing amounts. Risk management activities are aimed at optimising net interest income, given market interest rate levels consistent with the Branch's business strategies.

Interest rate derivatives are primarily used to bridge the mismatch in the repricing of assets and liabilities. This is done in accordance with the guidelines established by the Branch's asset-liability management committee.

Part of the Branch's return on financial instruments is obtained from controlled mismatching of the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates or, if earlier, the dates on which the instruments mature.

(iii) Currency risk

The Branch is exposed to currency risk through transactions in foreign currencies. The Branch's funding is diversified in local currency and foreign currencies. As the currency in which the Branch presents its annual financial statements is the South African Rand, the Branch annual financial statements are affected by movements in the exchange rates between the South African Rand and the foreign currencies.

The Branch's transactional exposures give rise to foreign currency gains and losses that are recognised in the statement of other comprehensive income.

(iv) Credit risk

The Branch is subject to credit risk through its banking activities and in cases where it acts as an intermediary on behalf of customers or other third parties or issues guarantees. The risk that counterparties to both derivative and other instruments might default on their obligations is monitored on an on-going basis.

Notes to the annual financial statements for the year ended 31 December 2019

28.2 Banking activities (Continued)

The five-tier classification system is used as means to classify the financial instruments issued to the respective counterparties so that management can easily monitor and manage the risks around the loans should there any default occurs. Further disclosures relating to this the classification system is made in note 1.7.

The Branch's primary exposure to credit risk arises through its loans and advances. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the statement of financial position. The Branch is exposed to credit risk on various other financial assets, including derivative financial instruments and interest bearing securities. The current credit exposure in respect of these instruments is equal to the carrying amount of these assets in the statement of financial position. In addition, the Branch is exposed to off statement of financial position credit risk through commitments to extend credit and guarantees issued. The maximum credit risk in respect of these commitments is the amount disclosed in the contingent liability note (note 24).

Concentrations of credit risk (whether on or off statement of financial position) arise when counterparties have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

The major concentrations of credit risk arise by location and type of customer in relation to loans and advances, commitments to extend credit and guarantees issued. The Branch has no significant exposure to any individual customer or counterparty.

28.3 Financial instruments measured at fair value

Financial instruments measured at fair value, comprises derivative financial instruments and investment securities.

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments:

(i) Investment securities
Fair value is based on quoted market prices at the reporting date without any deduction for transaction costs.

(ii) Derivative financial instruments
The fair value of derivatives is estimated at the amount that the Branch would receive or pay to terminate the contract at the statement of financial position date taking into account current market conditions and current creditworthiness of the counterparties.

For loans and advances, cash and cash equivalent, other assets, commercial paper and the receivable interest, the carrying amounts approximate their fair value. Commercial paper is measured at amortised cost and the interest on commercial paper is determined based on the 3 months JIBAR which is a market related rate. The interest on loans and advances is determined based on credit quality (prime) therefore market rates.

Notes to the annual financial statements for the year ended 31 December 2019

28.3 Financial instruments measured at fair value (Continued)

The table below represents the Branch's financial instruments according to the category into which it is classified:

	Total carrying amount	Fair value through profit or loss	Fair value through OCI	Assets held at amortised Cost
In thousands of ZAR				
As at 31 December 2019				
Assets				
Loans and advances to banks	9,136,761	-	-	9,136,761
Loans and advances to customers	22,724,936	-	-	22,724,936
Investment securities	11,146,988	-	11,146,988	-
Cash and cash equivalents	2,796,446	-	-	2,796,446
Derivative financial instruments	79,194	79,194	-	-
Other assets	823,021	-	-	823,021
Total financial instrument assets	46,707,346	79,194	11,146,988	35,481,164

	Total carrying amount	Fair value through profit or loss	Liabilities held at amortised cost
In thousands of ZAR			
As at 31 December 2019			
Liabilities			
Deposits from customers	16,940,594	-	16,940,594
Deposits from banks	17,727,295	-	17,727,295
Derivative financial instruments	7,236	7,236	-
Commercial paper	3,500,408	-	3,500,408
Other liabilities	75,366	-	75,366
Total financial instrument liabilities	38,250,899	7,236	38,243,663

The carrying value of the Commercial papers as at 31 December 2019 is 3,500,408 (2018: 5,772,494) (in thousands of ZAR) while the listed value of the Commercial papers amounts to 3,578,574 (2018: 5,758,952) as at 31 December 2019 (in thousands of ZAR).

Notes to the annual financial statements for the year ended 31 December 2019

28.3 Financial instruments measured at fair value (Continued)

In thousands of ZAR	Total carrying amount	Fair value through profit or loss	Fair value through OCI	Assets held at amortised cost
As at 31 December 2018				
Assets				
Loans and advances to banks	6,938,181	-	-	6,938,181
Loans and advances to customers	24,863,460	-	-	24,863,460
Investment securities	6,508,125	-	6,508,125	-
Cash and cash equivalents	5,001,118	-	-	5,001,118
Derivative financial instruments	100,282	100,282	-	-
Other assets	768,891	-	-	768,891
Total financial instrument assets	44,180,057	100,282	6,508,125	37,571,650

In thousands of ZAR	Total carrying amount	Fair value through profit or loss	Liabilities held at amortised cost
As at 31 December 2018			
Liabilities			
Deposits from customers	14,070,313	-	14,070,313
Deposits from banks	16,345,181	-	16,345,181
Derivative financial instruments	130,525	130,525	-
Commercial paper	5,772,494	-	5,772,494
Other liabilities	178,244	-	178,244
Total financial instrument liabilities	36,496,757	130,525	36,366,232

The remaining financial instruments approximate fair value owing to their nature being short-term.

Foreign exchange derivatives

This category of derivatives reflects forex forward contracts as it is linked to the foreign exchange (FX) market and it traded as over-the-counter derivatives.

These derivatives are valued using industry standard models. Input parameters include FX rates, interest rates, FX volatilities, interest rate volatilities, FX interest rate correlations and others as appropriate. No unobservable inputs are used in the valuation of the FX forward contracts, as these are generally of a very short-term (within twelve months) and hence publicly quoted inputs are available.

Notes to the annual financial statements for the year ended 31 December 2019

28.3 Financial instruments measured at fair value (Continued)

The Branch inputs used to perform the valuation on the Forward Exchange contract is the difference between the contract rate and the actual exchange rate multiplied by the nominal amount. The inputs used to perform valuation on the Interest rate swaps is the outstanding cash flow obligation less the contractual interest rate multiplied by the nominal amount.

Investment securities

Investment securities refer to government bonds held by the Branch. These liquid government bonds are actively traded through an exchange or clearing house and are marked to the closing levels observed in these markets. Publicly quoted prices are available for all positions held as at 31 December 2019 and hence no market prices have to be sourced from broker quotes, inter-dealer prices or other reliable pricing services. No adjustments were made to market prices observed.

The nature of the valuation techniques set out in the table above is summarised as follows:

Level 1
Financial instruments valued using inputs that are based on unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available and the price represents actual and regularly occurring market transactions on an arm’s length basis.

An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis. The category includes liquid government bonds classified as investment securities.

Level 2
Financial instruments valued using inputs other than quoted prices as described above for level 1 but which are observable for the asset or liability, either directly or indirectly, such as:

- Quoted price for similar assets/liabilities in an active market;
- Quoted price for identical or similar assets or liabilities in inactive markets;
- Valuation model using observable inputs; and
- Valuation model using inputs derived from/corroborated by observable market data.

This category includes foreign exchange derivatives only.

There have been no transfers between Level 1 and Level 2 during the period.

Level 3
Level 3 inputs are unobservable inputs for the asset or liability.

Notes to the annual financial statements for the year ended 31 December 2019

28.3 Financial instruments measured at fair value (Continued)

Unobservable inputs are used to measure fair value to the extent that relevant observable inputs are not available, allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. The Branch develops unobservable inputs using the best information available in the circumstances, which might include the Branch's own data, taking into account all information about market participant assumptions that is reasonably available. The Branch does not have any Level 3 instruments.

The table below provides the fair value of financial assets and liabilities per category:

In thousands of ZAR	Total	Quoted prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
As at 31 December 2019				
Assets measured at fair value:				
Derivative financial instruments	79,194	-	79,194	-
Investment securities	11,146,988	11,146,988	-	-
	11,226,182	11,146,988	79,194	-

In thousands of ZAR	Total	Quoted prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
As at 31 December 2019				
Liabilities measured at fair value:				
Derivative financial instruments	7,236	-	7,236	-
	7,236	-	7,236	-

Notes to the annual financial statements for the year ended 31 December 2019

28.3 Financial instruments measured at fair value (Continued)

In thousands of ZAR	Total	Quoted prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
As at 31 December 2018				
Assets measured at fair value:				
Derivative financial instruments	100,282	-	100,282	-
Investment securities	6,508,125	6,508,125	-	-
	6,608,407	6,508,125	100,282	-

In thousands of ZAR	Total	Quoted prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
As at 31 December 2018				
Liabilities measured at fair value:				
Derivative financial instruments	130,525	-	130,525	-
	130,525	-	130,525	-

28.4 Credit risk

Credit risk is the risk that the Branch will expect to incur a loss because its customers or counterparties fail to discharge their contractual obligations. The Branch manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Branch has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process aims to allow the Branch to assess the potential loss as a result of the risks and also certain factors leading to uncertainty (such as credit rating downgrades and performance of the entity) to which it is exposed to and what corrective action to take.

Notes to the annual financial statements for the year ended 31 December 2019

28.4 Credit risk (Continued)

Impairment assessment

For accounting purposes, the Branch uses an expected credit loss model for the recognition of losses on financial assets. Triggering events which has an impact on the assessment of the expect credit loss include the following:

- A breach of contract such as a default of payment
- Where the Branch grants the customer a concession due to the customer experiencing financial difficulty
- It becomes probable that the customer will enter bankruptcy or other financial reorganization
- Other observable data that suggests that there is a decrease in the estimated future cash flows from the loans

Financial guarantees and letters of credit are assessed in a similar manner as for loans.

Notes to the annual financial statements for the year ended 31 December 2019

28.4 Credit risk (Continued)

Credit ratings for all loans and advances balances are obtained from CCMS based on an individual balance review process. The table below presents the Branch's exposure to credit risk, per classification of internal ratings:

EXTERNAL RATING	INTERNAL RATING	31 December 2019	31 December 2018
AAA	AAA	6,702,317	1,341,883
AA	AA	6,407,731	5,577,739
A+	A	10,077,428	11,094,000
A-	BBB	5,634,913	10,674,215
BBB+	BB	1,020,844	1,243,378
BBB	B	1,065,569	1,606,690
BB	CCC	179,195	-
CCC	D	49,452	236,845
Unrated	Unrated	724,247	26,891
Total exposure, net of portfolio impairment		31,861,696	31,801,641

Net exposure per AFS	31,861,696	31,801,641
Loans and advances to banks: Non-current	3,922,713	5,098,168
Loans and advances to banks: Current	5,214,048	1,840,013
Loans and advances to customers: Non-current	13,794,461	12,891,164
Loans and advances to customer: Current	8,930,474	11,972,296

The table below presents the Branch's investment securities' exposure to credit risk, per classification of internal ratings. Since all the investment securities are purchased from the SA government and are Rand denominated, the risk weighting in the standardised approach used to calculate risk weighted assets is zero.

EXTERNAL RATING	INTERNAL RATING	31 December 2019	31 December 2018
BBB+	BB	11,129,521	6,492,737
Total exposure, net of portfolio impairment		11,129,521	6,492,737

Net exposure per AFS	11,129,521	6,492,737
Investment securities: Non-current	3,116,482	2,923,920
Investment securities: Current	8,013,039	3,568,817

Notes to the annual financial statements for the year ended 31 December 2019

28.4 Credit risk (Continued)

Collateral and Guarantees In thousands of ZAR	Loans and advances to customers		Loans and advances to banks		Investment securities	
	2019	2018	2019	2018	2019	2018
Collateral held	141,805	149,603	-	-	-	-
Guarantees held	6,693,793	5,900,384	-	-	-	-
Total	6,835,598	6,049,987	-	-	-	-
Concentration by sector						
Construction & engineering	248,770	486,653	-	-	-	-
Finance & insurance	1,227,211	1,226,139	9,136,761	6,938,181	-	-
Resources & mining	2,046,865	4,478,262	-	-	-	-
Manufacturing	7,321,259	3,969,862	-	-	-	-
Technology, media & telecommunications	3,680,092	4,994,432	-	-	-	-
Commercial real estate	7,211,279	7,872,036	-	-	-	-
Retailers & wholesalers	103,052	938,540	-	-	-	-
Sovereign	399,176	362,950	-	-	11,146,988	6,508,125
Private household	22,636	27,004	-	-	-	-
Other	464,596	507,581	-	-	-	-
Total carrying amount	22,724,936	24,863,460	9,136,761	6,938,181	11,146,988	6,508,125

Collateral held relates to cash provided by debtors as security in return for granting of debt instruments by the Branch. Guarantees held relate to commitments provided by debtors for a loss it may incur because of failure to make payment when due in accordance with the terms of the related debt instruments. The commitments are loan commitments provided to the companies.

Terms and conditions for collateral:
The facility must be covered by 100% security value at all times (Same currency facility and cash cover), and it can't be sold or repledged in the absence of default. The facility must be covered by 110% security value at all times (Different currency facility and different currency cash cover). Should the cash cover currency to facility currency exchange rate (security value) drop below 110% of the total facilities, additional cash cover is required to be deposited to bring the exposure within the approved facilities, within 3 (three) working days. The Branch reserves the right to convert the cash covers and repay the loan automatically. In the case of irrevocable standby letter of guarantee an additional amount will be requested from the issuing branch.

Notes to the annual financial statements for the year ended 31 December 2019

28.4 Credit risk (Continued)

	Loans and advances to customers		Loans and advances to banks		Guarantees	
	2019	2018	**2019**	2018	**2019**	2018
Total exposure	**22,724,936**	24,863,460	**9,136,761**	6,938,182	6,693,793	5,900,384
Collateral held	**141,805**	149,603	**-**	-	**-**	-
Uncollateralised	**22,583,131**	24,713,857	**9,136,761**	6,938,182	6,693,793	5,900,384

Credit Quality Grading

The Credit Ratings are disclosed as follows:

The credit ratings were obtained from Corporate Credit Management System platform (Internal system). These are further classified as follows:

Strong Grade – the Strong Grade means that the credit rating is rated from A to AAA based on the internal rating. The Strong classification means that the borrower will repay interest and the principal of the loans will be fully paid in a timely manner.

Satisfactory Grade- the Satisfactory Grade means that the credit rating is rated from B to BBB based on the internal rating system. A satisfactory classification means that there are factors which causes attention which has an impact on the borrower's solvency and operations. These factors include economic factors, industrial cycle and government policies.

Higher Risk Grade – the Higher Risk Grade means that the credit rating is C or lower based on the internal rating system. A higher Risk classification means that the borrower has problems with the repayment of loans and interest.

Notes to the annual financial statements for the year ended 31 December 2019

28.4 Credit risk (Continued)

Disclosures by Credit Rating Grades

	Strong (including investment grade)				Satisfactory (BBB to B)				Higher Risk (C and below)			
In thousands of ZAR												
As at 31 December 2019	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Gross Carrying amount												
Corporate Loans	22,680,277	684,009	-	23,364,286	6,516,633	1,292,667	-	7,809,300	883,582	3,426	587,367	1,474,375
Home Loans	-	-	-	-	-	-	-	-	22,339	380	-	22,719
Sub-total	22,680,277	684,009	-	23,364,286	6,516,633	1,292,667	-	7,809,300	905,921	3,806	587,367	1,497,094
Impairment allowance												
Corporate Loans	(80,580)	(96,230)	-	(176,810)	(28,624)	(59,350)	-	(87,974)	(5,137)	(1,064)	(537,914)	(544,115)
Home Loans	-	-	-	-	-	-	-	-	(28)	(56)	-	(84)
Sub-total	(80,580)	(96,230)	-	(176,810)	(28,624)	(59,350)	-	(87,974)	(5,165)	(1,120)	(537,914)	(544,199)
Net Exposure												
Corporate Loans	22,599,697	587,779	-	23,187,476	6,488,009	1,233,317	-	7,721,326	878,445	2,362	49,453	930,260
Home Loans	-	-	-	-	-	-	-	-	22,311	324	-	22,635
Sub-total	22,599,697	587,779	-	23,187,476	6,488,009	1,233,317	-	7,721,326	900,756	2,686	49,453	952 895

Notes to the annual financial statements for the year ended 31 December 2019

28.4 Credit risk (Continued)

Disclosures by Credit Rating Grades

	Strong (including investment grade)				Satisfactory (BBB to B)				Higher Risk (C and below)			
In thousands of ZAR												
As at 31 December 2018	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Gross Carrying amount												
Corporate Loans	18,017,635	70,699	-	18,088,334	11,992,152	1,827,910	-	13,820,062	-	-	832,768	832,768
Home Loans	-	-	-	-	-	-	-	-	27,375	-	-	27,375
Sub-total	18,017,635	70,699	-	18,088,334	11,992,152	1,827,910	-	13,820,062	27,375	-	832,768	860,143
Impairment allowance												
Corporate Loans	(72,825)	(1,887)	-	(74,712)	(78,412)	(217,367)	-	(295,779)	-	-	(595,923)	(595,923)
Home Loans	-	-	-	-	-	-	-	-	(484)	-	-	(484)
Sub-total	(72,825)	(1,887)	-	(74,712)	(78,412)	(217,367)	-	(295,779)	(484)	-	(595,923)	(596,407)
Net Exposure												
Corporate Loans	17, 944,810	68,812	-	18,013,622	11,913,740	1,610,543	-	13,524,283	-	-	236,845	236,845
Home Loans	-	-	-	-	-	-	-	-	26,891	-	-	26,891
Sub-total	17, 944,810	68,812	-	18,013,622	11,913,740	1,610, 543	-	13,524,283	26,891	-	236,845	263,736

Notes to the annual financial statements for the year ended 31 December 2019

28.5 Liquidity risk

	Carrying amount	On demand	Less than 1 month	Between 1-3 months	Between 3-12 months	Between 1-3 years	More than 3 years	Total undiscounted cash flow
In thousands of ZAR								
As at 31 December 2019								
Non-derivative liabilities								
Deposits from banks	17,727,295	1,266,303	570,334	5,558,945	1,362,351	7,354,829	2,032,857	18,145,619
Deposits from customers	16,940,594	5,201,756	5,979,747	2,124,063	3,738,337	75,782	-	17,119,685
Commercial paper	3,500,408	-	-	-	3,578,574	-	-	3,578,574
Other liabilities	75,366	75,366	-	-	-	-	-	75,366
Sub-total	38,243,663	6,543,425	6,550,081	7,683,008	8,679,262	7,430,611	2,032,857	38,919,244
Derivative liabilities								
Derivative outflow	7,236	-	4,298	1,031	1,907	-	-	7,236
Sub-total	7,236	-	4,298	1,031	1,907	-	-	7,236
Financial letter of credit	54,230	-	12,166	7,152	34,912	-	-	54,230
Financial guarantee	396,809	-	-	-	135,000	2,516	259,293	396,809
Loan Commitments	6,693,793	-	-	542,031	1,101,848	1,323,506	3,726,408	6,693,793
Sub-total	7,144,832	-	12,166	549,183	1,271,760	1,326,022	3,985,701	7,144,832
Total	45,395,731	6,543,425	6,566,545	8,233,222	9,952,929	8,756,632	6,018,558	46,071,312

Notes to the annual financial statements for the year ended 31 December 2019

28.5 Liquidity risk (Continued)

	Carrying amount	On demand	Less than 1 month	Between 1-3 months	Between 3-12 months	Between 1-3 years	More than 3 years	Total undiscounted cash flow
In thousands of ZAR								
As at 31 December 2018								
Non-derivative liabilities								
Deposits from banks	16,345,181	381,644	1,449,971	2,622,326	6,243,828	5,976,586	-	16,674,355
Deposits from customers	14,070,313	3,641,761	7,293,511	1,045,901	2,182,088	5,131	-	14,168,392
Commercial paper	5,772,494	-	-	-	2,202,259	3,887,474	-	6,089,733
Other liabilities	178,244	178,244	-	-	-	-	-	178,244
Sub-total	36,366,232	4,201,649	8,743,482	3,668,227	10,628,175	9,869,191	-	37,110,724
Derivative liabilities								
Derivative outflow	130,525	-	42,876	75,021	12,628	-	-	130,525
Sub-total	130,525	-	42,876	75,021	12,628	-	-	130,525
Financial letter of credit	143,408	-	3,011	84,390	56,007	-	-	143,408
Financial guarantee	547,981	-	457	-	215,681	58,513	273,330	547,981
Loan Commitments	5,900,383	-	-	436,186	1,861,963	745,131	2 857 105	5,900,384
Sub-total	6,591,772	-	3,468	520,576	2,133,651	803,644	3,130,435	6,591,773
Total	43,088,529	4,201,649	8,789,826	4,263,824	12,774,454	10,672,835	3,130,435	43,833,022

Notes to the annual financial statements for the year ended 31 December 2019

28.5 Liquidity risk (Continued)

Maturities of financial assets	On demand	Less than 1-3 months	Between 3-12 months	Between 1-5 years	Over 5 years	Total
In thousands of ZAR						
As at 31 December 2019						
Cash and cash equivalents	625,379	1,652,505	518,562	-	-	2,796,446
Derivative financial instruments	-	78,149	1,045	-	-	79,194
Loans and advances to banks	-	2,024,937	3,189,111	3,922,713	-	9,136,761
Loans and advances to customers	49,452	2,444,213	6,436,809	4,860,404	8,934,057	22,724,936
Investment securities	-	1,563,563	6,459,013	3,124,412	-	11,146,988
Other assets	823,021	-	-	-	-	823,021
Total carrying amount	1,497,852	7,763,367	16,604,540	11,907,529	8,934,057	46,707,346

Maturities of financial assets	On demand	Less than 1-3 months	Between 3-12 months	Between 1-5 years	Over 5 years	Total
In thousands of ZAR						
As at 31 December 2018						
Cash and cash equivalents	611,601	4,173,158	216,359	-	-	5,001,118
Derivative financial instruments	-	7,828	-	92,454	-	100,282
Loans and advances to banks	-	914,622	903,206	5,120,353	-	6,938,181
Loans and advances to customers	236,845	6,599,253	4,998,740	8,826,800	4,201,822	24,863,460
Investment securities	-	99,275	2,744,527	3,664,323	-	6,508,125
Other assets	768,891	-	-	-	-	768,891
Total carrying amount	1,617,337	11,794,136	8,862,832	17,703,930	4,201,822	44,180,057

Notes to the annual financial statements for the year ended 31 December 2019

28.6 Currency risk

The table below represents the Branch's exposure to major global currencies. The category for "other" consists primarily of CNY and HKD:

In thousands of ZAR	ZAR	USD	EUR	GBP	Other	Total
As at 31 December 2019						
Assets						
Cash and cash equivalents	145,200	2,204,571	213,100	13,902	219,673	2,796,446
Derivative financial instruments	75,358	3,787	-	-	49	79,194
Loans and advances to banks	-	7,975,424	-	-	1,161,337	9,136,761
Loans and advances to customers	7,187,311	13,710,019	902,930	924,676	-	22,724,936
Investment securities	11,146,988	-	-	-	-	11,146,988
Other assets	822,997	24	-	-	-	823,021
Total assets	19,377,854	23,893,825	1,116,030	938,578	1,381,059	46,707,346
Liabilities						
Derivative financial instruments	5,316	13	-	-	1,907	7,236
Deposits from banks	344,903	13,558,778	1,107,063	933,294	1,783,257	17,727,295
Deposits from customers	15,649,038	1,242,084	2,156	3,495	43,821	16,940,594
Commercial paper	452,917	-	-	-	3,047,491	3,500,408
Other liabilities	42,723	14,544	-	-	18,099	75,366
	16,494,898	14,815,419	1,109,219	936,789	4,894,574	38,250,899
Net gap on statement of financial position	2,882,956	9,078,406	6,811	1,789	(3,513,515)	8,456,447

Sensitivity analysis

Total currency position	2,882,956	9,078,406	6,811	1,789	(3,513,515)	8,456,447
Reasonable shift in rates	10%	10%	10%	10%	10%	10%
Exchange rate	1.0000	14.0152	15.7448	18.5138	2.0126	
Impact on profit or loss (depreciation in rate)	-	907,841	681	179	(351,352)	557,349
Impact on profit or loss (appreciation in rate)	-	(907,841)	(681)	(179)	351,352	(557,349)

Assume that the rates of rand against all foreign currencies appreciate or depreciates by 10%.

Notes to the annual financial statements for the year ended 31 December 2019

28.6 Currency risk (Continued)

In thousands of ZAR	ZAR	USD	EUR	GBP	Other	Total
As at 31 December 2018						
Assets						
Cash and cash equivalents	285,082	4,155,382	453,633	14,419	92,602	5,001,118
Derivative financial instruments	5,816	1,842	133	-	92,491	100,282
Loans and advances to banks	-	6,347,707	-	-	590,474	6,938,181
Loans and advances to customers	9,269,889	13,044,113	1,629,162	920,296	-	24,863,460
Investment securities	6,508,125	-	-	-	-	6,508,125
Other assets	768,891	-	-	-	-	768,891
Total assets	16,837,803	23,549,044	2,082,928	934,715	775,567	44,180,057
Liabilities						
Derivative financial instruments	115,582	441	14,502	-	-	130,525
Deposits from banks	917,083	11,264,267	2,647,652	924,387	591,792	16,345,181
Deposits from customers	12,635,969	1,371,479	3,128	3,279	56,458	14,070,313
Commercial paper	2,603,489	-	-	-	3,169,005	5,772,494
Other liabilities	42,336	104,535	8,906	1,521	20,946	178,244
Total liabilities	16,314,459	12,740,722	2,674,188	929,187	3,838,201	36,496,757
Net gap on statement of financial position	523,344	10,808,322	(591,260)	5,528	(3,062,634)	7,683,300

Sensitivity analysis

Total currency position	523,344	10,808,322	(591,260)	5,528	(3,062,634)	7,683,300
Reasonable shift in rates	10%	10%	10%	10%	10%	10%
Exchange rate	1.0000	14.3930	16.4713	18.4072	2.0942	
Impact on profit or loss (depreciation in rate)	-	1,080,832	(59,126)	553	(306,263)	715,996
Impact on profit or loss (appreciation in rate)	-	(1,080,832)	59,126	(553)	306,263	(715,996)

Assume that the rates of rand against all foreign currencies appreciate or depreciates by 10%.

Notes to the annual financial statements for the year ended 31 December 2019

28.7 Interest rate risk

In thousands of ZAR	Interest bearing	Non-interest bearing	Total
As at 31 December 2019			
Assets			
Cash and cash equivalents	2,796,446	-	2,796,446
Derivative financial instruments	-	79,194	79,194
Loans and advances to banks	9,136,761	-	9,136,761
Loans and advances to customers	22,724,936	-	22,724,936
Investment securities	11,146,988	-	11,146,988
Other assets	-	823,021	823,021
Total assets	45,805,131	902,215	46,707,346
Liabilities			
Derivative financial instruments	-	7,236	7,236
Deposits from banks	17,727,295	-	17,727,295
Deposits from customers	16,940,594	-	16,940,594
Commercial paper	3,500,408	-	3,500,408
Other liabilities	-	75,366	75,366
Total liabilities	38,168,297	82,602	38,250,899
Net gap on statement of financial position	7,636,834	819,613	8,456,447

Sensitivity analysis

	Interest bearing	Total
Reasonable possible shift in rates	0.5%	0.5%
As at 31 December 2019		
Impact on profit or loss (increase)	38,184	38,184
Impact on profit or loss (decrease)	(38,184)	(38,184)
Impact on equity (increase)	42,181	42,181
Impact on equity (decrease)	(42,181)	(42,181)

The table above represents the impact on [profit or loss, and equity, based on a 0.5% shift (appreciation or depreciation) in interest rates and statement of financial position items. An increase/(decrease) in interest rates results in an increase/(decrease) in profit or loss.

Notes to the annual financial statements for the year ended 31 December 2019

28.7 Interest rate risk (Continued)

In thousands of ZAR	Interest bearing	Non-interest bearing	Total
As at 31 December 2018			
Assets			
Cash and cash equivalents	5,001,118	-	5,001,118
Derivative financial instruments	-	100,282	100,282
Loans and advances to banks	6,938,181	-	6,938,181
Loans and advances to customers	24,863,460	-	24,863,460
Investment securities	6,508,125	-	6,508,125
Other assets	-	768,891	768,891
Total assets	43,310,884	869,173	44,180,057
Liabilities			
Derivative financial instruments	-	130,525	130,525
Deposits from banks	16,345,181	-	16,345,181
Deposits from customers	14,070,313	-	14,070,313
Commercial paper	5,772,494	-	5,772,494
Other liabilities	-	178,244	178,244
Total liabilities	36,187,988	308,769	36,496,757
Net gap on statement of financial position	7,122,896	560,404	7,683,300

Sensitivity analysis

	Interest bearing	Total
Reasonable possible shift in rates	0.5%	0.5%
As at 31 December 2018		
Impact on profit or loss (increase)	35,614	35,614
Impact on profit or loss (decrease)	(35,614)	(35,614)
Impact on equity (increase)	35,614	35,614
Impact on equity (decrease)	(35,614)	(35,614)

The table above represents the impact on profit or loss, and equity, based on a 0.5% shift (appreciation or depreciation) in interest rates and statement of financial position items. An increase/(decrease) in interest rates results in an increase/(decrease) in profit or loss.

Notes to the annual financial statements for the year ended 31 December 2019

29. Related parties

In thousands of ZAR	2019	2018
Deposits and loans held with intra-group entities		
Bank of China (Hong Kong) Limited (fellow subsidiary)	206,093	52,754
Bank of China Limited, Tokyo Branch	1	2
Bank of China Limited, London Branch	13,902	14,419
Bank of China Limited, Frankfurt Branch	213,100	453,633
Bank of China Limited, New York Branch	77,877	129,791
Bank of China Limited, Head Office (Parent Company)	13,501	1,959,641
Bank of China Limited, Singapore Branch	29	31
Bank of China Limited, Shanghai Branch	105	37,592
Bank of China Limited, Shanghai Clearing	11,249	-
Bank of China Limited, Cayman Branch	2,110,687	2,063,374
Total	2,646,544	4,711,237

In thousands of ZAR	2019	2018
Deposits and loans from intra-group entities		
Bank of China Limited, London Branch	(3,953)	(247)
Bank of China Limited, Head Office	(12,111,956)	(9,853,434)
Bank of China (Hong Kong) Limited (fellow subsidiary)	(732,913)	(51,698)
Bank of China (Zambia) Limited (fellow subsidiary)	(14,039)	(14,443)
Bank of China Limited, Macau Branch	-	(1,479,897)
Bank of China (Mauritius) Limited (fellow subsidiary)	(143)	(143)
Bank of China, Hong Kong Branch	(2,813,740)	(3,233,325)
Total	(15,676,744)	(14,633,187)

Notes to the annual financial statements for the year ended 31 December 2019

29. Related parties (Continued)

In thousands of ZAR	2019	2018
Interest income from intra-group entities		
Bank of China (Hong Kong) Limited (fellow subsidiary)	3,986	835
Bank of China Limited, Head Office (Parent Company)	15,702	32,312
Bank of China Limited, London Branch	906	431
Bank of China Limited, Paris Branch	1,850	251
Bank of China Limited, Frankfurt Branch	17,395	8,664
Bank of China Limited, New York Branch	263	233
Bank of China Limited, Cayman Branch	58,161	62,664
Bank of China Limited, Shanghai Branch	9	54,727
Bank of China Limited, Shanghai Branch CL	193	166
Bank of China Limited, Hong Kong Branch	2,743	467
Bank of China Limited, Seoul Branch	5,353	-
Bank of China Limited, Xinjiang Branch	65	144
Total	106,626	160,894

In thousands of ZAR	2019	2018
Expenses to intra-group entities		
Bank of China Limited, Head Office (Parent Company)	(15,199)	(6,996)
Bank of China Limited, Paris back office	(4,925)	(9,556)
Bank of China Limited, Shanghai Branch	-	(759)
Bank of China Limited, Guangdong Branch	(4,143)	(1,273)
Bank of China Limited, Singapore Branch	-	(1,206)
Bank of China Limited, Thailand Branch	-	(616)
Total	(24,267)	(20,406)

The nature of the intragroup expenses is as follows: The Head Office expenses consist of the Head office fees and IT expenses while the Paris expenses are back-office expenses. The remaining counterparties relate to the profit sharing.

Notes to the annual financial statements for the year ended 31 December 2019

29. Related parties (Continued)

In thousands of ZAR	2019	2018
Interest expense to intra-group entities		
Bank of China Limited, Head Office (Parent Company)	(243,435)	(150,581)
Bank of China Limited, Taipei Branch	-	(722)
Bank of China Limited, Hong Kong Branch	(98,134)	(171,055)
Bank of China Limited, London Branch	(2,066)	(678)
Bank of China Limited, Paris Branch	(111)	(10)
Bank of China Limited, Dubai Branch	(48)	(260)
Bank of China Limited, Frankfurt Branch	(269)	8
Bank of China Limited, Macau Branch	(27,701)	(37,007)
Bank of China Limited, Hungary Branch	-	(66)
Bank of China Limited, Luxemburg Branch	(736)	(2,054)
Bank of China Limited, New York Branch	(16)	(29)
Bank of China Limited, Hungary (Fellow subsidiary)	-	(3)
Bank of China Limited, Hong Kong (Fellow subsidiary)	(26,652)	(46,017)
Total	(399,168)	(408,474)

The net balance consists of:	2019	2018
Cash and cash equivalents	2,646,544	4,711,237
Deposits from banks	(15,676,744)	(14,633,187)
Head Office and London IT Centre fee payable	(24,267)	(20,406)
Total	(13,054,467)	(9,942,356)

Compensation of key management personnel of the Branch

In thousands of ZAR	2019	2018
Short-term employee benefits	29,585	26,043
Total	29,585	26,043

The remuneration and benefits include fixed salaries, performance bonuses, allowances, life insurance, medical-aid insurance, and accommodation rental.

Notes to the annual financial statements for the year ended 31 December 2019

30. Events after reporting period

The worldwide spread of COVID-19 has hit the global economy and financial markets. The global economy remains in a period of undergoing profound adjustment following the financial crisis, and will face stronger downward pressure under the impact of the COVID-19 pandemic. Risks to the financial system will increase, and the pace of adjustment will be uneven within the international economic landscape, which will bring greater uncertainties and risks.

The outbreak of COVID-19 since early January 2020 has taken a phased toll on the global economy, thus likely having impacts, to a certain extent, on the asset quality and returns from certain businesses. The magnitude of the COVID-19 impact depends on the progress of prevention and containment of the epidemic, its duration and the implementation of related control policies. The ECL of at 31 December 2019 was estimated based on a range of forecast economic conditions as at that date.

The Branch will enhance financial support for COVID-19 epidemic prevention and control, especially in terms of supporting enterprises' business recovery. It will also strive to boost demand, thus promoting the healthy operation of the economy. Other considerations including the downgrading of Moody's, directives on the treatment of credit, liquidity and capital from the Reserve Bank will be incorporated in the risk appetite and credit strategy during the stressed period.
In 2020, the Branch will continuously and closely monitor the status of fight against COVID-19, evaluate and proactively address its impact on the financial position and performance, including impairment losses of financial assets. Such evaluations remain as work in progress as at the date of compilation of the report.

The pandemic has affected the following areas and managements response in relation to these areas are as follows:

Credit risk
Management expects the potential default risk to increase, leading to the increase of expected credit losses and the deterioration of the loans. The valuation of the Expected Credit losses will be revised according to the latest macroeconomic data as a result of the pandemic.

Liquidity risk

In light of the recent COVID-19 outbreak, there has been an increase in the liquidity risk on the current economic environment. The increase in risk would mean that there is a risk that the drawdowns would increase as companies are trying to obtain funding. However, the Branch obtains funding and support from Head Office and that Head Office continues to monitor and assess the current economic environment and provide the support to the Branch accordingly. In addition, the Branch will continue to monitor the loan commitments and drawdowns in order to manage the liquidity risk.

Interest rate risk

The effects of COVID-19 gave rise to an increased interest rate risk arising from the pandemic which meant that due to the weakness in the economy arising from the pandemic, there is an increased risk in the interest rate volatility.
The Branch has established processes in order to mitigate the impact of the interest rate movement and also have assessed the impact of the risk in line with the interest rate strategy document obtained from the South African Reserve Bank.

Notes to the annual financial statements for the year ended 31 December 2019

30. Events after reporting period (Continued)

Currency risk

The effects of COVID-19 meant that the Rand had significantly deteriorated against the major currencies. The Branch has mitigated the risks around the deterioration of the Rand through the utilisation of foreign currency swaps. The foreign net open position is monitored and reported on a daily basis and maintained at below USD 6 million.

Going Concern

The Bank has taken full cognizance of the significant slowdown in domestic business growth traction since the beginning of 2020. Coupled with this, the impact that COVID-19 is having on the global macro outlook, will intensify the risk spectrum facing the Bank of which management is critically aware.

On-going forecasts are being conducted to ascertain the requisite optimum level of funding from the controlling Head Office as a result of the captioned increased risks and to ensure constant and continual compliancy to the South African legislative and statutory requirements in addition to IFRS obligations. To-date supplementary borrowings from the controlling Head Office have been injected into minimum reserves held at the South African Reserve Bank and utilized to purchase additional Government Bonds and Treasury Bills to underline the emphasis that management places on maintaining adequate liquidity.

Notwithstanding the proactive initiatives pertaining to liquidity, management has in addition implemented a fully integrated Business Continuity Management Plan to maintain its operational ability and customer service capability.

The Bank has full appreciation of the anticipated subdued economic growth outlook and persistence of a myriad of risk factors, however management believes in the Bank’s resilience and the support of its global operation to ensure its ability to operate as a going concern and forecasts an enhanced year-on-year financial performance albeit at lower than projected levels. Managements overall assessment of the entity is that the Branch is a going concern.

There are no other subsequent events after the reporting period up to the date of signature of the annual financial statements.

31. Segment reporting

Reportable segments

For management purposes, the Bank of China Limited, Johannesburg Branch is organized into one main operating segment. The chief operating decision maker makes all significant operating decisions are based upon analysis of the Branch as a whole (i.e. as one segment). The financial results from this segment are equivalent to the financial statements of the Branch as a whole.

Entity wide disclosures:

Geographic segmentation: Bank of China Limited, Johannesburg Branch operates in South Africa.
Major customers: There are no single external customers that individually contribute to 10% or more of the Branch’s revenue.