

# ICBC Standard Bank Plc

## Pillar 3 Disclosures 2015





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## Statement on Change in Control

On 1 February 2015, the Industrial and Commercial Bank of China Ltd (“ICBC”) acquired 60% of the existing issued shares in Standard Bank Plc (“SB Plc”) from Standard Bank London Holdings Limited, a fully owned subsidiary of Standard Bank Group.

The entity is 60% owned directly by ICBC and 40% by Standard Bank London Holdings Limited (“SBLH”), an intermediate holding company, which is ultimately owned by Standard Bank Group.

The Pillar 3 Disclosures presented in this document are shown as at 31 December 2015, and relate to ICBC Standard Bank Plc (ICBCS).

**References to ICBC Standard Bank Plc Annual Financial Statements are shown in gold text.**

# 1. Foreword

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## 1.1 Introduction

This document comprises ICBC Standard Bank Plc's (ICBCS) Pillar 3 disclosures on capital and risk management as at 31 December 2015.

ICBCS is subject to the prudential requirements of the amended European Capital Requirements Directive (CRD) and the European Capital Requirements Regulation (CRR), collectively, referred to as the 'CRD IV legislative package' or 'CRD IV'.

The European CRD IV package has adopted the most recent reforms in banking prudential regulation developed by the Basel Committee on Banking Supervision ('the Basel Committee'). These reforms, referred to as 'Basel III', aim to strengthen the regulation, supervision and risk management within the banking sector. The European implementation of the Basel III reforms under the CRD IV legislative package came into effect on 1 January 2014.

ICBCS is subject to regulation and supervision by the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA"), as an EU parent entity.

These disclosures are provided to comply with the regulatory requirements under CRD IV. In particular, Articles 431 to 455 of the CRR specify the Pillar 3 framework disclosure requirements.

## 1.2 Disclosure Policy

The following sets out a summary of the disclosure policy applied to the ICBCS Pillar 3 Disclosures. The policy covers the basis of preparation, frequency of disclosure, media and location of disclosures, verification and risk profile disclosures.

### 1.2.1 Basis of Preparation

These Pillar 3 disclosures have been prepared in accordance with the specific requirements of CRD IV.

In satisfaction of certain disclosure requirements, reference has been made to the ICBC Standard Bank Plc Annual Report (the "Annual Report"). As such, this document should be read in conjunction with the published Annual Report which are both available on the ICBC Standard Bank Plc website: <http://www.icbcstandard.com>

ICBCS, as an EU parent institution, is subject to the consolidated disclosure requirements under CRD IV. The information and disclosures presented in this document therefore specifically relate to ICBCS on a consolidated basis i.e. including all subsidiaries ("ICBCS Group" or "Group") – See section 3.3 for details.

ICBCS is the primary risk taking entity within the consolidated ICBCS Group. Separate individual disclosures ICBCS have not been made on a standalone basis due to the immateriality of risks contained within the other subsidiaries in the ICBCS Group.

Note: The risk weighted assets of ICBCS Plc (solo-consolidated) account for 100% of the credit risk and market risk RWAs of the ICBCS Group as at 31 December 2015.

No Pillar 3 disclosure requirements have been excluded due to confidentiality or for proprietary reasons.



It is important to note that a number of significant differences exist between accounting disclosures published in accordance with International Financial Reporting Standards ('IFRS') and Pillar 3 disclosures published herein, which are provided in accordance with prudential requirements.

### **1.2.2 Frequency of Disclosure**

In accordance with Pillar 3 disclosure requirements and the ICBCS Pillar 3 Disclosure Policy, ICBCS Group makes available its consolidated Pillar 3 disclosures on an annual basis.

### **1.2.3 Verification**

The disclosures presented within this document have been verified and approved through internal governance procedures in line with the ICBCS Pillar 3 Disclosure Policy.

This includes the review and approval of all disclosures by the ICBCS Board, following the receipt of attestations in respect of the both the quantitative and qualitative disclosures from the most senior functional heads of the relevant areas.

## **1.3 Risk Profile Disclosure**

In accordance with the requirements under CRD IV and the ICBCS Pillar 3 Disclosure Policy, ICBCS Group is required to assess whether its external disclosures (including the Annual Report and Pillar 3 Disclosures) comprehensively portray its risk profile.

The Pillar 3 disclosures included herein focus primarily on capital risk and the key risk drivers behind the ICBCS Group's Pillar 1 capital requirements (i.e. credit, market and operational risks), providing granular information and analysis in addition to that already presented within the Annual Report and Accounts. The ICBCS Board are satisfied that the disclosures contained within this document, are appropriate to convey the risk profile of the firm.

## **1.4 Statement of ICBC Support**

On 1 February 2015, the Industrial and Commercial Bank of China Ltd ("ICBC") acquired 60% of the existing issued shares in Standard Bank Plc from Standard Bank London Holdings Limited, a fully owned subsidiary of Standard Bank Group. The entity was renamed ICBC Standard Bank Plc ("ICBCS"), as a result of the change in ownership.

Upon change in control, ICBC Group provided ICBCS with a letter of support stating that they intend to financially support ICBCS in ensuring that it meets all of its financial obligations as they fall due, including the maintaining of a minimum level of capital adequacy.

Specifically, ICBC Group intends to provide funding and capital support to ICBCS and commits its intention to subscribe for certain 'qualifying instruments' as and when ICBC receives written notice from ICBCS that its capital and reserve funds amount to (or will foreseeably in the near term amount to) less than the minimum required amount of capital and reserve funds as determined in accordance with the rules and regulations of the Prudential Regulation Authority (or its successor). This will be actioned under the guidelines of the shareholders agreement.

## 2. Overview

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The risk profile of the ICBCS Group ("Group") is underpinned by the core philosophy of maintaining a strong liquidity and capital position.

All activities carried out by the ICBCS Group involve, to varying degrees, the measurement, evaluation, acceptance and management of risk or combinations of risks. The risk management framework, employed at all levels of the organisation, ensures that our risk profile remains aligned to our risk appetite and strategy.

### 2.1 Risk types

The Group's activities give rise to various risks. The principal material risks can predominantly be grouped into the following categories:

- credit risk (see section 5)
- counterparty risk (see section 5.6)
- market risk (see section 8)
- operational risk (see section 9)

Each risk is defined within the relevant section, together with an explanation of the application of the governance framework to the particular risk, and if applicable, a description of the relevant portfolio characteristics both in terms of prescribed disclosure and the Group's business model.

### 2.2 Highlights for 2015

#### 2.2.1 General

A slowdown in China and the continued collapse in commodity prices provided testing times for the global economy with emerging economies feeling the greatest impact. In China, stock prices plunged, currency devaluation shocked markets and growth rates dropped below 7%. Slowing Chinese growth further dampened demand for commodities with base metal prices falling and oil prices dropping to below \$35 a barrel due to oversupply. A number of emerging markets have seen their currencies depreciate against the dollar, increasing foreign currency debt servicing pressure.

The availability of cheap funding finally came to an end in December when the US Federal Reserve raised rates for the first time in seven years as the US economy was declared healthy enough to withstand a modest rate hike. In contrast, the Central banks of the Eurozone, Japan and China continued to expand their easy money policies to address growth and deflationary concerns.

#### 2.2.2 Risk appetite and stress testing

##### 2.2.2.1 Year in brief

ICBCS operated within its Board Approved risk tolerance throughout 2015.

Macroeconomic stress testing was carried out across ICBCS during 2015, with scenarios designed to specifically target relevant portfolios for ICBCS i.e. Commodities and Emerging Markets. In addition ICBCS undertook the annual Reverse Stress Testing programme which aims to simulate 'point of failure' scenarios that could impact ICBCS's business model. Output from the programme was approved by the Board Risk Management Committee in November 2015.

#### 2.2.2.2 Focus areas for 2016

The ICBCS risk management areas will continue to support the roll out of the ICBCS business model and strategy in conjunction with implementing any regulatory obligations. This will include:

- New product and counterparty requests
- Leading the Fundamental Review of the Trading Book project with Finance
- Consider moving towards exiting of service level agreements (SLA's) with Standard Bank of South Africa (SBSA) where practical and possible
- Enhancing the relationship and understanding of ICBC's Risk management team and processes

### 2.2.3 Capital Management

#### 2.2.3.1 Year in brief

The Group remains sufficiently capitalised, above minimum regulatory capital adequacy and leverage ratio requirements. ICBCS had a CET1 ratio of 13.87% and a total capital ratio of 19.13% as at 31 December 2015. The ICBCS leverage ratio as at 31 December 2015 was 5.36%.

#### 2.2.3.2 Focus areas for 2016

Capital resources will be managed to ensure there is sufficient capital to meet business requirements over the planning horizon, whilst taking account of potential stress. This will include:

- Providing an optimal capital mix for the ICBCS Group
- Ensuring that the Group is adequately positioned to respond to regulatory capital rules under the CRD IV, taking into account the phase-in requirements and the required regulatory capital buffers
- Ensure there is adequate capital to support the ICBCS business model and strategy

### 2.2.4 Credit risk

#### 2.2.4.1 Year in brief

Credit exposure remained relatively constant during the course of 2015; with exposure fluctuations primarily depending on the level of excess liquidity placements in the firms reserve account at the Bank of England.

The ICBCS Credit team approved a number of hedging transactions supporting the project financing transactions that ICBC participated in during the year.

The firm continued to build the repo portfolios (both Securities and Commodity) during 2015 following reductions over the previous year. The securities portfolio diversified away from traditional markets of Russia and Turkey, into Asia and the Middle East. The bank also began executing physical energy repo transactions in 2015.

#### 2.2.4.2 Focus areas for 2016

In 2016, the firm will continue to build up capabilities within ICBCS, in order to exit SLA's with SBSA over the medium term. Alongside this, further work will be undertaken to determine additional support capabilities within ICBC HQ. ICBCS credit teams will continue to provide ongoing support of Business origination strategies, including development of the physical energy business and continued access to ICBC's customer base across multiple business areas, by ensuring appropriate second line risk management is in place.

From a counterparty credit risk perspective, emphasis will be on system development to cater for regulatory requirements arising from the BIS standardised approach for counterparty credit risk (SA-CCR) regulations, the revised standardised approach credit risk and risk system enhancements.

## 2.2.5 Market risk

### 2.2.5.1 Year in brief

The first two quarters of 2015 were relatively mild in term of volatility, as markets were recovering from the Emerging Market sell-off seen in December 2014. The period was primarily dominated by two themes: US Fed's potential interest rate hikes and the potential contagion from the Euro Zone concerns around Greece. However, none of these resulted in significant market movements. In H1, oil prices remained range bound at \$60 and the slowdown of growth in China was not seen as a major concern.

The third quarter of 2015 saw a major confidence crisis in the market. Chinese stock markets dropped abruptly in mid-August and created strong bearish market conditions, contaminating all equity markets. Commodity markets were severely affected across all asset classes, mainly due to a weak Chinese demand. The downward pressure on commodities triggered a sell-off on emerging market countries.

In the fourth quarter, good growth in the US and the relative stabilisation of China to a lower level of growth managed to calm equity markets and abate volatility. However, commodity markets continued to fall. Oil prices trended down toward \$35, triggering a repricing of risk for the whole sector. In addition, a number of emerging market countries saw an increase in domestic political tensions (Brazil, South Africa, and Turkey). The increase in US interest rates on the back of the US recovery resulted in a significant asset reallocation away from emerging markets.

Throughout 2015, the ICBCS trading book market risk, including VaR, Stressed VaR, and Stress Testing remained well within approved limits, as the Group maintained a conservative approach to market risk. The Group's banking book interest rate risk also remained well within approved limits.

### 2.2.5.2 Focus areas for 2016

From a traded risk perspective, the emphasis in 2016 will be on system developments and operating models to cater for new requirements arising from the minimum capital requirements for market risk standards, issued by the Basel Committee of Banking Supervision in January 2016. This will require enhancements to the risk reporting and monitoring systems.

## 2.2.6 Operational risk

### 2.2.6.1 Year in brief

The ICBCS operational risk team incorporated an independent assessment process into the Operational Risk framework in 2015. The firm continues to drive the three lines of defence model and has seen significant improvements in ownership of risks and controls within the first line. Operational Risk losses for the year were well within the risk appetite, with no material trends or control failures identified.

### 2.2.6.2 Focus areas for 2016

In 2016, further work will be undertaken to embed Key Indicators within the First Line as a mechanism for understanding and managing these risks. The ICBCS operational risk teams will work on rolling the First Line Key Indicators into key risk and control themes.

## 3. Regulatory Consolidation

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### 3.1 Scope of Consolidation

As an EU parent institution, ICBCS is required to calculate consolidated capital requirements and maintain consolidated capital resources based on the regulatory consolidation guidelines applicable under CRD IV. Accordingly, ICBCS complies with the disclosure obligations of CRD IV on a consolidated basis.

The scope of regulatory consolidation for the purposes of quantifying consolidated capital requirements and consolidated capital resources extends across all operations of the ICBCS Group. All entities included within the scope of accounting consolidation are also included within the scope of regulatory consolidation. There are, however, a number of differences in the methods by which certain undertakings are consolidated for regulatory purposes.

Subsidiary undertakings included within the regulatory consolidation are fully consolidated, with capital resources determined on a line-by-line (accounting) consolidation basis. Risk capital requirements are determined either on a line-by-line (accounting) consolidation basis or by aggregating individual subsidiaries' risk capital requirements, where relevant.

Undertakings in which ICBCS or its subsidiaries hold a 'participation', where it is deemed that the ICBCS Group exerts significant influence over the undertaking, are generally consolidated within the regulatory calculations on a proportional (pro-rata) basis. This follows line-by-line (accounting) consolidation based on the ownership share in the particular undertaking. Such undertakings may include joint ventures and associates, as defined under IFRS accounting standards, and specified venture capital investments. In certain circumstances, participations are deducted from capital rather than proportionally consolidated.

Investments held by the ICBCS Group in respect of which it does not have the ability to exert significant influence are included within the calculation of capital requirements, being treated as equity exposures. The underlying assets of these investments are neither consolidated nor deducted.

There are no differences in the basis of consolidation for accounting and prudential purposes within ICBCS.

The ICBCS Board ensures that capital adequacy is maintained at all levels of banking consolidation within the ICBCS Group in accordance with the appropriate regulatory requirements.

The legal and regulatory structure of the ICBCS Group has been simplified, and provides a capability for the prompt transfer of surplus capital resources over and above regulatory requirements or repayment of liabilities when due, especially between ICBC Standard Bank Plc and ICBC Standard Resources (China) Ltd (SRC). See solo consolidation described in section 3.3, for details.

Subject to obtaining the appropriate regulatory approvals, there is no current or foreseeable material, practical or legal impediments to such transfers or repayments.

### 3.2 Sub Group Disclosures

ICBC Standard Bank Plc is the most significant subsidiary within the ICBCS Group. As a result, disclosures within this document have been provided in fulfilment of significant subsidiary disclosure requirements.



### 3.3 Solo Consolidation

The ICBCS Group makes use of the individual (solo) consolidation provisions as permitted under CRR Article 9. The solo consolidation requirements allow a parent institution to incorporate the capital requirements of a subsidiary undertaking, within the calculation of the capital resources and capital resources requirement for the parent, subject to permission from the PRA.

For this purpose, ICBCS has obtained permission from the PRA for the use of solo consolidation in respect of its wholly owned subsidiary – ICBC Standard Resources (China) Ltd (“SRC”). This permission enables ICBC Standard Bank Plc to incorporate the capital and requirements of SRC with its own, on a solo-consolidated basis. SRC is a financial firm incorporated in China.

### 3.4 Consolidated Balance Sheet under Regulatory Consolidation

The accounting balance sheet is shown on page 31 of the ICBC Standard Bank Annual Financial Statement. There are no differences in the basis of consolidation for accounting and prudential purposes.

For full details of the own funds requirements, as referenced in the table above, please refer to Annex B.

**The consolidated balance sheet for ICBC Standard Bank Plc is shown on page 31 of the ICBCS Annual Financial Statements 2015.**

## 4. Risk and Capital Management

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### 4.1 Board Responsibility

The Group Board of Directors (ICBCS Board) has the ultimate responsibility for the oversight of risk and capital management. They also ensure that the firm complies with all regulatory requirements set by the regulatory bodies. An externally led Board and Governance Effectiveness review is being conducted during Quarter 1 2016. Any recommendations will be considered by the Board for implementation. The firm, led by the Chairman, ensures that all directors commit sufficient time to perform their functions in the firm.

#### 4.1.1 Board Recruitment

As ICBCS currently has a majority shareholder (ICBC) and a minority shareholder (SBLH), certain directors may be appointed to the Board by the shareholders as ICBC Directors or Standard Bank Directors respectively based upon the level of the shareholding as determined in the Shareholder Agreement between ICBC, SBG, SBLH and ICBCS. All directors nominated by the shareholders to be appointed in such a way will be subject to any necessary regulatory approvals.

Board positions in ICBCS for independent non-executive directors are sourced externally through the engagement of a specialist third party executive search consultancy. A role profile and person specification detailing the specific requirements including meeting attendance, time commitment and regulatory considerations will be drafted and approved. The Board will only engage executive search consultants who have signed up to the voluntary code of conduct addressing diversity and best practice in search assignments.

All applicants are required to submit a CV detailing their skills and experience and demonstrate that they possess adequate knowledge to perform the required function. In addition, applicants need to prove a genuine understanding of the firm's activities and the principal areas of risk. All candidates shall be evaluated in the same manner and must disclose whether any of their activities or Directorships may lead to a conflict of interest. The Group will ensure that the recruitment process is compliant with the Senior Managers and Certification Regime, when the regime comes into force in March 2016.

The Group adopts a fair and transparent selection process, led by the Chairman, whereby shortlisted independent non-executive director candidates are interviewed by current members of the Board including the CEO, Chairman and where applicable independent non-executive Directors.

#### 4.1.2 Diversity and Composition

The Group recognises and embraces the benefits of having a diverse Board and management body, and views the increasing of diversity at Board and management body level as an essential element in maintaining a competitive advantage.

The Board agrees that its members should collectively possess the broad range of skills, expertise and industry knowledge, business and other experience necessary for the effective oversight of the Group. The Board and management body will include and make good use of differences in the skills, regional and industry experience, background and other qualities of Directors and members of the management body. These differences will be considered in determining the optimum composition of the Board and senior management team and when possible will be balanced appropriately.

All Board and management body appointments are to be made on merit, in the context of the skills, experience, independence and knowledge which the Board and management body as a whole requires to be effective.

The current members of the Board have a wide range of backgrounds and experience, with expertise across a number of areas including Banking, Finance, Audit and Risk Management. The members also possess a diverse range of geographical understanding including experience of operations across Asia, Europe and Africa. Several of the directors have a detailed knowledge and understanding of one or both of the company's ultimate parents ICBC and Standard Bank Group Limited, as well as a strong knowledge of the relevant legal and regulatory frameworks of China and South Africa gained in their roles as executives of ICBC or the Standard Bank Group respectively. The company's independent non-executive directors also have other general board-level experience, including in some cases, experience of directorships in UK listed companies.

The Chairman is responsible for leading the development of and monitoring the effective implementation of policies and procedures for the induction, training and professional development of all members of the Board. In this regard a programme of training for board members covering both technical and company specific matters have been delivered during 2015.

The table below shows the number of directorship held by the members of the Board as at 31 December 2015.

**Table 1: Number of Directorships for Directors of ICBC Standard Bank Plc at 31 December 2015**

Director's Name	Directorships within ICBC Group of Companies (includes ICBC Standard Bank Plc)	External Directorships of other Commercial Companies*
Mr Mingqiang BI	1	0
Mr Peitao CHEN	1	0
Mr Edward Joseph GIERA	1	6
Ms Qian HOU	2	0
Mr Barend Johannes (Ben) KRUGER	1	3
Mr David Charles MUNRO	1	2
Mr Christopher Julian SHERIDAN	1	5
Mr Andrew Warwick SIMMONDS	1	2
Mr Henry Eric STAUNTON	1	4
Mr Marc Martin VAN DER SPUY	1	1
Dr Shoujian WANG	1	0
Mr Jinlei XU	1	0
Mr Jianfeng ZHENG	5	0

\*Excludes charities, trusts, non-commercial purpose entities and organisations and other dormant companies

### 4.1.3 Board Review

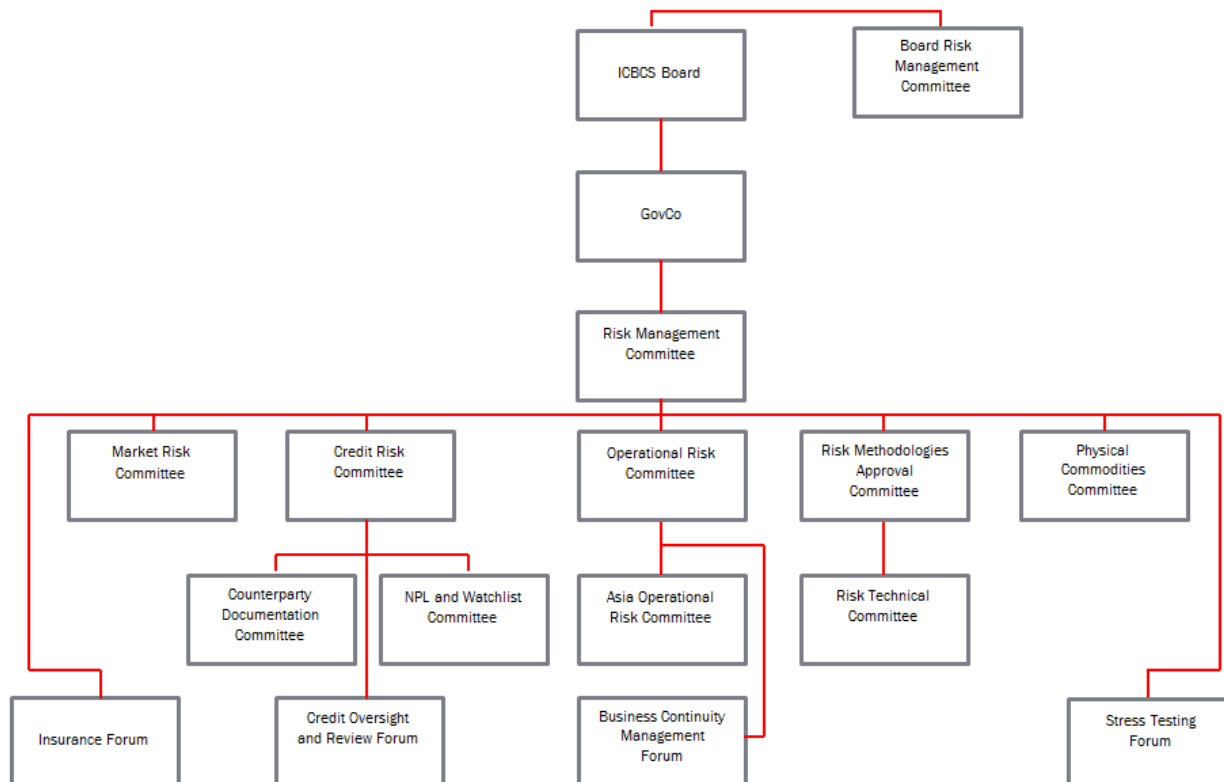
For the period under review, the Board is satisfied that the Group's risk, compliance, treasury, capital management and internal audit (IA) processes generally operated effectively, that the Group's business activities have been managed within the Board-approved risk appetite, and that the Group is adequately funded and capitalised to support the execution of the Group's strategy.

The ICBCS Group manages its capital base to achieve a prudent balance between maintaining capital ratios to support business growth and depositor confidence, and supporting the strategic objectives of the ultimate parent entity. The capital management process ensures that each ICBCS Group entity maintains sufficient capital levels for legal and regulatory compliance purposes.

## 4.2 Risk Management Framework

The Board of ICBCS represents the highest authority responsible for risk management within ICBC Standard Bank Plc; however the Board delegates certain functions to the Board Risk Management Committee.

The diagram below illustrates the various governance committees within the risk management framework, in place over 2015.



### 4.2.1 Risk Governance committees

#### 4.2.1.1 Board Risk Management Committee

The primary risk management committee is the Board Risk Management Committee (“BRMC”) which reports to the full Board of ICBCS on all matters of significance pertaining to risk management. It provides the Board with advice on risk strategy including the oversight of current risk exposures with particular, but not exclusive, emphasis on prudential risks.

Mr BJ Kruger is chairman of the Board Risk Management Committee (BRMC). Other members of the committee during 2015 were Mr M Bi, Mr CJ Sheridan, Mr HE Staunton, Mr P Chen (resigned as a director on 21 January 2016), Mr J Zheng, Mr DP Burgess (resigned as a director on 5 October 2015), Mr M E Austen (resigned as a director on 07 May 2015), Mr A W Simmonds (appointed as a director on 01 September 2015) and Mr E J Giera (appointed a director on 05 October 2015). With the exception of Mr BJ Kruger, Mr M Bi and Mr P Chen, all members of the BRMC were independent non-executive directors.

The BRMC is the highest authority on risk management below the Board. The Board has delegated to the Committee broad functions to:

- Review, assess and challenge the appropriateness of the risk framework
- Review the standards, integrity and professionalism being adopted by ICBCS in its risk management process and the adequacy of resources allocated to risk management
- Ensure that it is properly informed on matters of risk through risk management reports and provide assurance to the board regarding the effectiveness of the risk management process
- Maintain a continuing liaison with the Chief Risk Officer (CRO) who will report to the Committee on risk exposures relative to risk appetite and tolerance

The Committee performs specific review of Credit, Market, Operational, Country, Liquidity and Physical Commodity Risk inherent within ICBCS.

#### **Information flow**

The primary responsibility for updating the BRMC on risk matters resides with the CRO. In advance of each BRMC meeting a comprehensive risk management pack (reviewed and approved by the CRO) that covers all risks overseen by the risk department is distributed to each member. At the meeting the CRO will present the key contents, and if necessary, highlight any emerging risks that may not feature in the pack due to timing differences, with a verbal update to the members. If the members request an update to a risk related matter outside of a meeting, the CRO will facilitate the response before updating all the members.

#### **BRMC Governance over 2015**

A total of four meetings of the BRMC were held during 2015.

The BRMC considered the current and future risk profile relative to risk appetite. The committee reported to the board following each meeting on its consideration of the risk profile of the Group and any concerns that it may have had. The BRMC was satisfied that, as far as it was aware, there were no material risks that presently threaten the sustainability of the Group. It also considered the bank's exposure to country, single name obligor and sector concentration risk on an ongoing basis.

At each meeting of the BRMC, the Chief Risk Officer (CRO) provided the committee with an overview of the key risk issues both current and emerging. An update was also given by Chief Financial Officer (CFO) surrounding the bank's capital and liquidity position.

Any relevant risk standards and policies were approved by the BRMC, including the annual Reverse Stress Testing programme output.

During 2015, an internal self-assessment on the effectiveness of the BRMC was conducted. This assessment concluded that the committee was operating effectively.

#### **4.2.1.2 Governance Committee**

The ICBCS Governance Committee ("GovCo") is the executive governance committee with oversight of all business lines within ICBCS. It ensures that any additional policies and controls are put in place to ensure adherence to local regulatory requirements and best practice.

Key risk related responsibilities include:

- Agreeing risk appetite and delegated authority to sub-committees
- Reviewing operational risk and key risk indicators where referred up from OpCo
- Noting all matters relating to reputational risk and initiating remedial action where necessary
- Reviewing and approving terms of reference for and membership of executive sub-committees
- Noting the minutes of sub-committees and monitoring their work

#### **4.2.1.3 Risk Management Committee**

The Committee's primary responsibility is to monitor and control credit risk, market risk and operational risk and oversee adherence of ICBCS to the agreed risk appetite.

Key responsibilities include:

- Notifying the GovCo, Board Risk Management Committee (BRMC), and relevant Group stakeholders of any event involving ICBCS breaching its agreed risk appetite, and proposing corrective actions/responsibilities
- Setting risk appetite for ICBCS from a Credit, Market and Operational Risk perspective, in line with ICBCS's overall risk appetite
- Reviewing and challenging risk information relating to credit risk, country risk, market risk and operational risk



- Overseeing and reviewing stress testing on a Company basis and escalating, as necessary, any matters relating to stress testing to the GovCo and the BRMC
- Setting risk control policy, as appropriate
- Demanding/approving new risk treatments, metrics and controls

Details of other risk committees which have explicit mandates to cover specific risk types are provided in the relevant sections discussing credit, market and operational risk.

### 4.3 Approaches to Risk Management

ICBCS operates a prudent approach to risk with rigorous management controls to keep the Group safe, support sustainable business growth and minimise losses within the Group's risk appetite. The oversight is delegated to the Board.

For this purpose, Group has a strong and independent risk function with a mission to maintain a robust control framework, identify and escalate emerging risks and support sustainable business growth within its risk appetite through good risk reward decision making.

The Board ensures that senior management implements risk policies and risk appetites that either limit or, where appropriate, prohibit activities, relationships and situations that could be detrimental to the Group's risk profile.

### 4.4 Risk Appetite

The Group defines risk appetite as 'the amount and type of risk that our organisation is prepared to seek, accept or tolerate'.

The approved risk appetite is embedded within principles, policies, authorities and limits across the Group. The Group optimises performance by allowing business units to operate within approved risk appetite and limits. The Group's risk appetite will continue to evolve to reflect external market developments and the composition of the Group.

The ICBCS legal entity Risk Appetite is defined by the following metrics:

- Earnings: Pre-tax earnings at risk over the next 12 months will be no greater than \$210 million at a 90% confidence interval confidence.
- Regulatory Capital: After absorbing the impact of stress events contained in the macroeconomic scenarios used for capital stress testing approved by the Board Risk Management Committee, and if necessary, after taking into account of mitigating management actions:
  - The Regulatory Capital Adequacy Ratio: will not be lower than the specified ratio expressed as a percentage.
  - The Tier 1 Capital Adequacy Ratio: will not be lower than the specified ratio expressed as a percentage.
- Economic Capital: After absorbing the impact of stress events contained in the macroeconomic scenarios used for capital stress testing approved by the Board Risk Management Committee, and if necessary, after taking into account of mitigating management actions:
  - The Economic Capital Adequacy Ratio: will not be lower than the specified ratio expressed as a percentage.
- Liquidity: In order to ensure that there is sufficient time to react to a potential breach of liquidity risk appetite, ICBCS has set a headroom trigger of \$400m above the required minimum liquid asset buffer, calculated under an internal stress test, such that the firm can survive to 91 days.
- Unacceptable Risk: ICBCS will use the best endeavours to avoid exposure to unacceptable risk events, such as activities that may result in adverse reputational damage, illegal activities, breaches of regulation and breaches of customer mandates. Where such events are identified, they will be addressed through management actions with appropriate urgency.

## 4.5 Capital Management

### 4.5.1 Objective

ICBCS Group's capital management function is designed to ensure that regulatory capital requirements are met at all times both under business as usual conditions and under stressed conditions. The function advises senior management about the amounts and form of capital required, and when it should be raised in line with business requirements.

### 4.5.2 Governance

The Capital Management Committee's ("Capcom") is a subcommittee of the GovCo. Its primary responsibility is the management and allocation of capital and liquidity throughout ICBCS Group. This includes the approval of capital, liquidity and funding limits, which are approved within the overall risk appetite of the bank set by the ICBCS Board. The committee also monitors liquidity and maintains an oversight of other risks in relation to capital including credit, market and operational risks.

Key responsibilities include:

- Managing the bank's capital both in relation to regulatory and economic capital usage ensuring it is within risk appetite;
- Managing the allocation of capital within ICBCS Group and all its subsidiaries to ensure compliance with all regulatory ratios and that an appropriate regulatory capital surplus is maintained;
- Reviewing the capital requirements of the business and considering any requirements for capital raising;
- Identifying opportunities for the more efficient use of Regulatory Capital; and identify opportunities for raising capital should the need arise;
- Reviewing and approving internal capital limits and monitoring the regulatory capital usage by front office operating divisions;
- Reviewing, from a portfolio perspective, and make strategic decisions on matters relating to, the composition and liquidity of assets and liabilities on the ICBCS balance sheet; this includes consideration of the rateability and size of the balance sheet and involves reviewing the management of the liquid asset buffer and its investment strategy;
- Reviewing and setting internal liquidity limits, in line with the Group's Liquidity Risk Tolerance
- Reviewing and approving the internal funds transfer pricing methodology;
- Reviewing and monitoring the Group liquidity position and all Early Warning Indicators ("EWI");
- Coordinating and managing the Bank's response to capital stresses in accordance with the Group's Capital Contingency Management

### 4.5.3 Capital Transferability

Subject to compliance with the corporate laws of relevant jurisdictions, no significant restrictions exist on the transfer of funds and regulatory capital within the ICBCS Group.

## 4.6 Regulatory capital

The Group manages its capital levels to support business growth, maintain depositor and creditor confidence, and ensure regulatory compliance on an ongoing basis.

### 4.6.1 Minimum Capital Adequacy

Minimum capital requirements are referred to as Pillar 1 requirements. These requirements apply to the credit, market and operational risk generated by ICBCS. Regulatory capital adequacy is measured through three risk-based ratios i.e. CET1, Tier 1 and Total Capital (see section 4.7 for details):

- CET 1: ordinary share capital, share premium and retained earnings less impairments and other capital deductions, divided by total risk-weighted assets.

- Tier 1: CET 1 plus perpetual, non-cumulative instruments with principal loss absorption features issued under the CRD IV rules less capital deductions, divided by total risk-weighted assets.
- Total capital adequacy: Tier 1 plus other items such as the general allowance for credit impairments and subordinated debt with principal loss-absorption features issued under CRD IV less capital deductions, divided by total risk-weighted assets.

Total risk-weighted assets are determined by multiplying the capital requirements for market risk and operational risk by the reciprocal of the minimum capital ratio and adding the resulting figures to the sum of risk-weighted assets for credit risk and counterparty risk. Included in the overall credit risk-weighted assets is both the on- and off-balance sheet exposures risk weighted according to the relative credit risk of the counterparty.

## 4.6.2 Capital Buffers

### 4.6.2.1 Countercyclical Capital Buffer

CRD IV introduced a cyclical buffer in line with Basel III, in the form of an institution- specific countercyclical capital buffer requirement ('CCyB'). The purpose of the CCyB is to ensure that banks maintain a sufficient capital base, accumulated during periods of credit growth, to absorb losses in stressed periods.

In January 2014, the UK Financial Policy Committee (FPC) issued a policy statement on its powers to supplement capital requirements, through the use of the CCyB and the Sectoral Capital Requirements ('SCR') tools. The CCyB is expected to be set in the range of 0-2.5% of relevant credit exposures RWAs, although it is uncapped in the UK. Under UK legislation, the FPC is also required to determine whether to recognise any CCyB rates set by other EEA countries before 2016.

In June 2014, the FPC set the CCyB rate for UK exposures at 0%, which has remained unchanged since. The FPC has also recognised the 1% CCyB rates introduced by Norway and Sweden, which became effective for UK firms from October 2015.

The Hong Kong Monetary Authority (HKMA) announced the application of a CCyB rate of 0.625% to Hong Kong exposures, to be applied from 1 January 2016. In accordance with UK legislation and PRA policy statement PS 3/14, this rate will directly apply to the calculation of institution-specific CCyB rates for UK banks from 27 January 2016.

The institution specific CCyB capital requirement is equal to the total risk exposure amount multiplied by the institution specific CCyB rate.

The institution-specific CCyB rate for ICBCS is based on the weighted average of the CCyB rates that apply in the jurisdictions where relevant credit exposures are located. Currently the ICBCS's institution specific CCyB rate is 0.003%. The SCR tool is not currently deployed in the UK, meaning there are no UK specific requirements.

Appendix C shows a breakdown of the Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer applicable as at 31 December 2015. The table below also shows the corresponding capital (own funds) requirement, to be held in CET1 capital for CCyB is \$0.3m.

**Table 2: Countercyclical buffer requirements**

As at 31st December 2015	(\$m)
Total risk weighted exposure amount	7,579.7
ICBCS countercyclical buffer rate	0.003%
ICBCS countercyclical buffer requirement	0.3

### 4.6.3. Regulatory approaches adopted for capital purposes

CRD IV provides various approaches for the calculation of regulatory capital to be held against credit, market and operational risk. In general, there are three approaches:

- a basic approach
- an intermediate approach or standardised approach
- an advanced or model based approach.

The regulators approve the approaches adopted on a case by case basis, both at a solo regulated entity and consolidated regulated entity level.

The Group does not adopt advanced approaches for certain portfolios and exposures, either because these methods have not been approved by regulators or because the Group has chosen, on a materiality basis, to adopt the intermediate or basic approaches. In these cases, the Group nevertheless adopts practices similar to the advanced approach for its internal economic capital, risk measurement and management purposes where it is felt that these offer better information for managing risks.

The group currently only has model permission for specific market risk portfolios.

#### 4.6.3.1 Risk Based Capital Requirements

The CRD IV capital requirements for ICBCS are calculated and disclosed in accordance with the risk based approaches described in the Table below.

**Table 3: Risk Based Capital Requirements**

Risk Type	Approach
Credit Risk	Standardised Approach
Counterparty Credit Risk	Standardised (Mark-to-Market Method)
Operational Risk	The Standardised Approach (TSA)
Market Risk	Internal Model Based Approach (Value-at Risk) & Standardised

Further details on the approaches per risk type approved by regulators are provided in the relevant credit, market and operational risk sections.

#### 4.6.4 ICBCS Group's Approach to Managing Capital

##### 4.6.4.1 External requirements

During the period under review the ICBCS Group complied with all externally imposed capital requirements, and in particular to the relevant regulatory requirements of the PRA.

EU banking regulations applicable to ICBCS are based on the global guidelines developed by the Basel committee under the auspices of the Bank for International Settlements.

The latest guidelines issued by the Basel committee (referred to as Basel III), as implemented by the EU CRD IV package, were fully implemented by the Bank from 1 January 2014 for PRA reporting. The impacts of Basel III, including any relevant transitional requirements have been reviewed by the Group and have been factored into all internal capital projections.

The requirement to maintain adequate financial resources is assessed both by the ICBCS Group and the PRA in relation to the ICBCS Group's activities and the risks to which they give rise. The capital adequacy ratio, which reflects the capital strength of an entity compared to the minimum regulatory requirement, is calculated by dividing the capital held by that entity by its risk-weighted assets. ICBCS maintains a healthy capital adequacy ratio, well in excess of the regulatory requirements.

#### 4.6.4.2 Internal requirements

The ICBCS Group assesses its capital adequacy against the capital requirement to absorb unexpected losses that may arise from the risks inherent in the business. Regulatory capital requirements are determined on the basis of prescribed regulatory approaches that apply to each of the main risk types and in each of the jurisdictions in which the Group operates. In addition, the Group adopts an Internal Capital Adequacy Assessment Process ("ICAAP") which reflects management's internal assessment of risk. The ICAAP requires capital to be held for risks as assessed by management instead of a prescribed regulatory formula, and as such encompasses a wide spectrum of risks.

The ICBCS Group's governance process includes a robust assessment of capital forecasts and stress testing, allowing for capital raising and usage reductions to be expedited in a timely manner. This ensures that minimum capital ratios are maintained in all jurisdictions in which the ICBCS Group operates.

#### 4.6.4.3 Measurement and Planning

The Group measures the amount of capital it holds using the regulatory framework, as per the requirements under the Capital Requirements Directive and Regulation (CRD IV). These requirements are implemented in the UK by the Prudential Regulatory Authority.

As part of the capital planning process, capital positions are subjected to extensive stress analysis to determine the adequacy of the Group's capital resources against the minimum requirements, including the ICBCS specific Individual Capital Guidance ('ICG') set by the PRA, over the forecast period. The outputs from some of these stress analyses are used by the PRA to review and set an additional Capital Planning Buffer ('CPB') for the Group. This CPB (also referred to as the "PRA buffer") comprises a minimum level of capital buffers over and above the minimum regulatory requirements that should be maintained in non-stressed conditions as mitigation against potential future periods of stress. The PRA buffer is set after taking into account the overall level of capital, including the capital conservation buffer that firms need to hold.

The PRA generally requires the ICG and the CPB to remain confidential between the bank and the PRA.

The Group has a capital management framework including policies and procedures that are designed to ensure that it operates within its risk appetite, continues to comply with regulatory requirements on an ongoing basis as well as under stress, and is positioned to meet anticipated future changes to its capital requirements.

Regulatory capital ratios are also a key factor in the Group's planning processes and stress analyses.

Four year forecasts of the Group's capital position are produced at least annually to inform the Group's capital strategy whilst shorter term forecasts are more frequently undertaken to understand and respond to variations of the Group's actual performance against internal plans. The capital plans are tested for capital adequacy using a range of stress scenarios covering adverse economic conditions as well as other adverse factors that could impact the Group and the Group maintains a Recovery Plan which sets out a range of potential mitigating actions that could be taken in response to a stress.

Capital policies and procedures are subject to independent oversight. Regular reporting of actual and projected ratios, including those in stressed scenarios, is undertaken, including submissions to the Board Risk Committee and the Capital Committee

#### 4.6.4.4 Monitoring

ICBCS uses Early Warning Indicators (EWIs), which are monitored on a daily basis to ensure that minimum regulatory capital requirements are not close to being breached. In addition, the ICBCS Risk Appetite Statement metrics are reviewed on a monthly basis.

In the event that a particular concern needs to be escalated to senior management, the prominence of the metric is considered together with the time available to the bank to remediate the issue. For example, a problem with the current capital position would be treated with more urgency to one with a forecast capital position in three years' time. Serious capital issues are escalated to the CapCom which can operate under its contingency management terms of reference if deemed necessary. This allows the bank to select the most appropriate management action to remediate the issue. If a particular action fails to



have the desired impact, further escalation to the GovCo and ultimately to the Board will take place where, increasingly severe actions can be selected and actioned. This process is subject to annual review and approval by the Board.

## 4.7 Capital Position

### 4.7.1 Summary

The Group's capital position applying prevailing rules as at 31 December 2015 is set out in the following sections. The Group complied with all externally imposed capital requirements during the current and prior year.

The Group's CET 1 capital was \$1,051 million as at 31 December 2015 (2014: \$956 million). The Group's total capital, including was \$1,450 million as at 31 December 2015 (2014: \$1,579 million).

The ratios are measured against the regulatory minimum requirements. The table below shows the capital position of ICBCS Group as at 31st December 2015.

**Table 4: ICBCS - Minimum capital adequacy ratios and buffers**

As at 31 December 2015	As at disclosure date	Minimum Ratios & Buffers
<b>Capital ratios and buffers</b>		
Common Equity Tier 1 (as a percentage of risk exposure amount)	13.87%	4.50%
Tier 1 (as a percentage of risk exposure amount)	13.87%	6.00%
Total capital (as a percentage of risk exposure amount)	19.13%	8.00%
Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus buffers, expressed as a percentage of risk exposure amount:	-	-
of which: capital conservation buffer requirement	-	-
of which: countercyclical buffer requirement	-	-
of which: systemic risk buffer requirement	-	-
of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	-	-

Common equity tier 1 ratio, based on the EU Capital Requirements Regulations as at 31 December 2015, was 13.87%.

### 4.7.2 Capital Resources

The capital position for ICBCS Group on a consolidated basis as at 31 December 2015 is shown in the tables below.

The capital position is calculated by applying the CRD IV rules, including the transitional arrangements based on PRA guidance.

**Table 5: ICBCS - Capital Resources**

<b>Regulatory Capital</b>	<b>2015 (\$m)</b>	<b>2014 (\$m)</b>
<b>Common Equity Tier I</b>		
Share capital	1,083.5	1,083.5
Share premium	731.0	431.0
Reserves	(739.5)	(499.7)
Less regulatory deductions	(24.0)	(58.5)
<b>Total Common Equity Tier I</b>	<b>1,051.0</b>	<b>956.2</b>
<b>Additional Tier I</b>		
Total Additional Tier I	-	-
<b>Total Tier I</b>	<b>1,051.0</b>	<b>956.2</b>
<b>Tier II</b>		
Subordinated debt instruments	392.3	630.2
Credit impairment against performing loans	6.3	7.0
Less regulatory deductions	-	(14.3)
<b>Total Tier II</b>	<b>398.6</b>	<b>623.0</b>
<b>Total eligible capital</b>	<b>1,449.6</b>	<b>1,579.2</b>
<b>Risk Weighted Assets</b>		
	<b>2015</b>	<b>2014</b>
	7,579.7	7,741.3
Tier 1 Risk Asset Ratio	13.9%	12.4%
Capital Adequacy ratio	19.1%	20.4%

For full details of the own funds requirements and all deductions, please refer to Annex B.

#### 4.7.3 Capital Requirements

The capital requirements for ICBCS Group on a consolidated basis as at 31 December 2015 are shown in the table below.

**Table 6: ICBCS - Capital Requirements**

Minimum Capital Requirement	2015 (\$m)	2014 (\$m)
Credit, counterparty credit and dilution risks (standardised approach)	226.6	234.7
Central governments or central banks	2.6	2.1
Regional governments or local authorities	-	-
Public sector entities	-	-
Multilateral development banks	0.1	-
International organisations	-	-
Institutions	75.9	90.2
Corporates	139.4	119.2
Retail	-	-
Secured by mortgages on immovable property	-	-
Exposures in default	2.7	10.0
Items associated with particularly high risk	-	-
Covered bonds	-	-
Claims on institutions and corporate with a short-term credit assessment	-	-
Claims in the form of CIU	-	-
Equity exposures	0.2	2.9
Other items	5.7	10.4
Securitisation positions	-	-
Settlement/delivery risk	0.1	0.4
Credit valuation adjustment	24.7	29.4
Position, foreign exchange and commodity risks (standardised approach)	22.6	39.6
Position risk	16.0	26.8
Foreign exchange	3.6	9.5
Commodities	3.0	3.3
Position, foreign exchange and commodity risks (internal models)	231.4	212.3
Operational risk (standardised approach)	60.8	85.3
Large exposures in the trading book	40.0	17.5
<b>Total minimum capital requirement</b>	<b>606.4</b>	<b>619.3</b>
<b>Total Risk Weighted Assets</b>	<b>7,579.7</b>	<b>7,741.3</b>

## 4.8 Regulatory Capital Instruments

As at 31 December 2015, the recognition, classification and valuation of these securities within the Group's regulatory capital resources were subject to the requirements of CRD IV.

This can lead to a different treatment from the IFRS accounting approach upon which the disclosures within the ICBC Standard Bank Plc Annual Report are based. For subordinated liabilities differences can arise in the treatment of fair value hedge accounting adjustments, accrued interest and regulatory requirements surrounding amortisation of dated securities.

Annex A discloses the main characteristics of all capital instruments issued by ICBC Standard Bank Plc.

The use of non-equity forms of regulatory capital plays an important role in the ICBCS Group's capital management process.

The implementation of CRD IV resulted in changes to the recognition and treatment of capital instruments and as a result ineligible instruments were subject to related grandfathering provisions. ICBC Standard Bank Plc subordinated debt securities (ISIN: XS0262708554) included an interest rate step-up and the ability for ICBCS to call the instrument. As a result, ICBCS had an "incentive to redeem" this instrument, which made the instrument ineligible for CRD IV purposes. The instrument was therefore called and redeemed in January 2016, and was not recognised within the capital resources of ICBCS. The main features of this capital instrument are also shown in Annex A, as the instrument had not been redeemed as at 31 December 2015.

## 4.9 Liquidity Management

Liquidity risk is defined as the risk that the Bank, whilst being solvent, cannot maintain or generate sufficient cash resources to meet its payment obligations in full as they fall due, or can only do so at materially disadvantageous terms. ICBCS ensures that it maintains sufficient liquidity at all times both under business as usual conditions and under stressed conditions.

### 4.9.1 Governance

The Bank operates a liquidity governance framework which provides Board level oversight of the liquidity risks to which the Bank is exposed and ensures active management of liquidity risk through the Capital Management Committee ("CapCom") and its sub-committees.

The Liquidity Subcommittee ("LSC") and Liquidity Contingency Management Team ("LCMT") are formal sub-committees of CapCom and have responsibility for overseeing liquidity risk management in BAU and stressed conditions respectively.

The Board and its committees are responsible for establishing liquidity risk tolerance and for ensuring that it is appropriate for the Bank's strategy and reflects the financial condition and funding capacity of the Bank. The Board is also responsible for approving the Bank's strategies, policies, processes and systems relating to the management of liquidity risk and for reviewing them, at least annually, for continued adequacy.

### 4.9.2 Approach to Liquidity Management

ICBCS has a management structure in place to execute the liquidity and funding strategy of the Bank effectively. The strategy is underpinned by the Bank's liquidity risk tolerance.

The Bank's liquidity risk tolerance is defined as the maximum quantum of liquidity risk which it is prepared to tolerate and is appropriate to take, given its business strategy, financial condition and funding capacity. This liquidity risk tolerance aligns with the ICBCS Risk Appetite Statement.

The Bank's liquidity risk management framework aims to mitigate this liquidity risk by ensuring that the Bank:

- Holds a sufficient buffer of highly liquid assets (the "liquid asset buffer" or "LAB"), which may be realised to meet contingency needs;
- Complies with regulatory liquidity requirements (which, whilst not mitigating against all risks, supports a prudent liquidity and funding structure); and
- Maintains a funding profile which is appropriate to its business model and risk appetite.

### 4.9.3 Meeting Liquidity Requirements

The Bank ensures that it complies with the regulatory liquidity requirement set by the PRA at all times. The Liquidity Coverage Ratio (LCR) reflects the regulator's assessment of a 30 day combined idiosyncratic and market-wide liquidity stress and takes into account the Regulator's assessment of the liquidity risk profile of the Bank. In accordance with the overall liquidity adequacy requirements, the Bank holds liquid assets equivalent to the requirement as calculated under the LCR, at all times.

Liquidity requirements are also subject to an Internal Stress Test. Internal models the Bank's internal view of a severe combined idiosyncratic and market-wide liquidity stress and represents the Bank's liquidity risk tolerance. The Bank must ensure that sufficient liquid assets ("liquid asset buffer" or "LAB") are held to meet net cash outflows, post management actions, for the prescribed survival horizon as modelled under this stress test.

We note that the NSFR is expected to go live in January 2018 once the calibration across different asset classes has been finalised. ICBCS has modelled the impact of NSFR on the organisation and mitigating actions are being explored as part of a wider prudential change programme which also covers changes to the capital regulations.

### 4.9.4 Liquidity Risk Monitoring

ICBCS employs a Liquidity Early Warning Indicator (EWI) Framework to assist management in determining whether there are idiosyncratic or market-wide conditions that could indicate heightened liquidity risk or stress. The liquidity risk tolerance limits are incorporated into the Liquidity EWI Framework. The Liquidity EWI Framework is also an integral component of the Bank's contingency management framework.

The Bank also applies an internal stress test which models the Bank's internal view of a severe combined idiosyncratic and market-wide liquidity stress and represents the Bank's liquidity risk tolerance. The Bank ensures that sufficient liquid assets are held to meet net cash outflows for the prescribed survival horizon, as modelled under this stress test.

Where Liquidity EWIs are triggered as a result of a potential liquidity stress, the LSC is convened to remediate the issue. Heightened liquidity concerns are escalated to the LCMT, which can institute an accelerated senior management response. This framework allows the bank to select the most appropriate management action to remediate the issue, depending on the severity. If a particular action fails to have the desired impact, further escalation to the GovCo and ultimately to the Board will take place where, increasingly severe actions can be selected and actioned. In the fourth quarter of 2015 for example, the LCMT was convened to address a liquidity stress faced by the bank, and appropriate actions were agreed and implemented to resolve the issue.

This process is subject to annual review and approval by the Board.

## 5. Credit Risk

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### 5.1 Definition

Credit Risk is the risk of loss arising out of failure of counterparties to meet their financial or contractual obligations when due. Credit risk is composed of counterparty risk (including primary, pre-settlement, issuer and settlement risk) and concentration risk.

### 5.2 Approach to managing credit risk

ICBCS's credit risk comprises mainly of counterparty credit risk arising from deposits placed, commodity leasing, securities financing transactions and derivative contracts entered into with our clients and market counterparties.

The Group manages credit risk through:

- maintaining a strong culture of responsible risk taking and a robust risk policy and control framework
- identifying, assessing and measuring credit risk clearly and accurately across ICBCS, from the level of individual facilities up to the total portfolio
- defining, implementing and re-evaluating our risk appetite under actual and stress conditions
- monitoring credit risk relative to limits
- ensuring that there is expert scrutiny and independent approval of credit risks and their mitigation.

First line responsibility for credit risk management resides with the business lines, which is in turn supported by the overarching risk function.

As part of ICBCS's trading and derivative activity, the firm is exposed to counterparty credit risk, which arises as a result of movements in the fair value of securities and commodities financing and derivative contracts. The risk amounts reflect the estimated aggregate replacement or exit costs that would be incurred by the Group in the event of counterparties defaulting on their obligations.

The exposure to counterparty risk is affected by the nature of the trades, after recognition of any eligible netting and collateral arrangements. See section 5.9 for additional details on management of counterparty credit risk.

#### 5.2.1 Governance Committees

##### 5.2.1.1 Credit Committee

The Credit Committee is convened as a sub-committee of the Risk Management Committee with a mandate to:

- Exercise responsibility for the independent assessment, approval, review, and monitoring of credit and country risk limits and exposures relating to the ICBCS business under a Delegated Authority construct
- Ensure that the origination and management of credit and country exposure (including structured transactions) in the portfolio is done in line with the Credit policy and any other guidance given to it by Risk Management Committee from time to time
- Escalate matters to RMC as appropriate, including breaches of risk appetite and proposed corrective actions
- Monitor and review Non-Performing Loan and Watchlist exposures

#### **5.2.1.2 NPL and Watchlist Committee**

The NPL and Watchlist Committee is convened as a sub-committee of Credit Committee with a mandate to:

- Assess and approve risk mitigation strategies in respect of all credit risk assets that have been placed on Watchlist
- Monitor the implementation of risk mitigation strategies in respect of Watchlist exposures, including where appropriate reviewing and agreeing a change of risk mitigation strategy
- Review and approve proposed strategies to recover Non Performing Loans (NPLs) or assets
- Monitor the execution of recovery strategies approved for the purposed of recovering NPLs, including where appropriate reviewing and confirming a change of recovery strategy
- Ensure the adequacy of specific debt provisioning of NPLs

#### **5.2.1.3 Counterparty Documentation Committee**

The Counterparty Documentation Committee is convened as a sub-committee of Credit Committee with a mandate to exercise responsibility for the assessment, review and approval of policies and procedures applicable to ICBCS standard documentation as relevant to Counterparty Credit Risk, including but not limited to the following:

- ICBCS standard trading documentation (e.g. ISDA Master Agreements, Global Master Repurchase Agreements, etc)
- ICBCS financing documentation (e.g. loan facilities)
- Application of Material Adverse Change, Maintenance of Ownership, Ratings downgrade, one-way collateralisation and similar clauses applicable to ICBCS
- Legal opinions on Netting, Collateral and other forms of credit risk mitigation

### **5.2.2 Regulatory Capital Approach for Credit Risk**

The Group applies a standardised approach for the calculation of credit risk capital.

This calculation of regulatory capital for credit risk is based on applying a risk weighting to the net counterparty exposures after recognising a limited set of qualifying collateral. The risk weighting is based on the exposure characteristics and, in the case of corporate, bank and sovereign exposures, the external agency credit rating applicable to the counterparty. In the case of counterparties for which there are no credit ratings available, exposures are classified as unrated for determining regulatory capital requirements.

### **5.2.3 Scope of Risk Reporting Systems**

The Group uses third party software (Adaptiv) to monitor and measure credit risk limits and exposures.

Credit risk reports are produced on a monthly basis for the Risk Management Committee and on a quarterly basis for the Board Risk Management Committee. Additional reporting is provided on an ad-hoc basis as requested by either internal or external stakeholders.

Typical reporting to Board will include an analysis of counterparty exposures by sector, region and ratings. Additional reports provide an overview of significant exposures by economic group across both Financial Institutions and Corporates.



Ad-hoc reporting can include granular analysis of specific counterparties or sectors, excesses, products and risk mitigation measures.

## 5.3 Credit Risk Adjustments

### 5.3.1 Performing loans

Performing loans are defined as neither past due nor specifically impaired loans that are current and fully compliant with all contractual terms and conditions.

Early arrears but not specifically impaired loans include those loans where the counterparty has failed to make contractual payments and payments are less than 90 days past due, but it is expected that the full carrying value will be recovered when considering future cash flows, including collateral. Ultimate loss is not expected but could occur if the adverse conditions persist.

### 5.3.2 Portfolio impairments

Portfolio credit impairments provide for latent losses in a group of loans which have not yet been identified as specifically impaired. ICBCS assesses its loan portfolios for impairment at the end of each reporting date. In determining whether an impairment loss should be recorded in profit or loss, ICBCS makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be allocated to an individual loan in that portfolio. Estimates are also made of the duration between the occurrence of a loss event and the identification of a loss on an individual basis. The impairment for performing loans is determined on a portfolio basis, based on calculated loss ratios, adjusted for economic conditions and other indicators of potential default.

Collective portfolio impairments are not used to reduce exposures for regulatory purposes.

### 5.3.3 Non-performing loans and impairments

Non-performing but not specifically impaired loans are not specifically impaired due to the expected recoverability of the full carrying value when considering the recoverability of future cash flows, including collateral. In this case, ultimate loss is not expected but could occur if the adverse condition persists.

Non-performing specifically impaired loans are those loans that are regarded as non-performing and for which there has been a measurable decrease in estimated future cash flows. This includes objective evidence such as known cash flow difficulties, breach of covenants, granting of concessions due to downgrades in credit rating etc.

Specifically impaired loans are further analysed into the following categories:

- Sub-standard: Items that show underlying well-defined weaknesses and are considered to be specifically impaired.
- Doubtful: Items that are not yet considered final losses due to some pending factors that may strengthen the quality of the items.
- Loss: Items that are considered to be uncollectible in whole or in part. ICBCS provides fully for its anticipated loss, after taking collateral into account.

Non-performing loans are those loans for which:

- The Group has identified objective evidence of default, such as a breach of a material loan covenant or condition, or
- Instalments are due and unpaid for 90 days or more.

### 5.3.4 Specific credit impairments

ICBCS also analyses exposures on a case-by-case basis, taking into account breaches of key lending conditions. Management's estimates of future cash flows on individually impaired credit exposures are based on historical loss experience for assets with similar credit risk characteristics. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Assets on the regulatory balance sheet are net of specific impairments.

A breakdown of impaired and past due exposure by industry and geography is shown in section 5.4.2 below. A breakdown of specific and general credit risk adjustments, as well as a charge for the year, is also provided therein.

**Additional disclosures on impairments are included on pages 53, 60, 100 and pages 121-124 of the ICBC Standard Bank Plc Consolidated Annual Report 2015.**

## 5.4 Credit Risk Portfolio Characteristics

The credit risk exposures presented in this section relate positions which attract credit risk capital charge on a standardised basis. This excludes the credit risk exposures in the trading book which generate counterparty credit risk, which are addressed separately in section 5.6.

### 5.4.1 Analysis of Credit Portfolio

The credit portfolio subject to credit risk in the non-trading book is analysed in the tables that follow in terms of the exposure class. The average credit risk exposure by exposure class over 2015 is shown in the table below.

**Table 7: Credit Risk Exposures by Exposure Class**

As at 31 December 2015	Average exposure over the period (\$m)	Exposure pre- mitigation (\$m)
Central governments or central banks	1,875	3,250
Regional governments or local authorities	0	0
Public sector entities	0	0
Multilateral development banks	0	0
International organisations	0	0
Institutions	525	426
Corporates	654	731
Retail	0	0
Secured by mortgages on immovable property	0	0
Exposures in default	55	23
Items associated with particularly high risk	5	5
Covered bonds	0	0
Claims on institutions and corporate with a short-term credit assessment	0	0
Claims in the form of CIU	0	0
Equity exposures	4	5
Other items	100	75
Securitisation positions	0	0
<b>Total</b>	<b>3,219</b>	<b>4,515</b>

As at 31 December 2015, the credit risk exposures of ICBCS Group before credit risk mitigation were predominantly to central governments and central banks, institutions and corporates, as shown in the table above. ICBCS receives inexpensive short-dated USD deposits from both other ICBC entities as well as clients with whom the bank has had long-standing relationships. These deposits are swapped into GBP and placed at the Bank of England. This activity can result in relatively large balances at the Bank of England.

#### 5.4.1.1 Specialised Lending Exposures

The PRA requires that specialised lending exposures arising through the Group's business streams are separately identified from general corporate exposures.

Specialised lending exposures are those possessing all the following characteristics, either in legal form or economic substance:

- the exposure is typically to an entity, often a structured entity, which was created specifically to finance and/or operate physical assets;
- the terms of the obligation give the lender a substantial degree of control over the asset(s) and the income that it generates; and
- as a result of the preceding factors, the primary source of repayment of the obligation is the income generated by the asset(s), rather than the independent capacity of a broader commercial enterprise.

There are four sub-classes of specialised lending recognised by the PRA. These are project finance, object finance, commodities finance and income-producing real estate ('IPRE'). Each of these sub-classes is defined under the Basel II framework.

As at 31st December 2015 the ICBCS Group had no specialised lending exposures.

#### 5.4.1.2 Retail Exposures

The following exposures are generally considered to be retail exposures under the Basel framework:

- Retail exposures secured by real estate collateral (e.g. residential mortgages)
- Qualifying revolving retail exposures (e.g. overdrafts and credit cards)
- Exposures to retail SMEs (e.g. retail business banking)
- Other retail exposures (e.g. unsecured personal lending)

As at 31st December 2015 the ICBCS Group had no retail exposures.

#### 5.4.1.3 Exposures to Securitisations

A securitisation is a transaction whereby the credit risk associated with an exposure, or pool of exposures, is tranching and where payments to investors in the transaction are dependent upon the performance of the exposure or pool of exposures.

As at 31st December 2015, ICBC Standard Bank Group has no securitisation exposures. Additionally there are no impaired or past due assets securitised and losses recognised by the Group during the current period.

### 5.4.2 Concentration risk

The Group actively aims to prevent undue concentration and long tail-risks (large unexpected losses) by ensuring a diversified credit portfolio. Single obligor, industry, geography and product specific concentrations are actively assessed and managed against risk appetite limits.

Other credit risk concentrations that are managed are type of collateral, type of security, maturity, physical inventory exposures and trading book issuer risk.

### 5.4.2.1 Industry

A breakdown of exposures by industry is shown below. The “other” category primarily reflects balances held with central banks.

**Table 8: Distribution of Credit Exposure by Industry**

As at 31 December 2015	Central governments or central banks (\$m)	Corporates (\$m)	of which: SME Corporates (\$m)	Institutions (\$m)	Other (\$m)	Total exposure post-mitigation (\$m)	Of which: impaired and past due exposures (\$m)	Credit Risk Adjustments		
								Specific (\$m)	General (\$m)	Charge for the Period (\$m)
Agriculture	0	0	0	0	0	0	0	0	0	0
Electricity	0	38	0	0	0	38	0	0	0	0
Finance: banks	0	29	0	239	0	268	0	0	1	0
Finance: non-bank financial institutions	0	94	0	51	2	147	0	0	2	0
Individuals	0	0	0	0	0	0	0	0	0	0
Manufacturing	9	245	0	0	0	253	0	0	3	0
Mining	0	133	0	0	0	133	0	0	0	0
Transport	0	7	0	0	0	7	0	0	0	0
Wholesale	0	153	0	0	0	153	0	0	1	0
Other	3,241	28	0	0	74	3,343	23	0	0	0
<b>Total</b>	<b>3,250</b>	<b>726</b>	<b>0</b>	<b>290</b>	<b>76</b>	<b>4,342</b>	<b>23</b>	<b>0</b>	<b>6</b>	<b>0</b>

### 5.4.2.2 Geographic Region

A breakdown of exposures by geographic regions is shown below.

**Table 9: Geographical Distribution of Credit Exposures**

As at 31 December 2015	Central governments or central banks (\$m)	Corporates (\$m)	Institutions (\$m)	Other (\$m)	Total exposure post-mitigation (\$m)	Of which: impaired and past due exposures (\$m)	Credit Risk Adjustments	
							Specific (\$m)	General (\$m)
United Kingdom	3,236	66	22	63	3,387	0	0	1
Eurozone	0	60	8	0	68	0	0	1
Rest of Europe	0	19	6	0	25	0	0	0
Asia-Pacific	5	306	219	13	543	0	0	2
Middle East & North Africa	0	53	0	0	53	0	0	0
Sub-Saharan Africa	0	132	4	0	136	23	0	1
North America	9	18	30	0	57	0	0	0
Latin America	0	72	0	0	72	0	0	1
<b>Total</b>	<b>3,250</b>	<b>726</b>	<b>290</b>	<b>76</b>	<b>4,342</b>	<b>23</b>	<b>0</b>	<b>6</b>

### 5.4.2.3 Maturity

The credit exposures of ICBC Standard Bank Plc are predominantly short dated (less than 1 year residual maturity), as shown in the table on the next page.

**Table 10: Credit Risk Exposures by Residual Maturity**

As at 31 December 2015	Less than 1 year (\$m)	1 to 5 years (\$m)	Greater than 5 years (\$m)	Total exposure post-mitigation (\$m)
Central governments or central banks	3,250	0	0	3,250
Regional governments or local authorities	-	-	-	-
Public sector entities	0	0	0	0
Multilateral development banks	0	0	0	0
International organisations	0	0	0	0
Institutions	261	28	0	290
Corporates	589	113	1	704
Retail	-	-	-	-
Secured by mortgages on immovable property	-	-	-	-
Exposures in default	23	0	0	23
Items associated with particularly high risk	0	0	0	0
Covered bonds	-	-	-	-
Claims on institutions and corporate with a short-term credit assessment	-	-	-	-
Claims in the form of CIU	-	-	-	-
Equity exposures	2	0	0	2
Other items	74	0	0	74
Securitisation positions	-	-	-	-
<b>Total</b>	<b>4,198</b>	<b>142</b>	<b>2</b>	<b>4,342</b>

## 5.5 Use of Credit Ratings

The nominated External Credit Assessment Institutions (“ECAIs”) used by the ICBCS Group for regulatory capital purposes are Moody’s and Fitch Ratings. These agencies are used to source ratings for all credit exposure classes. The Group has not nominated any export credit agencies to determine credit ratings.

For counterparty and credit risk purposes, the Group contracts a specialist external supplier to source ratings issued by Moody’s and Fitch for specified companies. The Group produces a request list containing all counterparties and guarantors to which the bank has current exposure, for which the external supplier sources current ratings.

Credit ratings are applied as per the requirements under the CRR, and are applied based on the credit quality steps published per the credit quality assessment scale on the PRA’s website.

**Table 11: Credit risk exposures by credit quality step**

Credit Quality Step	Fitch	Moody's	As at 31 December 2015	
			Exposure pre-mitigation (\$m)	Exposure post-mitigation (\$m)
Unrated			843	558
1	AAA to AA-	Aaa to Aa3	3,299	3,306
2	A+ to A-	A1 to A3	104	343
3	BBB+ to BBB-	Baa1 to Baa3	233	100
4	BB+ to BB-	Ba1 to Ba3	11	11
5	B+ to B-	B1 to B3	23	23
6	CCC+ and below	Caa1 and below	2	2
Deductions			0	0
<b>Total</b>			<b>4,515</b>	<b>4,342</b>

The level of exposures shown as "Unrated" by ECAIs is a reflection of the Bank's emerging markets focus and the nature of the client base that have typically sought bank financing rather than accessing debt capital markets and therefore do not have a need to carry an external rating.

The unrated exposures are allocated internal ratings using a bank wide probability of default scale that can be mapped to equivalent external ratings. 16% of these exposures carry an internal rating equivalent to BBB- or better (investment grade), 24% are in the BB category, 46% single-B and the remaining 14% are CCC or below, including Past Due Items. The "Unrated" exposures are largely senior secured debt positions accompanied with protective structural features mitigating losses in the event of default.

## 5.6 Counterparty Credit Risk

Counterparty credit risk is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. Such transactions relate to contracts for financial instruments and may include derivative contracts and repo contracts. The amounts at risk reflect the aggregate replacement costs that would be incurred in the event that the counterparties default on their obligations.

## 5.7 Approach to managing counterparty credit risk

The bank's exposure to counterparty risk is affected by the nature of the underlying trades, the creditworthiness of the counterparty, and any netting and collateral arrangements.

Counterparty credit risk takes into account any potential future exposure and is recognised on a net basis where netting agreements are in place and are legally recognised, or otherwise on a gross basis. Exposures are generally marked-to-market daily. Cash or near cash collateral is recognised where contractually provided for.

### 5.7.1 Measuring Exposures for Counterparty Credit Risk

The Group applies the mark-to-market method for the calculation of counterparty credit risk exposures for regulatory purposes. Under the mark-to-market method EAD is based on the balance sheet value of the instrument plus a regulatory prescribed add-on for potential future exposure.

### 5.7.2 Internal Credit Limits

Counterparty credit risk exposures are subject to explicit credit limits which are formulated and approved for each counterparty and economic group, with specific reference to its credit rating and other existing credit exposures.

The maximum credit risk appetite for counterparties is determined through a combination of credit quality (expressed as an internal credit rating) and nature of exposure, including risk mitigants. Internal credit ratings are mapped to internally modelled probabilities of default (PDs), which when combined with Loss Given Default (LGDs) and Exposures at Default (EADs) measures, determines the Expected Losses (EL).

Additionally a number of product specific, obligor quality limit guidelines and counterparty specific policies also serve to determine risk management and credit limit setting. Credit limits are established through the Group's credit approval framework on the basis of the projected maximum potential future exposure of anticipated derivative transaction volumes, generally based on 95th percentile assumptions.

Credit limits account for documentation held for netting or collateral management purposes. Outstanding exposures are calculated on a potential future exposure basis, based upon the transaction characteristics and documentation

### 5.7.3 Securing Collateral and Establishing Credit Reserves

Collateral, guarantees, derivatives and on- and off-balance sheet netting are widely used to mitigate credit and counterparty credit risk. The ICBC credit policy outlines risk mitigants that may be applied to minimise risk and that may be considered as part of the credit process.

Collateral arrangements are typically governed by industry standard agreements (such as Global Master Repurchase Agreements and Credit Support Annexes to ISDA Master Agreements). Internal policies require that appropriate documentation is put in place for all clients prior to trading.

Guarantees and related legal contracts are often required, particularly in support of credit extension to groups of companies and weaker counterparties. Guarantor counterparties include banks, parent companies, shareholders and associated counterparties. Creditworthiness is established for the guarantor as for other counterparty credit approvals.

Reverse repurchase agreements are underpinned by the assets being financed, which are mostly liquid and tradable financial instruments

For derivative transactions, the bank typically uses ISDA agreements, with a credit support annexure, where collateral support is considered necessary. Other credit protection terms may be stipulated, such as limitations on the amount of unsecured credit exposure acceptable, collateralisation if mark-to-market credit exposure exceeds acceptable limits, and termination of the contract if certain credit events occur, for example, downgrade of the counterparty's public credit rating.

For certain derivative transactions which meet eligibility for clearing at a Central Counterparty ('CCP'), the transactions are cleared with the CCP and the counterparty credit risk is replaced by an exposure against the CCP.

The management of Concentration Risk is outlined in Credit policies, incorporating guideline limit frameworks at both a risk-weighted and notional level. Such guidelines are calibrated to the firms available financial resources and exist to manage counterparty concentrations. Requests for limits to exceed the guidelines are only considered at Credit Committee.

Furthermore, sector concentrations are monitored against a portion of the firms overall Economic Capital and Earnings at Risk amounts. Sector concentrations are monitored each month at Risk Management Committee and provide a view as to which sectors the firm's financial resources are being utilised.

See section 6, for additional details of credit risk mitigation.

### 5.7.4 Wrong Way Risk

Wrong Way Risk (WWR) is defined as the risk that arises due to adverse correlation between counterparty credit exposure and credit quality. WWR is present where the risk of default by the counterparty increases as the bank's credit exposure to the counterparty increases or as the value of the collateral held by the bank decreases.

This risk is addressed by taking into consideration the high correlation between the default event and exposure to the counterparty when calculating the potential exposure and security margin requirements on these transactions.

As a general principle, credit risk exposures whether in the Banking or Trading Book should be right way risk and WWR exposures are avoided where possible. It is acknowledged that WWR may be inherent in certain forms of primary credit, and franchise or relationship considerations may require an element of business with a particular counterparty to carry some degree of WWR.

WWR needs to be managed both at an individual obligor level and at an aggregate country and portfolio level given the potential for positive correlation between defaults by obligors in the same country or sector. Exceptions to these general principles may be considered where warranted, but should be subject to appropriately rigorous policy application and oversight, with due regard for capital and risk appetite constraints at a legal entity and portfolio level.

The bank's WWR policy contains two distinctions of WWR, defined below.



#### 5.7.4.1 Specific Wrong Way Risk (SWWR)

Specific Wrong Way Risk occurs where there is a direct or very strong positive correlation between a counterparty exposure and the probability of default of the counterparty due to:

- Legal relationship, or
- Economic group relationship in the absence of a diversified portfolio, or
- Conflicted hedging strategy caused by a commodity producer (consumer) being overall net long (short) the commodity it produces (consumes), or
- Other factors of a substantial similar nature

The bank has limited appetite for SWWR and such risk will only be considered in the most exceptional circumstances. Where any credit risk mitigation received exhibits SWWR, the benefits of such mitigation are not recognised. The approval of such risk is required through the Credit Committee.

#### 5.7.4.2 General Wrong Way Risk (GWWR)

General Wrong Way Risk occurs where there is a positive correlation between the counterparty exposure and the probability of default of the counterparty, arising from macro factors rather than a direct relationship. For example, buying credit protection on a financial institution (reference entity) from another bank that operates within the same country or geographic region as the reference entity.

A status of High, Medium or Low GWWR is assigned to a transaction based off variables that take into account aspects such as sector, geography and currency. These aggregate High, Medium and Low WWR exposures arising from OTC Derivatives are managed under approved credit limits.

#### 5.7.5 Collateral requirements in the event of a downgrade

Collateral arrangements entered into with external counterparties, which are governed by industry standard legal and contractual agreements, may also require the Group to post eligible collateral.

Based on existing contractual agreements in place as at 31 December 2015, ICBCS would not be required to post any additional collateral specifically as a result of a hypothetical idiosyncratic two notch downgrade of the ICBCS's current long-term debt rating and any accompanying short-term downgrade implemented instantaneously by all major rating agencies.

#### 5.7.6 Derivative Valuation Adjustments

CRD IV introduced a new regulatory capital charge to cover the risk of mark-to-market losses on expected counterparty risk to derivatives, the Credit Valuation Adjustment (CVA) risk capital charge.

Valuation adjustments are also made to derivative liabilities to reflect default risk of ICBCS.

Details on the application of derivative valuation adjustments, including Credit and Debit Valuation Adjustments (CVA and DVA), are provided in the ICBCS Annual Report and Accounts [as referenced below].

**Additional disclosures on derivative valuation adjustments are included on page 89 (Note 22.4) of the ICBC Standard Bank Plc Consolidated Annual Financial Statements 2015.**

### 5.8 Governance committees

The governance arrangements for counterparty credit risk are identical to the governance of Credit risk as described in section 5.2.1.

## 5.9 Counterparty Risk Portfolio Characteristics

The total counterparty credit risk exposure post credit risk mitigation for ICBCS as at 31 December 2015 was \$5,311m. This includes exposures arising from derivatives, securities and commodities financing and other similar transactions, and accounts for both the Mark to Market of the portfolio and any potential future exposure, where relevant.

A breakdown of the counterparty credit risk exposure for derivatives is shown in the table below. A majority of the counterparty credit risk exposures from derivatives are to institutions. As discussed in section 5.6 above, ICBCS mitigates counterparty credit risk by the use of legally valid bilateral netting agreements and the acceptance of margin and other eligible collateral. The exposures shown below are calculated based on the mark to market of the derivative positions.

**Table 12: Counterparty Credit Risk - Net Derivatives Credit Exposure**

As at 31 December 2015	Amount (\$m)
Gross positive fair value	7,262
Less: netting benefits	5,309
<b>Netted current credit exposure</b>	<b>1,953</b>
Of which:	
Central governments or central banks	2
Regional governments or local authorities	-
Public sector entities	-
Multilateral development banks	21
International organisations	-
Institutions	1,413
Corporates	517
Retail	-
Secured by mortgages on immovable property	-
Exposures in default	-
Items associated with particularly high risk	-
Covered bonds	-
Claims on institutions and corporate with a short-term credit assessment	-
Claims in the form of CIU	-
Equity exposures	-
Other items	-
Securitisation positions	-
Less: collateral held	705
<b>Total net derivatives credit exposure</b>	<b>1,248</b>

### 5.9.1 Credit Derivatives

Credit derivatives are a method of transferring credit risk from one counterparty (the protection buyer) to another (the protection seller). In return for a risk premium, the protection seller agrees to make a payment (or series of payments) to the protection buyer in the event of the occurrence of a stipulated event.

The following table shows the use of credit derivatives by ICBCS, split by protection bought and protections sold.

**Table 13: Counterparty Credit Risk on Credit Derivative Transactions**

As at 31 December 2015	Protection bought (\$m)	Protection sold (\$m)	Total (\$m)
<b>Credit derivative products used for own credit portfolio</b>			
Credit default swaps	51	285	336
Total return swaps	0	19	19
<b>Total notional value</b>	<b>51</b>	<b>304</b>	<b>355</b>
<b>Credit derivative products used for intermediation</b>			
Credit default swaps	1,840	1,840	3,680
Total return swaps	0	0	0
<b>Total notional value</b>	<b>1,840</b>	<b>1,840</b>	<b>3,680</b>
<b>Total Notional Value of Credit Derivatives</b>	<b>1,891</b>	<b>2,144</b>	<b>4,035</b>

The table above shows that exposures to credit derivatives arise predominantly as a result of intermediation activities for clients

## 6. Credit Risk Mitigation

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### 6.1 Use of Credit Risk Mitigation

The Group uses a range of approaches to mitigate credit risk.

Collateral, guarantees, derivatives and netting are widely used to mitigate credit risk. The Credit policy outlines risk mitigants that may be applied within ICBCS to minimise risk and that may be considered as part of the Credit process. The policy also outlines the use of legally approved Master Trading Agreements when executing derivative transactions.

### 6.2 Internal Policies and Controls

#### 6.2.1 Credit principles, policy and collateral management

The Credit Policy sets out the credit principles and policy according to which credit risk is managed. Principles and policies are reviewed regularly at least annually, and any changes are subject to a review and approval process. Policies, where appropriate, are supported by guidelines, which also define the responsibilities of credit officers and provide a disciplined and focused benchmark for credit decisions. Policies cover core aspects of the credit process including the measurement, management and quantification of Credit risk as well as governance. Oversight and reviews are also undertaken by Internal Audit.

Standard Bank Group continues to provide ICBC Standard Bank Plc with services around collateral management which are governed through Service Level Agreements (SLA), which includes adherence to the relevant policies and procedures.

Services documented under the SLAs are expected to run smoothly but mechanisms have been set up to govern circumstances where there is a breakdown either in terms of quality or the actual provision of the output. These SLAs are monitored through the use of a Key Performance Indicator (KPI) framework whereby performance against the defined metrics is reviewed on a monthly basis and reported to a Joint Services Committee (JSC).

Collateral management processes are to be reviewed in 2016, with the intention to move away from management under SLAs.

#### 6.2.2 Controls over rating systems

ICBCS outsources the controls over rating systems to an independent team in the Risk Division of Standard Bank Group (SBG) that sets common minimum standards, designed to ensure risk models and associated rating systems are developed consistently, and are of sufficient quality to support business decisions and meet regulatory requirements. Internal rating systems are developed and owned by the SBG Risk Division. The ICBCS Technical Committee retains oversight and reviews all validation of the rating systems.

#### 6.2.3 Concentration risk

The management of concentration risk is undertaken via the Credit Policy which incorporates Credit Limit Appetite Guidelines. This framework provides guidelines as to the maximum amount of unsecured credit risk that ICBCS is willing to take on any

single counterparty. The guideline limit frameworks are calibrated to the Bank's available financial resources. Any exceptions to the guidelines are only considered at Credit Committee and may be granted for strategic purposes.

Credit risk management also includes controls on sectors and product lines reflecting the Group's risk appetite, in addition to the individual limit guidelines. Exposures are monitored to prevent an excessive concentration of risk and single name concentrations. In addition, sectoral concentrations are monitored monthly by the Risk Management Committee.

The Notional Inventory Risk Framework (NIRF) specifically covers commodity product concentrations and specific policies and procedures are in place to manage concentrations to warehouses/locations that are utilised to store physical commodity inventories owned by the Group. This warehouse concentration risk is independently managed by the Physical Commodity Risk Assurance (PCRA) function.

The Group has Notional Inventory Limit Guidelines in place for its commodity repo business to manage counterparty concentration risk in terms of absolute transaction volumes, even if direct credit exposure is modest. This control framework is principally based on counterparty credit rating and storage locations of the underlying commodity. Exceptions to these notional guideline limits may be approved by Credit Committee for certain strategic counterparties, if sufficient mitigation is in place, including diversification of location / product concentration risks and enhanced control processes.

The Group also considers risk concentrations by collateral providers and collateral types, as appropriate, with a view to ensuring that any potential undue concentrations of risk are identified and suitably managed by changes to strategy, policy and / or business plans.

The Group's large exposures are reported in accordance with regulatory reporting requirements.

Guarantees that are treated as eligible credit risk mitigation are marked as an exposure against the guarantor and aggregated with the credit exposure to the guarantor. Limit monitoring at the counterparty level is then used for monitoring of concentrations in line with credit policy.

#### **6.2.4 Cross-border exposures**

Country limits are authorised by the Credit Committee, taking into account economic, financial, political and social factors. Policies stipulate that these limits must be consistent with, and support, the approved business and strategic plans of the Group.

#### **6.2.5 Stress testing and scenario analysis**

The ICBCS credit portfolio is subject to stress testing, with stressed scenario assessments run at least annually.

#### **6.2.6 Valuation**

ICBCS ensures that collateral should always be realistically valued by an appropriately qualified source, independent of both the credit decision process and the customer, at the time of borrowing. Collateral is reviewed on a regular basis and will vary according to the type of lending and collateral involved. In order to minimise the credit loss, ICBCS may seek additional collateral from the counterparty as soon as impairment indicators are identified for the relevant individual loans and advances.

## 6.3 Principal types of Credit Risk Mitigation

### 6.3.1 Derivative Netting

For derivative transactions, the Group typically uses internationally recognised and enforceable International Swaps and Derivatives Association (ISDA) agreements, with a credit support annexure, where collateral support is considered necessary. Other credit protection terms may be stipulated, such as limitations on the amount of unsecured credit exposure acceptable, collateralisation if mark-to-market credit exposure exceeds acceptable limits, and termination of the contract if certain credit events occur, for example, downgrade of the counterparty's external credit rating.

### 6.3.2 Master Netting Agreements

Where it is appropriate and likely to be effective, the Group seeks to enter into master netting agreements. Although master netting agreements do not generally result in an offset of balance sheet assets and liabilities for accounting purposes, as transactions are usually settled on a gross basis, they do reduce the credit risk to the extent that, if an event of default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Group's overall exposure to credit risk on derivative instruments subject to master netting agreements can change substantially within a short period, since this is the net position of all trades under the master netting agreement.

### 6.3.3 Guarantees and Standby Letters of Credit

A guarantee is a contract whereby a third party guarantor promises to recompense the lender in the event of failure by a customer to meet their obligations. Regulatory capital relief is only taken through the use of risk weight substitution for guarantees provided by appropriate central governments, central banks or institutions. Where regulatory capital relief is sought to reflect the risk mitigating effect of a guarantee, there are minimum operational and legal requirements which are required to be met. On the basis that these are met, alternative forms of protection, for example indemnities and standby letters of credit, may be classified as a guarantee for regulatory capital purposes.

### 6.3.4 Credit Derivatives

Credit derivatives are a method of transferring credit risk from one counterparty (the protection buyer) to another (the protection seller). In return for a risk premium, the protection seller agrees to make a payment (or series of payments) to the protection buyer in the event of the occurrence of a stipulated event. Further details are included within the Counterparty Credit Risk section of the document.

Capital relief under regulatory requirements is restricted to the following types of credit derivative: Credit Default Swaps; Total Return Swaps; and Credit Linked Notes (to the extent of their cash funding).

In respect of a Credit Default Swap, various credit events defined in the International Swap Dealers Association ISDA (including bankruptcy, failure to pay and restructuring) affecting the obligor, can trigger settlement. Settlement usually takes place by the protection buyer being paid by the protection seller the notional amount minus the recovery as determined by an auction of the eligible securities of the obligor governed by ISDA.

Under a Total Return Swap, the protection buyer will pass on to the seller all payments it receives in return for an interest related payment (market rate and spread), plus any decrease in the market value of the credit obligation. Where the deterioration in the value of the asset that is protected is not recorded (either through reductions in fair value or by an addition to reserves), the credit protection must not be recognised as eligible.

Under a Credit Linked Note, the protection buyer will issue a bond or note which is linked to the creditworthiness of an obligor and backed by certain collateral. The bond or note is purchased by the protection seller and the investor will receive a coupon

on the bond or note (market rate and spread). If a credit event occurs in either the obligor or the collateral, the bond or note is redeemed by the protection buyer with the recovery being the redemption amount. If no credit event occurs, the bond or note will be redeemed at par by the protection buyer.

### 6.3.5 Collateral

Collateral may be obtained against credit exposure, depending on the creditworthiness of the counterparty and/or nature of the transaction. Any collateral taken may be subject to a 'haircut', which is negotiated at the time of signing the collateral agreement. A haircut is the valuation percentage applicable to each type of collateral and will be largely based on liquidity and price volatility of the underlying security.

Collateral obtained for derivatives is predominantly cash. The collateral document gives ICBCS the power to realise any collateral in the event of the failure of the counterparty.

As a consequence of the jurisdictions that the bank operates in, an additional risk which may arise is that collateral enforceability is protracted through the legal process. This manifests itself through an impact on the profit and loss of the firm, which is only addressed once full settlement occurs. This risk is partially mitigated through various limits frameworks around inventory held, country limits and enhanced due diligence

## 6.4 Regulatory Capital Approach for Credit Risk Mitigation

Credit risk mitigation applied in regulatory capital calculations by the ICBCS typically takes the form of one or more of the following:

- Eligible financial collateral
- Other eligible collateral
- Guarantees
- Credit derivatives
- Netting

Only certain types of collateral are deemed eligible for regulatory capital purposes. Eligible financial collateral includes cash on deposit within the bank, gold, rated debt securities (subject to certain restrictions), equities or convertible bonds included in a main index and units in certain collective investment undertakings or mutual funds. Other types of collateral are also used, provided the criteria for regulatory capital recognition are met.

The recognition of eligible collateral requires a number of factors to be considered including, legal certainty of charge, frequency and independency of revaluation and correlation of the value of the underlying asset to the obligor.

The amount and type of credit risk mitigation depends on the circumstances of each case. Credit risk mitigation policies and procedures ensure that credit risk mitigation techniques are acceptable, used consistently, valued appropriately and regularly, and meet the risk requirements of operational management for legal, practical and timely enforceability. Detailed processes and procedures are in place to guide each type of mitigation used.

The amount and type of collateral required depends on the nature of the underlying risk, an assessment of the credit risk of the counterparty as well as requirements or intentions with respect to reductions in capital requirements. Guidelines are in place regarding the acceptability of types of collateral, their strength as credit risk mitigation and valuation parameters.

Guarantees and related legal contracts are often required, particularly in support of credit extension to groups of companies and weaker counterparties. Guarantor counterparties include banks, parent companies, shareholders and associated counterparties. Creditworthiness is established for the guarantors, as for other counterparty credit approvals.



### 6.4.1 Application of Credit Risk Mitigation under the Standardised Approach

Where a credit risk exposure is covered by a form of eligible financial collateral the exposure value is adjusted accordingly under the Financial Collateral Comprehensive Method. Where guarantees or credit derivatives apply, the risk weight applied to the portion of the exposure covered by the protection provider is based on the risk weight attached to the provider. The covered portion is determined after the application of 'haircuts' for currency and maturity mismatch applied to the protection provided. The risk weight applied to the uncovered portion of the exposure is not impacted.

Collateral is generally accepted in the form of cash or government bonds. Collateral concentrations are generally inherent within the securities financing portfolio due to the types of clients being financed. Often collateral posted by a client will be government bonds of its own domicile, which can generate WWR (see WWR section for management) as well as concentrations should a number of clients within that domicile be financed at the same time. Such concentrations will be assessed on a case-by-case basis to ensure overall appetite is not breached and will be viewed in line with current market conditions for that clients domicile. Typically there would be insistence on trades being margined daily, trades will be short dated and sufficient haircuts will be applied to manage gap risk and enable a close out to take place that minimises potential losses.

### 6.4.2 Credit Risk Mitigation Recognised

The table below shows the use of credit risk mitigation in the banking book, by underlying exposures. The primary issuers of guarantees and credit derivatives used by ICBCS for credit risk mitigation are other institutions. All guarantees and credit derivatives recognised for credit risk mitigation were from counterparties rated BBB- and above.

**Table 14: Credit Risk Mitigation by Exposure Class**

As at 31 December 2015	Eligible financial collateral (\$m)	Guarantees and credit derivatives (\$m)
Central governments or central banks	0	0
Regional governments or local authorities	0	0
Public sector entities	0	0
Multilateral development banks	0	0
International organisations	0	0
Institutions	137	244
Corporates	28	7
Retail	0	0
Secured by mortgages on immovable property	0	0
Exposures in default	0	0
Items associated with particularly high risk	5	0
Covered bonds	0	0
Claims on institutions and corporate with a short-term credit assessment	0	0
Claims in the form of CIU	0	0
Equity exposures	2	0
Other items	0	0
Securitisation positions	0	0
<b>Total</b>	<b>172</b>	<b>251</b>

As shown in the table included in section 5.9, collateral recognised post all regulatory haircuts for derivatives (\$705m) was primarily in the form of cash. Financial collateral post regulatory haircuts recognised for securities financing and other similar transactions was \$3,082m of which \$1,583m was placed by corporates and \$1,499m was placed by institutions.

ICBCS also recognised \$142m of other types of eligible collateral (post regulatory haircuts) from corporate counterparties relating to securities financing transactions.

ICBCS also utilises on-balance sheet netting of mutual claims between itself and SBSA as an eligible form of credit risk mitigation. This netting relates to cash loan balances of \$136m as at 31 December 2015. Where on balance sheet netting is applied, these reciprocal cash balances are monitored and managed by the ICBCS Treasury function on a net basis, ensuring that the mitigation is continually effective.

## 7. Country Risk

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### 7.1 Definition

Cross-border country risk is the uncertainty that obligors (including the relevant sovereign, and including the obligations of the Bank's branches and subsidiaries in a country) may not be able to fulfil their obligations to the Bank outside the host country because of political or economic conditions in the host country. This includes group equity investments and physical inventories owned by the Bank in a host country.

### 7.2 Approach to Managing Country Risk

All countries to which ICBCS is exposed are reviewed at least annually. Internal rating models are employed to determine ratings for country, sovereign and transfer and convertibility risk. In determining the ratings, extensive use is made of the bank's network of operations and external information sources. These ratings are also a key input into the Group's credit rating models.

The model inputs are continuously updated to reflect economic and political changes in countries. The model outputs are internal risk grades that are calibrated to a country risk grade (CR) from CR01 to CR25, or sovereign risk grade, transfer and convertibility (RG) rating scale from or RG01 to RG25. Countries rated CR08 and higher, referred to as medium- and high-risk countries, are subject to increased analysis and monitoring.

Country risk is mitigated through a number of methods, including:

- political and commercial risk insurance
- co-financing with multilateral institutions
- structures to mitigate transferability and convertibility risk such as collection, collateral and margining deposits outside the jurisdiction in question.

#### 7.2.1 Scope of Risk Reporting Systems

The Group uses third party software (Adaptiv) to monitor and measure country risk limits and exposures.

Country risk reporting provided to the Board Risk Management Committee focuses on exposures across country risk grades and region. Exposures to countries on an internal watch-list are also monitored separately, with greater scrutiny.

**Additional disclosures on country risk are included on pages 129-131 (Note 38.5) of the ICBC Standard Bank Plc Consolidated Annual Financial Statements 2015.**

## 8. Market risk

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### 8.1 Definition

Market risk is the risk of a change in market value, earnings (actual or effective) or future cash-flows of a portfolio of financial instruments (including commodities), caused by moves in market variables such as equity, bond and commodity prices, currency exchange rates and interest rates, credit spreads, recovery rates, correlations and implied volatilities in all of these variables.

Within ICBCS, this consists of:

- Market risks arising from trading activity in financial instruments and commodities
- Interest rate risk from interest rate sensitive positions held in the banking book (IRRBB).
- Issuer risks in credit and equity instruments held in a banking book
- Foreign currency risk in the banking book

### 8.2 Governance Committees

#### 8.2.1 Market Risk Committee

The Market Risk Committee's ("MRC") primary responsibility is to monitor and control market risk for the bank, and oversee adherence to the agreed risk appetite. The MRC is a sub-committee of the Risk Management Committee ("RMC"), as described in Section 4.2.1.

Key responsibilities of this committee include:

- Monitoring and reviewing the market risk profile and establishing a proper control framework to manage market risk across the bank in line with the agreed risk appetite
- Recommend Level 1 limits (legal entity or business unit level) across the bank, to be ratified by RMC
- Developing, managing and implementing a framework of sub limits (level 2 limits)
- Monitoring VaR, SVaR and stress testing exposures against limits across the bank
- Monitoring Market Risk Economic Capital and Market Risk Internal Model Approach (IMA) Regulatory Capital usage across the bank
- Approving transactions with material market risk and structured transactions
- Reviewing Market risk policies (at least annually)

#### 8.2.2 Risk Methodology Approval Committee

The purpose of the Risk Methodology Approval Committee ("RMAC") is to provide assurance to the Risk Management Committee ("RMC") that the technical aspect aspects of model development and quantitative methodologies, model monitoring and model validation results are assessed and independently reviewed to ensure models and methodologies are technically sound, robust, accurate and appropriate.

Models and methodologies presented to the Committee include Pricing (front office) and risk generation models used for monitoring the Bank's positions as well as models used for market, credit, counterparty and operational risk functions, regulatory and economic capital purposes, including rating models, pricing models, stress testing models and collateral

valuation models. The Committee also reviews other models and methodologies that are referred to it by RMC from time to time.

## 8.2.2 Risk Technical Committee

The Risk Technical Committee (“RTC”) is a sub-committee of the Risk Methodology Approval Committee (“RMAC”).

The purpose of the RTC is to provide assurance to the RMAC that the technical aspect of model development and quantitative methodologies, model monitoring and model validation results are debated and independently reviewed before the RMAC takes place. Pure technical assessments are undertaken at the RTC level, whilst the RMAC would review the analysis of the RTC in order to ensure that models and methodologies are technically sound, robust, accurate and appropriate.

Models and methodologies to be presented to the Committee include Pricing (front office) and risk generation models used for monitoring the Bank’s positions as well as models used for market, credit, counterparty and operational risk functions, regulatory and economic capital purposes, including rating models, pricing models, stress testing models and collateral valuation models. The Committee would also review other models and methodologies that are referred to it by RMC from time to time.

## 8.3 Market Risk in the Trading Book

### 8.3.1 Definition

Trading book market risk arises from financial instruments, including commodities, held in the trading book, arising out of normal global markets trading activity.

### 8.3.2 Approach to managing market risk in the trading book

The market risk function is independent of trading operations and accountable to the Chief Risk Officer (CRO), the Market Risk Committee (MRC) and the Risk Management Committee (RMC).

The Board sets the risk appetite for each risk category, typically in terms of earnings at risk (EaR). The Risk Management Committee (RMC) sets the entity level 1 limits, typically in term of VaR, SVaR and Stress testing. The Market Risk Committee (MRC) sets limits at lower level, typically level 2 Value at Risk (VaR), Stressed VaR (SVaR) and other risk factor limits. Market risk teams are responsible for identifying, measuring, managing, monitoring and reporting market risk as outlined in the Market Risk policy.

Exposures and excesses are monitored and reported daily as per Market Risk policy. Where breaches in limits and triggers occur, actions are taken by market risk to move exposures back in line with approved market risk appetite, with such breaches being reported to management and the appropriate governance committees.

#### 8.3.2.1 Model Permissions

The bank requires specific permission from the PRA in order to use internal models for the determination of market risk regulatory capital requirements.

The scope of the bank’s model permission includes the calculation of Value at Risk (VaR) and Stressed Value at Risk (SVaR) for foreign exchange, commodities, credit trading, equity trading and interest rate risk trading businesses, covering most products in named trading locations. In addition, the bank has received ‘Incremental Risk Charge’ (“IRC”) model permission to determine the market risk regulatory capital of credit trading positions.

### 8.3.2.2 Model Validation

The models used to determine VaR, SVaR and the Incremental Risk Charge are subject to review and validation by an independent model validation team, which is independent from both Market Risk and the model developers. This validation includes:

- an evaluation of the theoretical soundness and adequacy of the model for its intended use; and
- the verification of the calculation methodologies incorporated in the model.

These models are regularly reviewed to ensure they remain appropriate in the context of variations in the composition of the trading portfolio and changes in market conditions.

All changes to the models are approved at the Risk Methodologies Approval Committee.

### 8.3.2.3 Measurement

The techniques used to measure and control trading book market risk and trading volatility include VaR and SVaR, stop-loss triggers, stress tests, backtesting and specific business unit and product controls.

#### 8.3.2.3.1 VaR and SVaR

The bank uses the historical VaR and SVaR approach to quantify market risk under normal and stressed conditions, respectively.

For risk management purposes VaR is based on 251 days of unweighted recent historical data, a holding period of one day and a confidence level of 95%. The historical VaR results are calculated in four steps:

- Calculate 250 daily market price movements based on 251 days' historical data.
- Calculate hypothetical daily profit or loss for each day using these daily market price movements.
- Aggregate all hypothetical profits or losses for day one across all positions, giving daily hypothetical profit or loss, and then repeat for all other days.
- VaR is the 95th percentile selected from the 250 days of daily hypothetical total profit or loss.

Daily losses exceeding the VaR are likely to occur, on average, 13 times in every 250 days.

SVaR uses a similar methodology to VaR, but is based on a period of financial stress and assumes a 10-day holding period and a 99% confidence interval.

Where the bank has received internal model approval, the market risk regulatory capital requirement is based on VaR and SVaR, both of which use a confidence level of 99% and a 10-day holding period.

Management are aware of the limitations of the use of historic VaR as it is based on historical correlations and volatilities in market prices and assumes that future prices will follow the observed historical distribution.

These limitations include:

- The use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature.
- The use of a one-day holding period assumes that all positions can be liquidated or the risk offset in one day. This may not fully reflect the market risk arising at times of severe illiquidity, when a one-day holding period may be insufficient to liquidate or hedge all positions fully.
- The use of a 95% confidence level, by definition, does not take into account losses that might occur beyond this level of confidence.
- VaR is calculated on the basis of exposures outstanding at the close of business and, therefore, does not necessarily reflect intraday exposures.
- VaR is unlikely to reflect loss potential on exposures that only arise under significant market moves.

#### 8.3.2.3.2 Incremental Risk Charge

Incremental risk is the estimated loss in value of un-securitised traded credit positions due to the default or credit migration of issuers of financial instruments over a one-year time horizon. As required by the market risk regulatory capital rules, this measure is calculated at a confidence level of 99.9% over a one-year time horizon. It uses a multi-factor model assuming a constant level of risk.

The model incorporates issuer-specific concentration, credit quality, liquidity horizons and correlation of default and migration risk. The liquidity horizon is determined by an assessment of the length of time it would take to hedge or unwind the exposures in stressed market conditions and is floored at a prescribed regulatory minimum.

#### 8.3.2.3.3 Stop-loss triggers

Stop loss triggers are designed to contain losses for individual trading desks by enforcing management intervention at predetermined loss levels.

The Group uses stop-loss triggers to protect the profitability of the trading desks, and are monitored by market risk on a daily basis. The triggers constrain cumulative or daily trading losses through acting as a prompt to a review or close-out positions.

#### 8.3.2.3.4 Stress tests

Stress testing provides an indication of the potential losses that could occur under extreme but plausible market conditions, including where longer holding periods may be required to exit positions. Stress tests comprise individual market risk factor testing, combinations of market factors per trading desk and combinations of trading desks using a range of historical, hypothetical and Monte Carlo simulations.

Daily losses experienced during the year ended 31 December 2015 did not exceed the maximum tolerable losses as represented by the Group's stress scenario limits.

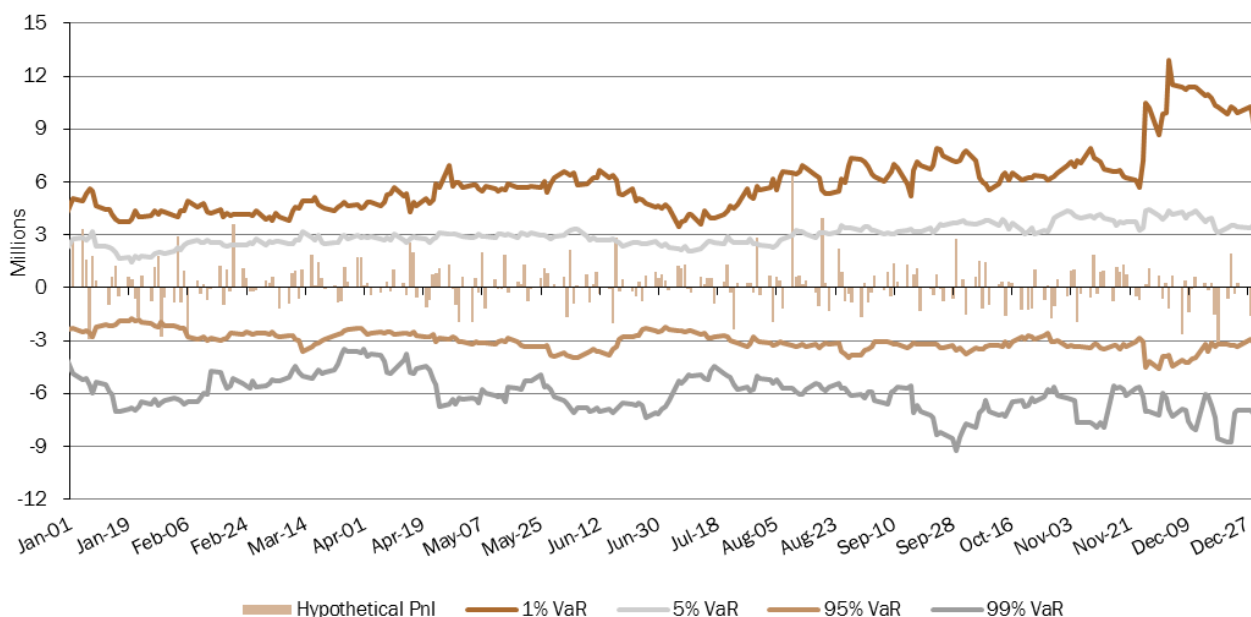
#### 8.3.2.3.5 Backtesting

The bank backtests its VaR models to verify the predictive ability of the VaR calculations and ensure the appropriateness of the models within the inherent limitations of VaR. Backtesting compares the daily hypothetical profit and losses under the one-day buy and hold assumption to the prior day's calculated VaR. In addition, VaR is tested by changing various model parameters, such as confidence intervals and observation periods to test the effectiveness of hedges and risk-mitigation instruments.

Regulators qualify a VaR model as green, amber or red and assign regulatory capital multipliers based partly on this categorisation. A green model is consistent with a satisfactory VaR model and is achieved for models that have four or less backtesting exceptions in a 12-month period. All of the bank's approved models were assigned green status for the year ended 31 December 2015 (2014: green).

The graph below shows the hypothetical Profit and Loss and VaR for the business.





#### 8.3.2.3.6 Specific business unit and product controls

Other controls specific to individual business units include permissible instruments, concentration of exposures, price validation and balance sheet substantiation.

#### 8.3.2.4 Scope of Risk Reporting Systems

The bank uses internal software (Vespa) to monitor and measure VaR and SVaR.

Market risk reports are produced on a daily basis for internal monitoring and on a monthly basis for the Risk Management Committee and the Market Risk Committee. Quarterly reports are produced for the Board Risk Management Committee. Additional reporting is provided on an ad-hoc basis as requested by either internal or external stakeholders.

Standard reporting into relevant forums will cover 95% VaR utilisation, Stressed VaR, Backtesting, limit breaches, stress testing (macroeconomic and point of weakness scenarios), P&L analysis and regulatory capital charge.

#### 8.3.2.5 Valuation

The bank's valuation policy and financial asset classification is governed by IFRS and changes in asset classification is subject to IFRS restrictions. Valuations are the responsibility of the risk owners and they are accountable for the timely revaluation of assets and liabilities according to the methodologies and procedures applying to their particular business area.

Accounting and regulatory rules require held for trading positions to be recorded at fair value on the balance sheet. Fair value standard IFRS13 was adopted in 2013 and is the amount at which the instrument could be exchanged in a current transaction between knowledgeable, willing parties. The key definition of fair value is the exit price. The best evidence of fair value of financial instruments is quoted prices in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available and these prices represent actual and regularly occurring market transactions on an arm's length basis.

All trading book positions are subject to the standards for prudent valuation as per the requirements under CRR. The product control function is accountable for the valuation process and is independent of the Front Office. Policies and procedures exist to ensure all valuations are independently verified.

Trading positions are revalued on a daily basis and profits or losses on the revaluation of positions are recognised in the income statement. Traders can either mark a position directly to observable prices in an actively quoted market or indirectly through the use of an independently approved model, where the inputs to the model are observable. Independent price verification act as a control mechanism to ensure accuracy and validity of prices.

For markets or instruments which exhibit low trading volumes or intermittent trading patterns, it can be difficult to establish if a price reflects a fully active market. If the market for financial investments is not active or has little transparency, the bank establishes fair value using valuation techniques. The fair value may be less objective and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. Pricing assumptions include risk premiums, liquidity discount rates, credit risk, volatilities and correlations however changes in these assumptions could affect the reported fair values of the financial instruments. Financial instruments measured at fair value are classified according to a fair value hierarchy which reflects the spread of valuation methodologies used.

Independent Model Validation is performed in order to validate and document new internal pricing models and ensures an annual review of existing models to ascertain they are still relevant and behaving within expectations.

#### **8.3.2.5.1 Independent Price Verification**

Independent price verification is the process by which the prices and model inputs used for valuation purposes are verified against independently sourced data.

The Product Control department within Finance performs daily reviews of liquid price inputs and at least a monthly review of less liquid prices. Where material differences occur mark-to-market adjustments are made. For products where no independent price is obtainable, Product Control test the inputs to the model, use suitable approved proxies and/or fully provision for valuation uncertainty. This process is a key control over the marking of positions and operates to validate both the daily profit and loss and the fair value of trading book assets and liabilities.

Product Control also calculates Additional Valuation Adjustments that would be required to move the Fair Valued Inventory from Fair Value to prudent valuation.

#### **8.3.2.6 Inclusion in the trading book**

The bank employs internal policies and strict controls around all activities which are defined as forming part of the “trading book” as defined for regulatory capital purposes. The controls include the determination of whether a position or instrument forms part of the trading or banking book.

When deciding whether a book is Trading or Banking consideration is given to the underlying nature of and rationale for the trades booked in it. The capital requirements that arise from the allocation of the book are not a driver for but rather a consequence of such decisions. The finance function is responsible for maintaining the relevant book structure and ensuring that there is clear distinction between banking and trading books.

Transfers between the regulatory trading and banking books require a clear justification and approval from the Capital Management Committee.

#### **8.3.2.7 Risk Mitigation**

Where the bank considers the level of market risk to be unacceptable based on internal limits, the risk of adverse price movements is usually hedged. Hedges are usually transacted in a risk offsetting position, in a related asset. Typical hedges employed by the Group include forwards, swaps, options and future contracts.

On-going monitoring of hedges takes place at regular review meetings between the business and the market risk function, which takes into account hedge effectiveness and prevailing market conditions.

### 8.3.3 Output from the Internal Market Risk Models

Internal market risk models for trading book activities comprise VaR, Stressed VaR and Incremental Risk Charge.

#### 8.3.3.1 VaR for the period under review

Trading book market risk exposures arise mainly from residual exposures from client transactions and limited trading for the Group's own account. In general, the Group's trading desks have run moderate levels of market risk throughout the year ended 31 December 2015.

Based on the 1-day 95 per cent confidence level, assuming positions are held overnight and using observation periods of the preceding 250 business days, the VaR for the years ended 31 December 2014 and 2015 based on the bank's global trading positions are detailed in the table below.

The risk of loss measured by the VaR model is the potential loss in earnings given the confidence level, time horizon and assumptions noted above. The Group internally uses VaR as the primary measure for all trading book positions arising from short term market facing activity.

**Table 17: Normal VaR (1 day 95%)**

	Maximum \$m	Minimum \$m	Average \$m	Year end \$m
Commodities	2.4	0.8	1.3	1.7
Foreign exchange	2.1	0.4	0.9	1.1
Equities	0.6	0.0	0.2	0.1
Debt securities	3.7	1.3	2.6	2.5
Diversification benefit*				-2.1
<b>Total</b>	<b>4.6</b>	<b>2.0</b>	<b>3.2</b>	<b>3.3</b>

\* Diversification benefit is the benefit of measuring the VaR of the portfolio as a whole, i.e. the difference between the sum of the individual VaRs and measuring the VaR of the whole trading portfolio.

The bank's stressed VaR (based on a 10-day 99 per cent confidence level) measures are presented on a similar basis to the VaR measures above. These are detailed in the table below, as at 31st December 2015.

**Table 18: Stressed VaR (10 days 99%)**

	Maximum \$m	Minimum \$m	Average \$m	Year end \$m
Commodities	23.1	3.5	8.6	8.5
Foreign exchange	13.2	1.3	5.0	5.4
Equities	4.7	0.2	2.0	2.5
Debt securities	56.6	11.4	32.5	15.9
Diversification benefit*				-0.9
<b>Total</b>	<b>36.5</b>	<b>12.6</b>	<b>23.4</b>	<b>31.4</b>

\* Diversification benefit is the benefit of measuring the VaR of the portfolio as a whole, i.e. the difference between the sum of the individual VaRs and measuring the VaR of the whole trading portfolio.

The bank's Incremental Risk Charge over the reporting period is presented below:

**Table 19: Incremental Risk Charge**

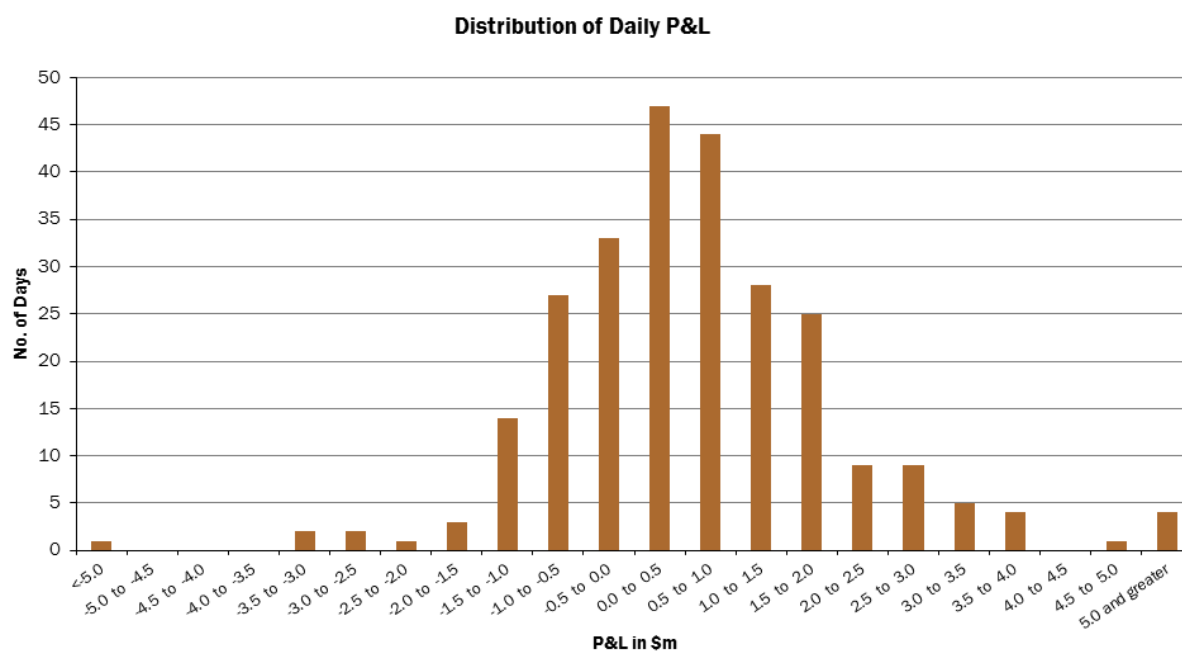
	Maximum \$m	Minimum \$m	Average \$m	Year end \$m
<b>Total</b>	<b>81.7</b>	<b>17.2</b>	<b>47.4</b>	<b>49.0</b>

The weighted average liquidity horizon for incremental default and migration risk, included within the incremental risk charge model as at close of business 31 December 2015 was 4 months.

### 8.3.3.2 Analysis of trading profit

The graph below shows the distribution of daily profit and losses for the period. It captures trading volatility and shows the number of days in which the Group's trading-related revenues fell within particular ranges. The distribution is skewed favourably to the profit side.

For the year ended 31 December 2015, trading profit was positive for 177 out of 259 days (2014: 187 out of 259 days).



### 8.3.3.3 Market Risk Capital Requirements

The table below shows the breakdown of bank's market risk capital requirements, split by modelled and non-modelled components. The capital requirements for the modelled population accounts for 88.5% of the total market risk capital charge.

**Table 21: Market Risk Capital**

Market Risk Capital Requirements @ 8%	31-Dec-15
VaR Charge 99% - 10 day holding	87
Stressed VaR	88
Incremental Risk Charge (IRC)	49
<b>Capital requirement for modelled population</b>	<b>224</b>
Risks not captured in modelled VaR	7
Standardised Market Risk Capital Requirements	23
<b>Total Market Risk Capital requirement</b>	<b>254</b>

## 8.4 Market Risk in the Banking Book

The primary market risks within the banking book include interest rate risk, equity risk and foreign exchange risk.

### 8.4.1 Interest rate risk in the banking book

#### 8.4.1.1 Definition

Interest Rate Risk in the Banking Book (IRRBB) is the risk that results from the different re-pricing characteristics of banking book assets and liabilities.

IRRBB is further divided into the following sub-risk types:

- Re-pricing Risk: arising from timing differences in the maturity (fixed rate) and re-pricing (floating rate) of assets and liabilities.
- Yield Curve Risk: arising when unanticipated shifts in the yield curve have adverse effects on the Bank's income or underlying economic value.
- Basis Risk: arising from the imperfect correlation in the adjustment of the rates earned and paid on different instruments with otherwise similar re-pricing characteristics.
- Optionality Risk: arising from the options embedded in asset and liability portfolios, providing the holder with the right, but not the obligation, to buy, sell or in some manner alter, the cash flow of an instrument or financial contract.
- Endowment Risk: the interest rate exposure arising from interest rate insensitive assets and liabilities, such as capital. Endowment risk is one part of re-pricing risk.

#### 8.4.1.2 Approach to managing IRRBB

The Bank's approach to managing IRRBB is governed by applicable regulations and is influenced by the market conditions in which the Bank operates. The Bank's ALM and Treasury teams monitor banking book interest rate risk operating under the oversight of CapCom.

Under the existing business model, the Group does not run substantial interest rate risk in its banking book. The Bank's monitoring of IRRBB currently primarily addresses re-pricing and yield curve risk which are relevant to the Bank's business model. The approach taken is deemed appropriate for the assessed quantum of risk.

##### 8.4.1.2.1 Measurement

In considering IRRBB within the Group, two forms of sensitivity analysis are conducted: the first considers the impact on forecasted net interest income (NII) and/or earnings and the second considering the impact on the Bank's economic value.

The bank currently uses the following measures for earnings and economic value, for the purpose of IRRBB:

- Net interest income: Considers the impact of a parallel +/- 50bps shock of the interest rate curve on the Group's refinancing profile and net interest income (NII) expected over a one year horizon.
- Economic Value: Considers the adverse impact of a parallel +/- 200bps shock of the interest rate curve on the Group's economic value.

The results obtained assist in evaluating the optimal hedging strategies on a risk-return basis. Desired changes to a particular interest rate risk profile are achieved through the restructuring of the balance sheet and, where possible, the use of derivative instruments, such as interest rate swaps. Interest rate risk limits are set in terms of both changes in forecast net interest income and economic value.

#### 8.4.1.2.2 Limits

Interest rate risk limits are set in relation to changes in forecast banking book earnings and the economic value. The economic value sensitivity is calculated as the net present value of aggregate asset cash flows less the net present value of aggregate liability cash flows.

All assets, liabilities and derivative instruments are allocated to gap intervals based on either their re-pricing or maturity characteristics. Assets and liabilities for which no identifiable contractual re-pricing or maturity dates exist are allocated to gap intervals based on behavioural profiling.

An internal limit against a decline in economic resources of 20% of total capital resources has been set, which align with the prescribed regulatory limit set by the PRA. In addition, appropriate triggers are set to prompt mitigating action should interest rate risk in the banking book increase. Such mitigating actions may include transacting interest rate hedges.

These limits and triggers are part of the stated risk appetite of the bank, and are reviewed annually.

#### 8.4.1.2.3 Limit Breaches

Internal limit breaches are initially escalated to the Capital Committee, where appropriate remedial actions are discussed and actioned. Regulatory breaches require notification to the PRA.

Any breach in the overall EaR risk appetite is managed through the RMC. A specific IRRBB EaR breach is managed by MRC with oversight by the RMC.

#### 8.4.1.3 Banking book interest rate exposure characteristics

The table below indicates the Group's market value sensitivities to an instantaneous parallel yield curve shock of 100 basis points, applied to all interest rates, as at 31 December 2015. A floor of 0% is applied to all interest rates under the decreasing interest rate scenario. The Group's exposures to interest rate risk in the banking book are immaterial.

**Table 22: Market sensitivities to interest rate in the banking book**

Underlying Currency	Up 1%	Down 1%
	Impact in (\$m)	Impact in (\$m)
USD	3.67	-3.74
EUR	0.21	-0.2
GBP	-3.02	2.86
Others	0.71	-0.91

## 8.4.2 Equity Risk in the Banking Book

### 8.4.2.1 Definition

Equity Risk is the risk of loss arising from a decline in the value of any equity instrument held, whether caused by deterioration in the performance, net asset, or enterprise value of the issuing entity, or by a decline in the market price of the instrument itself. For risk governance purposes, Equity Risk is classified into **three** sub-categories:

- **‘Subsidiary Equity Risk’**, which describes the risk inherent in equity held in any subsidiary, defined as any entity in which any other Group entity holds a controlling interest for strategic reasons, to deliver Group services to the public, or to support Group business operations, and for which there was no foreseen intent for disposal at the time of acquisition or inception.
- **‘Associate Equity Risk’**, which describes the risk inherent in the equity held by any Group entity, in any associate company or joint venture, which was acquired for strategic purposes, or to support or complement Group business operations, and for which there was no foreseen intent to dispose of the investment at the time of acquisition.
- **‘Banking Book Equity Risk’** covers any equity investment not specifically falling into any one of the above two categories.

### 8.4.2.2 Approach to managing equity risk in the banking book

The bank may hold equity positions in the banking book for the purpose of long term investment. As with trading book equity investments, listed and unlisted investments are approved by the Credit Committee, in accordance with the delegated authority limits. Periodic reviews and reassessments are undertaken on the performance of the investment.

All instances of Banking Book Equity Risk are notionally regarded as presenting credit risk for management purposes. All origination, rating, approval, exposure monitoring, and annual review of such equity investments will therefore be managed under the general ambit of the Credit Risk Policy.

The bank designates financial assets, other than those held for trading, at fair value through profit or loss when doing so eliminates or significantly reduces measurement or recognition inconsistencies that would otherwise arise from measuring financial assets or recognising gains and losses on them on different bases.

The fair value designation, once made, is irrevocable. Subsequent to initial recognition, the fair values are re-measured and gains and losses arising from changes therein are recognised in other revenue within non-interest revenue for all undated financial assets. Fair value is based on available market prices or where no prices are available, appropriate valuation methodologies are applied.

### 8.4.2.3 Banking book equity portfolio characteristics

Equity investments included in the banking book as at 31 December 2015 consist of Unlisted Equities (\$10.3m as at 31 December 2015) which were designated at fair value, and disclosed within financial investments in the Annual Financial Statements of the bank. These include equity investments required for business reasons, such as SWIFT shares and LME shares, which are held to operate the business, and are treated as available-for-sale under accounting (i.e. fair valued through equity) of \$2.4m.

Cumulative realised losses from the sale or liquidation of equity positions in the banking book in 2015 were negligible.

The reserve balance relating to the Available for Sale (\$1.5m as at 31 December 2015) is shown in the statement of changes in equity in the annual financial statements.

**Additional disclosures on equity instruments fair valued through P&L are included on pages 76 (Note 6) and Equity instruments that are fair value through reserves are shown on page 82 (note 10) of the ICBC Standard Bank Plc Consolidated Annual Report 2015. The Instruments are included in the Available for Sale (AFS) disclosures. The statement of changes in shareholders' equity is shown on page 37.**

### **8.4.3 Foreign Currency Risk in the Banking Book**

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#### **8.4.3.1 Definition**

Foreign currency risk in the banking book is the risk that arises as a result of changes in the fair value or future cash flows of financial exposures as a result of changes in foreign exchange rates. This excludes foreign exchange risk that is included and managed in the Trading Book.

#### **8.4.3.2 Approach to foreign currency risk in the banking book**

The bank's policy is not to hold open exposures in respect of the banking book of any significance. Gains or losses on derivatives that have been designated in terms of cash flow hedging relationships are reported directly in equity, with all other gains and losses on derivatives being reported in profit or loss.



## 9. Operational risk

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### 9.1 Definition

Operational risk is defined as the risk of loss suffered as a result of the inadequacy of, or a failure in, internal processes, people and/or systems or from external events. It incorporates losses arising from insurance risk and losses related to physical commodities.

Operational risk subtypes are managed and overseen by specialist functions. These include:

- **Business Disruption and System Failure** - The risk of losses arising from disruption of business or system failures. This includes disruption or failure arising from the use of, or reliance on, computer hardware, software, electronic devices, online networks and internal telecommunications systems. Disruption or failure arising from utilities failure, changes in organisational structure, people and processes. This also includes information risk and business continuity
- **Damage to Physical Assets** - The risk of losses arising from loss or damage to physical assets from natural disaster or other events.
- **Execution, Delivery and Process Management** - The risk of losses from failed transaction processing or process management, from relations with trade counterparties and vendors. This also includes tax risk and model risk.
- **Internal Fraud** - The risk of losses due to acts of a type intended to defraud, misappropriate property or circumvent regulation, the law or company policy, excluding diversity/discrimination events, which involves at least one internal party. This also includes financial crime risk.
- **External Fraud** - The risk of losses due to acts of a type intended to defraud, misappropriate property or circumvent the law, by a third party including theft from transport / warehouse, collusion in the form of theft or misappropriation and custodian risk.
- **Clients Products & Business Practices** – The risk of losses arising from an unintentional or negligent failure to meet a professional obligation to specific clients (including fiduciary and suitability requirements), or from the nature or design of a product. Compliance risk and legal risk is included here.
- **Employment Practices and Workplace Safety** – The risk of losses arising from acts inconsistent with employment, health or safety laws or agreements regulation.

### 9.2 Approach to managing operational risk

Operational risk exists in the natural course of business activity. It is not an objective to eliminate all exposure to operational risk as this would be neither commercially viable nor possible. The ICBCS approach to managing operational risk is to adopt fit-for-purpose operational risk practices that assist business line management in understanding their inherent risk and reducing their risk profile while maximising their operational performance and efficiency.

The operational risk management function is independent from business line management and is part of the second line of defence. It is responsible for the development and maintenance of the operational risk governance framework, facilitating business's adoption of the framework, oversight and reporting, as well as for monitoring and challenging the management of the operational risk profile.

The team proactively analyses root causes, trends and emerging threats, advises on the remediation of potential control weaknesses and recommends best practice solutions. Team members have expertise in the key functions they are responsible for to ensure effective challenge.

An independent team, reporting directly to the Chief Risk Officer, have responsibility for second line assurance for the physical and derivative Commodities business. This team also reports to the Head of Operational Risk in respect of managing within the Operational Risk framework.

### 9.2.1 Insurance cover

The bank buys insurance to mitigate operational risk. This cover is reviewed on an annual basis.

The primary insurance policies in place are the Group crime, professional indemnity, and Group directors' and officers' liability insurance and goods and cargo insurance covering physical commodities. Ensuring appropriate insurance cover for the risks that the business faces is owned by the first line (front office). The Insurance Forum provides independent oversight and challenge.

## 9.3 Governance committees

The Operational Risk Committee is responsible for monitoring and reviewing exposures of operational risk and to provide focused and corrective oversight of operational risk management across ICBCS in line with agreed ICBCS risk appetite.

Key responsibilities include:

- Ensuring the Operational Risk framework is fit for purpose and adequately embedded in the ICBCS legal entity and across international locations
- Promoting a robust control and operational risk management culture via the three lines of defence model
- Reporting potential breaches of levels of operational risk appetite and tolerance
- Monitoring and ensuring that appropriate levels of quality control are applied by the support infrastructure
- Reviewing the impact of new products and the capacity of the infrastructure to handle them
- Reviewing the effectiveness of the business support areas and infrastructure groups and evaluating the impact of any changes on operational risk
- Ensuring that an effective Business Continuity Planning process is in place for all business units in all locations of the business and that standards and procedures are adhered to

### 9.3.1 Scope of Risk Reporting Systems

Operational Risk uses third party software (ARM 5) to log and monitor incidents.

Operational risk reporting is provided to the Operational Risk Committee and Risk Management Committee on a monthly basis and to the Board Risk Management Committee on a quarterly basis. A daily incident dashboard is also sent out to senior staff across the bank, which includes the CEO.

Operational risk reporting predominantly focuses on the top operational risk themes within the organisation, by outlining the specific operational risks with a red, amber, green status key showing the current and projected residual risk.

In addition, there is specific reporting of the number of operational incidents (and value) reported against a materiality level. Incidents deemed to be material (Level 1) are reported to GovCo and the Board and Level 2 incidents are reported to the Risk Management Committee. Level 1 and 2 incidents require a root cause analysis and remedial actions to be proposed, which are also included within the reporting.

Additionally reporting is provided on an ad-hoc basis as requested by either internal or external stakeholders.

## 9.4 Regulatory capital approach

The ICBCS Group treats operational risk under the standardised approach by calculating the capital requirement based on gross income across business lines. For internal monitoring of capital as part of the ICAAP process ICBCS Group treats operational risk under the advanced measurement approach.

## 9.5 Operational risk sub-types

Given the broad and diverse nature of the above definition, there are specialist operational risk sub-types which are governed under specific governance standards or equivalent documents and are enforced through independent dedicated specialist functions. These are:

### 9.5.1 Operational risk sub-type: Business Continuity Management and Resilience

BCM is a process that identifies potential operational disruptions and provides a basis for planning for the mitigation of the negative impact from such disruptions. In addition, it promotes operational resilience and ensures an effective response that safeguards the interests of the bank and its stakeholders. The BCM framework encompasses emergency response preparedness and crisis management capabilities to manage the business through a crisis to full recovery. The business continuity capabilities are evaluated by testing business continuity plans and conducting crisis simulations.

### 9.5.2 Operational risk sub-type: Technology Risk Management

Technology risk encompasses both IT risk and IT change risk. IT risk refers to the risk associated with the use, ownership, operation, involvement, influence and adoption of IT within the bank. It consists of IT-related events and conditions that could potentially impact the business. IT change risk refers to risk arising from changes, updates or alterations made to the IT infrastructure, systems or applications that could affect service reliability and availability. The bank relies heavily on technology to support complex business processes and handle large volumes of critical information. As a result, a technology failure can have a crippling impact on the Group's brand and reputation.

The operational risk IT risk function oversees compliance with the IT risk and IT change risk governance standard.

### 9.5.3 Operational risk sub-type: Information Risk Management

Information risk encompasses all the challenges that result from the need to control and protect the bank's information. These risks can culminate from accidental or intentional unauthorised use, modification, disclosure or destruction of information resources, which would compromise the confidentiality, integrity or availability of information.

The bank has adopted a risk-based approach to managing information risks.

The execution of these policies and practices is driven through a network of information security officers embedded within the business lines.

### 9.5.4 Operational risk sub-type: Financial Crime Control

The bank defines financial crime control as the prevention, detection and response to all financial crime to mitigate economic loss, reputational risk and regulatory sanction. Financial crime includes fraud, bribery and corruption and misconduct by staff, customers, suppliers, business partners and stakeholders. As is the case with the other functions within operational risk,

financial crime risk management maintains close working relationships with other risk functions, specifically compliance, legal risk and credit risk, and with other functions such as information technology, human resources, and finance.

A physical commodities specialist function based in London and Singapore manages physical commodities transactions executed within the Group. The role of the team is to focus on the risks embedded in each trade, on a pre- and post-trade basis, and to ensure they are understood, tracked, controlled and escalated if appropriate. The team works with approved third parties who play a key role in the process and the provision of related control functions such as shipbrokers, insurers, warehouse providers and security companies.

### 9.5.5 Operational risk sub-type: Model Risk

Model risk arises from potential weaknesses in a model that is used in the measurement, pricing and management of risk. These weaknesses include incorrect assumptions, incomplete information, flawed implementation, limited model understanding, inappropriate use or inappropriate methodologies leading to incorrect conclusions by the user.

The approach to managing model risk is based on the following principles:

- Fit-for-purpose governance, which includes:
  - A three-lines-of-defence governance structure comprising independent model development, model validation and audit oversight functions
  - Committees with board and executive management membership based on model materiality and regulatory requirements
  - Policies that define minimum standards, materiality, validation criteria, approval criteria, and roles and responsibilities.
- A skilled and experienced pool of technically competent staff is maintained in the development, validation and audit functions
- Robust model-related processes, including:
  - The application of best-practice modelling methodologies
  - Independent model validation in accordance with both regulatory and internal materiality assessments
  - Adequate model documentation, including the coverage of model use and limitations
  - Controlled implementation of approved models into production systems
  - Ongoing monitoring of model performance
  - Review and governance of data used as model inputs
  - Peer challenge in technical forums.

Credit IRB models and operational risk AMA models are validated at initial development and at least annually thereafter by the central validation function. Other models are validated at initial development and reviewed at intervals determined by materiality and performance criteria. Validation techniques test the appropriateness and effectiveness of the models, and indicate if the model is fit-for-purpose.

Models are recommended by the relevant technical committee for approval or ongoing use to the relevant model approval committee.

### 9.5.6 Operational risk sub-type: Tax Risk

Tax risk is defined as any event, action or inaction in tax strategy, operations, financial reporting, or compliance that either adversely affects the Group's tax or business objectives or results in an unanticipated or unacceptable level of monetary, financial statement or reputational exposure.

The approach to tax risk is governed by policies dealing with specific aspects of tax risk such as, for example, transfer pricing, indirect taxes, withholding taxes and remuneration taxes.

### 9.5.7 Operational risk sub-type: Legal Risk

Legal risk is defined as the exposure to the adverse consequences of judgements or private settlements, including punitive damages resulting from inaccurately drafted contracts, their execution, and the absence of written agreements or inadequate agreements. This includes exceeding authority as contained in the contract. It applies to the full scope of activities and may also include others acting on behalf of the bank.

The bank has processes and controls in place to manage its legal risks. Failure to manage these risks effectively could result in legal proceedings impacting the Group adversely, both financially and reputationally.

### 9.5.8 Operational risk sub-type: Occupational Health and Safety

Any risks to the health and safety of employees resulting from hazards in the workplace or potential exposure to occupational illness are managed by the occupational health and safety team. Training of health and safety officers and employee awareness is an ongoing endeavour and the results are evident in a declining trend in reportable incidents and declining cost to company for workmen's compensation coverage.

### 9.5.9 Compliance Risk

This is the risk of legal or regulatory sanctions, financial loss or loss to reputation that the Group may suffer as a result of its failure to comply with laws, regulations, codes of conduct and standards of good practice applicable to its business activities. This includes the exposure to new laws as well as changes in interpretations of existing laws by appropriate authorities.

#### 9.5.9.1 General Approach to Managing Compliance Risk

The approach to managing compliance risk is proactive and premised on internationally accepted principles of compliance risk management. A robust risk management reporting and escalation procedure requires business unit and functional area compliance heads to report on the status of compliance risk management in the bank.

Employees, including their senior management, are made aware of their statutory compliance responsibilities through ongoing training and awareness initiatives.

#### 9.5.9.2 Approach to Managing Money Laundering and Terrorist Financing

Legislation pertaining to money laundering and terrorist financing control imposes significant requirements in terms of customer due diligence, record keeping, staff training and the obligation to detect, prevent and report suspected money laundering and terrorist financing.

Minimum standards are required to be implemented throughout the bank, taking into account local jurisdictional requirements where these may be more stringent.

#### 9.5.9.3 Approach to Sanctions Management

The bank actively manages the legal, regulatory, reputational and operational risks associated with doing business in jurisdictions or with clients that are subject to embargoes or sanctions imposed by competent authorities. The sanctions review committee, supported by a sanctions desk, is responsible for providing advice on all sanctions-related matters in a fluid sanctions environment.

#### **9.5.9.4 Approach to Managing Regulatory Change**

The bank operates in a highly regulated industry across multiple jurisdictions and is increasingly subject to international legislation with extra-territorial reach.

The bank aims to embed regulatory best practice in our operations in a way that balances the interests of various stakeholders, while supporting the long-term stability and growth in the markets where we have a presence.

The Group regularly assesses the impact that emerging policy and regulation will have on the business. The approach adopted is to engage with government policymakers, legislators and regulators in a constructive manner.

## 10. Leverage

### 10.1 APPROACH TO MANAGING LEVERAGE ..... 66

The amended Article 429 of the CRR specifies the methodology for calculating the leverage ratio, as per the EU's latest Delegated Act no. 62/2015 of 10 October 2014. The publication of the ratio is mandatory under the CRR disclosure requirements.

An observation period has been introduced for the leverage ratio running from 2014 to 2017 to monitor the components and the behaviour of the leverage ratio relative to the requirements based on risk. The European Commission must then report to the European Parliament and Council and put forward a regulatory proposal covering the methods for applying and calculating the ratio. A Pillar 1 requirement of 3% is expected maintained from 2018.

The leverage ratio is defined as the Tier 1 capital divided by the exposure measure, i.e. balance sheet and off-balance-sheet assets after certain restatements of derivatives, intragroup transactions, and securities financing transactions, items deducted from the numerator, and off-balance-sheet items. At 31 December 2015, ICBC's leverage ratio stood at 5.36%.

The template in Annex D shows the breakdown of the leverage ratio exposure for ICBCS.

A breakdown of the on balance sheet exposures used in the leverage ratio calculation (excluding derivatives, securities financing transactions and all exposures exempted from inclusion in the leverage ratio exposure measure) are shown in the table below. A significant component of the banking book exposures is driven by balances held at central banks. These exposures are driven by short-dated USD deposits received from clients, in line with client demand. These deposits are swapped into GBP and placed at the Bank of England.

**Table 23: Leverage Ratio - On Balance Sheet Exposures (excluding derivatives, SFTs and exempted exposures)**

As at 31 December 2015	CRR Leverage Ratio Exposure (\$m)
<b>Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:</b>	<b>9,764</b>
Trading book exposures	5,239
Banking book exposures, of which:	4,525
Covered bonds	-
Exposures treated as sovereigns	3,271
Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	-
Institutions	426
Secured by mortgages of immovable properties	-
Retail exposures	-
Corporate	731
Exposures in default	23
Other exposures (eg equity, securitisations, and other non-credit obligation assets)	74

The exposure measure generally follows the accounting value, with a number of specific adjustments as per CRR Article 429. The table below shows the reconciliation of the accounting balance sheet to the leverage ratio exposure measure.

**Table 24: Leverage Ratio - Summary Reconciliation of Accounting Assets and Leverage Ratio Exposures**

<b>As at 31 December 2015</b>	<b>Applicable Amounts (\$m)</b>
<b>Total assets as per published financial statements</b>	<b>20,138</b>
Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-
(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 "CRR")	-
Adjustments for derivative financial instruments	(567)
Adjustments for securities financing transactions "SFTs"	45
Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	(1)
(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013)	-
(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013)	-
Other adjustments	(8)
<b>Total leverage ratio exposure</b>	<b>19,607</b>

### 10.01 Factors that had an impact on the leverage ratio during 2015

The leverage ratio was marginally lower in 2015 compared to the 2014, as the increases in exposure resulting from larger cash balances held at the Bank of England and increased holdings of metal inventory were offset by a capital injection received by ICBCS in January 2015. The increase cash balances resulted from prudent management of liquidity over year end due to market volatility, and an increase in client deposits.

## 10.1 Approaches to Managing the Risk of Excessive Leverage

The ICBCS Group aims to ensure that the leverage ratio always remains above the prescribed regulatory minimum, by actively monitoring and managing the quantity of capital and exposures within the firm. The ICBCS leverage ratio is monitored by CapCom on a monthly basis and is subject to an Early Warning Indicator (EWI) framework. The EWI framework ensures that the Group maintains adequate capital to withstand the impact of the risks that may arise under the stressed conditions analysed by the Group.

The capital usage of the bank and large exposures above a materiality threshold are monitored on a daily basis, which highlight excessive leverage concerns within the bank.

Leverage ratio projections are also factored into all capital planning and balance sheet forecasting exercises conducted by the bank.



## 11. Asset Encumbrance

As an integral aspect of its business, the Group engages in activities that results in certain assets being encumbered. The main activity relates to the pledging of assets for repurchase agreements and securities and commodities lending agreements.

The Group receives collateral in certain transactions, and the credit risk mitigation benefit is explained in section 6 above.

ICBCS has a constant level of encumbrance (encumbrance ratio of around 10%-12%). In order to illustrate longer-term structural levels of encumbrance, the data provided in the tables below is derived using **median values** of quarterly data over the previous four quarters to the reporting reference date (31st December 2015).

**Table 25: Asset Encumbrance**

Median Over 2015	Carrying amount of encumbered assets (\$m)	Fair value of encumbered assets (\$m)	Carrying amount of unencumbered assets (\$m)	Fair value of unencumbered assets (\$m)
<b>Total Assets of ICBC Standard Bank Plc</b>	<b>2,110.9</b>	<b>n/a</b>	<b>16,426.4</b>	<b>n/a</b>
Of which: Equity instruments	0.0	0.0	42.2	42.2
Of which: Debt securities	79.9	79.9	2,069.5	2,069.5
Of which: Other assets	868.2	n/a	8,881.7	n/a

As at year-end 31 December 2015, \$2.38bn of ICBCS assets were encumbered (including reverse repurchase agreements and margin or collateral posted with counterparties), which primarily related to the firm's derivative and secured financing activities.

The "Other assets" category includes commodity assets (including precious metal leases), loans and advances as well as assets not available for encumbrance in the normal course of its business (e.g. intangible assets, including goodwill, deferred tax assets, property, plant and other fixed assets, derivative assets, reverse repo and stock borrowing receivables).

Securities and commodity assets are considered to be encumbered if there has been legal title transfer against repurchase, stock lending and other similar borrowing agreements, trading portfolio liabilities or derivatives margin.

**Table 26: Collateral Received by ICBC Standard Bank Plc**

Median Over 2015	Fair value of encumbered collateral received or own debt securities issued (\$m)	Fair value of collateral received or own debt securities issued available for encumbrance (\$m)
<b>Total collateral received by ICBC Standard Bank Plc</b>	<b>139.9</b>	<b>5,039.2</b>
Of which: Equity instruments	0.0	536.0
Of which: Debt securities	139.9	2,604.7
Of which: Other collateral received	0.0	386.5
<b>Own debt securities issued other than own covered bonds or ABSs</b>	<b>0.0</b>	<b>0.0</b>

In addition, as at year-end 31st December 2015, \$158m of the total \$5bn securities accepted as collateral, and held off-balance sheet, were pledged onwards. A significant majority of the \$158m collateral that was encumbered related to matched-book activity where reverse repurchase agreements are matched by repurchase agreements entered into to facilitate client activity.

The other collateral category includes commodities received as collateral, as part of the normal business activities.

**Table 27: Encumbered assets/collateral received by ICBC Standard Bank Plc and associated liabilities**

Median Over 2015	Matching liabilities, contingent liabilities or securities lent (\$m)	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered (\$m)
<b>Carrying amount of selected financial liabilities</b>	<b>137.1</b>	<b>139.9</b>

The asset encumbrance ratio as at year-end 31 December 2015 was 11.8%.

**Additional disclosures on pledged and encumbered financial assets are included on pages 145-146 (notes 39-40) of the ICBC Standard Bank Plc Consolidated Annual Report 2015.**

## 12. Remuneration

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These disclosures contain remuneration awards made by ICBC Standard Bank Plc Group (the “Group”) for the 56 (+ 10 non executives) employees deemed Material Risk Takers (“MRTs”) respect of the 2015 performance year and provide a summary of the Group’s decision-making policies.

### 12.1 Material Risk Takers

Identification of MRTs, historically referred to as “Code Staff”, is based on definition provided under the European Banking Authority (EBA) regulatory technical standards EU Regulation No 604/2014, and is a combination of qualitative and quantitative criteria.

- Qualitative criteria is role-based for employees who are assessed as having a material impact on the firm’s risk profile
- Quantitative criteria includes employees with total compensation of €500,000 or more in the previous financial year, individuals who are in the top 0.3% earning employees in the previous financial year and individuals whose total remuneration in the previous financial year was higher than that of the lowest paid MRT in the same category.

Roles classified as MRTs include:

- Members of committees managing risk
- Individuals with management responsibility reporting directly to the head of a “material” business unit or to the respective heads of risk, compliance and internal audit
- Other designated roles

### 12.2 Remuneration Philosophy

The Group’s remuneration philosophy adopts the principle that an individual’s compensation should be determined after taking into account a number of factors. These include individual performance (comprising financial and non-financial measures), the overall performance of the employee’s business unit and the overall performance of ICBC Standard Bank Group.

The remuneration policy is designed to be both competitive and compliant with regulatory requirements and ensure that an assessment of risk is a key element of the policy and process. The compensation structure as a whole is designed to deliver a globally consistent compensation structure reflective of local market pay and the role and experience of the individual. It is also designed to have transparency for the individual, with linkage to business, team and their own performance.

### 12.3 Reward Framework

The reward framework comprises of the following key elements:

- Base salary;
- Employee benefits; and
- Annual discretionary incentive (including both cash and deferred elements);

These three elements are managed together to ensure that total reward is appropriate and aligned with our business objectives, strategy and risk appetite.

Base salaries are set by reference to market rates and reviewed, although not necessarily changed, annually.

Benefits are designed to be market competitive and assist employees in making appropriate health and lifestyle decisions and in managing personal risk. It is important that these elements of “fixed” pay are market competitive to attract and retain employees in the long-term interests of the business.

Annual discretionary incentive awards (both cash and deferred) are based on an individual’s performance and contribution - both what is delivered and how it is delivered. Discretionary incentives are awarded for delivering against agreed objectives (both financial and non-financial), and recognising when employees go above and beyond the call of duty in terms of efforts and/or results. Discretionary incentive awards are based on the performance of the Group, business unit, team and individual.

Funding for discretionary incentives awards is determined annually following consideration of risk-adjusted results. The Group does not operate any desk based or business unit formulae based compensation plans and all discretionary incentives are funded from centrally determined pools for each of the business units and supporting functions.

A significant proportion of discretionary incentive compensation is deferred over a three year period via awards under the ICBC Quanto Plan. The objective of the deferral is to ensure that employees have a significant proportion of their compensation “at risk” for an extended period. Additionally it reinforces the alignment of interests between employees and shareholders as a consequence of the linkage to the share price of ICBC (as listed on the Hong Kong Exchange) – the value of units in the ICBC Quanto Plan moves in step with the ICBC share price performance, ensuring that the value of the deferral is linked to overall performance of ICBC.

The combination of inputs to the individuals’ performance assessment, the subsequent compensation award decision and the extended deferral programme all seek to generate risk behaviours that are aligned with our values, our firm-wide risk appetite and focused on managing risk over a multi-year period. This provides clear linkage and transparency for the individual between the ICBC share price performance, the impact of business units, and ultimately the value of the individual’s deferred compensation.

## 12.4 Remuneration Committee

The members of the Remuneration Committee (Remco) during 2015 were Mr C J Sheridan (Chairman), Mr B J Kruger, Mr H E Staunton, Mr Bi Mingqiang, Mr Chen Peitao (resigned as a director on 21 January 2016) and Ms Hou Qian.

During 2015, the Committee met four times and considered the following principal matters:

- Determination of the appropriate remuneration packages for a number of senior new hires
- Determination of bonus pools based on Group performance and adjustment for risk
- Bonus and salary awards for key executives
- Approval of remuneration and terms of service that fall within the Committee’s terms of reference

On occasion the Remuneration Committee have sought independent advice from independent remuneration consultants on specific issues.

**Additional disclosures on remuneration are included on pages 19-21 of the ICBC Standard Bank Plc Consolidated Annual Report 2015.**

## 12.5 Remuneration Policy Governance

The governance of remuneration policy including policies, structures and practices is delegated to the ICBC Standard Bank Plc Remuneration Committee (RemCo). There are no sub committees of the Remuneration Committee.

The RemCo include representatives from Board Audit and Risk Management Committees who bring their relevant experience to the process. The RemCo are comprised of executives who have experience in evaluating risk and the requirements of the Bank to operate commercially and sustainably in a competitive environment. Members of the RemCo attend the ICBCS Standard Bank Plc Board meetings where the results of the Risk Committee are summarised and shared with the Board. This communication plus the membership of the committees ensures that ICBC Standard Bank Plc's RemCo can arrive at a decision on the discretionary incentive pool after full consideration of the risk profile of the Bank.

## 12.6 Remuneration Strategy

As an integral part of growing and fortifying the Group's human capital, RemCo annually reviews its remuneration policies, structures and practices, to ensure the principles behind the reward strategy and the elements of the strategy itself, are effective.

The Group's remuneration strategy includes the following:

- Reward strategies and remuneration down to an individual level must enable the Group, in a highly competitive environment, to attract, motivate and retain high-calibre people at all levels of the organisation.
- Remuneration designs must motivate strong and sustained performance in teams, but also promote risk management in line with the Group's stated strategy and risk tolerance.
- The balance between fixed and variable pay is appropriately structured according to seniority and roles, with particular care being given to risk and control areas. The intention is to provide both total compensation, and its composition, at market-competitive levels, drawing on relevant information from various sources, including external advisers.
- RemCo annually approves the Group's bonus pools and oversees the principles applied in allocating these pools to business units and individual employees. These pools are shaped by a combination of Group and business unit profitability and multi-year financial metrics, taking account of capital utilised, risks assumed and an evaluation of the business area's future development and growth prospects.
- Individual performance is measured according to an appropriate range of absolute and relative criteria, including the person's quantitative delivery against specific metrics, qualitative individual behaviour and competitive performance. This measurement is integral to our remuneration practices and underpins strong differentiation in individual pay.
- A portion of annual discretionary incentive, typically above a certain threshold, is deferred into a share price-linked programme with multi-year vesting and malus (forfeiture) provisions.
- A significant portion of senior management reward is awarded in deferred instruments, the values of which are directly linked to the performance of the ICBC share price over time. This harmonises personal interests with those of shareholders.
- No remuneration schemes are linked by formula to revenue generation.
- No multi-year guaranteed minimum bonus arrangements are permitted.
- Transparency on remuneration designs and processes is maintained with employees and increasingly with shareholders.
- Wherever available and relevant, market information is used to inform remuneration decisions.
- Stakeholders must be enabled to make a reasonable assessment of reward practices, and members of Remco have unrestricted access to information that informs their independent judgements on the possible effects that remuneration may have on compliance with risk, regulatory and behavioural controls across the Group.
- The Group aims to pay a comparable rate of pay against the local market for both fixed and variable compensation, but we need to ensure positioning against local market is fair across geographies.

This strategy forms the basis for reward processes within the Group and all reward designs and practices are consistent with this strategy.

## 12.7 Analysis of 2015 Remuneration

The table below shows the analysis of remuneration paid to MRTs, split between the fixed and variable amounts.

**Table 28: Remuneration to MRTs**

Performance Year 2015	Performance Year 2015			Performance Year 2014		
	Senior Management	Other	Total	Senior Management	Other	Total
<b>Number of MRTs</b>	<b>26</b>	<b>40</b>	<b>66</b>	<b>31</b>	<b>41</b>	<b>72</b>
Base Salary (\$'m)	6.4	11.4	17.8	10.5	13.2	23.7
Variable compensation (\$'m)	11.1	10.0	21.1	11.8	19.6	31.4
Of which: Cash	5.1	6.9	12.0	3.4	11.1	14.5
Deferred Shares	6.0	3.1	9.1	8.4	8.5	16.9

Notes: Base salary includes fees for Non-Executive Directors where appropriate.

### 12.7.1 Outstanding Deferred Remuneration

The analysis of the deferred remuneration for MRTs is shown below (amount shown in \$m).

**Table 29: Deferred Remuneration to MRTs**

Category of Deferred Remuneration	Performance Year 2015			Performance Year 2014		
	Senior Management	Other	Total	Senior Management	Other	Total
Unvested from prior year (\$'m)	2.5	2.7	5.2	33.2	23.8	57.0
Awarded during the financial year (\$'m)	9.3	7.0	16.3	16.5	11.7	28.2
Paid out (\$'m)	7.7	6.3	14.0	20.4	12.6	33.0
Unvested at year end (\$'m)	8.7	8.4	17.1	29.3	22.9	52.2

Notes: There were performance adjustments made to three awards paid out in 2015 which totalled \$0.3m.

### 12.7.2 Remuneration by band

The European capital requirements regulation (CRR) requires the disclosure of the total remuneration over EUR 1 million paid to MRTs by band (Euros). Of the 66 MRTs, 10 MRTs received total remuneration of over EUR 1 million. The breakdown is shown below.

**Table 30: Remuneration Bands**

Remuneration > €1m	No. of Employees	
	2015	2014
EUR 1m -1.5m	6	6
EUR 1.5m -2m	2	4
EUR 2m -2.5m	0	1
EUR 2.5m -3m	2	0
EUR 3m -3.5m	0	0
EUR 3.5m -4m	0	0
EUR >4m	0	0
<b>Total</b>	<b>10</b>	<b>11</b>

### 12.7.3 Sign on and severance payments

There were no severance payments made to MRTs in the performance year 2015. In addition, there were no sign-on payments or guaranteed incentives paid to MRT's in 2015

# Annexure A: Main Features of Capital Instruments

## Disclosure According to Article 3 in Commission Implementing Regulation (EU) No 1423/2013

Issuer	ICBC Standard Bank Plc	ICBC Standard Bank Plc	ICBC Standard Bank Plc
Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	Unlisted	XS0262708554	XS0470473231
Governing law(s) of the instrument	English Law	English Law	English Law
Transitional CRR rules	Core Equity Tier 1	Tier 2 - Grandfathering	Tier 2
Post-transitional CRR rules	Core Equity Tier 1	Ineligible	Tier 2
Eligible at solo/(sub-)consolidated/solo & (sub-) consolidated	Solo and (Sub) Consolidated	Solo and (Sub) Consolidated	Solo and (Sub) Consolidated
Instrument type	Core Equity Tier 1 as published in Regulation (EU) No 575/2013 article 26 (3)	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63
Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	\$1,084m	\$0m	\$392m
Nominal amount of instrument	\$1	\$200m	\$500m
Issue price	Ongoing Issuances	100% of Nominal Amount	99.16% of Nominal Amount
Redemption price	N/A	N/A	100% of Nominal Amount
Accounting classification	Equity attributable to ordinary shareholders	Liability - Amortised cost	Liability - Amortised cost
Original date of issuance	Ongoing Issuances	27th July 2006	2nd December 2009
Perpetual or dated	N/A	Perpetual	Dated
Original maturity date	N/A	N/A	2nd December 2019
Issuer call subject to prior supervisory approval	N/A	Yes	Yes
Optional call date, contingent call dates, and redemption amount	N/A	27th July 2016	Redemption at par based on capital disqualification event
Subsequent call dates, if applicable	N/A	Each interest payment date after 27th July 2016	N/A
Fixed or floating dividend/coupon	N/A	Fixed to Floating	Fixed
Coupon rate and any related index	N/A	8.012% Fixed Rate until 27/07/2016, then 3 Month LIBOR + 3.25%	8.125% per annum
Existence of a dividend stopper	N/A	Yes	No
Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A	Fully Discretionary due to existence of dividend stoppers	Mandatory
Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A	Mandatory	Mandatory
Existence of step up or other incentive to redeem	N/A	Yes	No
Non-cumulative or cumulative	N/A	Cumulative	Cumulative
Convertible or non-convertible	N/A	Non-convertible	Non-convertible
If convertible, conversion trigger (s)	N/A	N/A	N/A
If convertible, fully or partially	N/A	N/A	N/A
If convertible, conversion rate	N/A	N/A	N/A
If convertible, mandatory or optional conversion	N/A	N/A	N/A
If convertible, specify instrument type convertible into	N/A	N/A	N/A
If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A
Write-down features	N/A	No	No
If write-down, write-down trigger (s)	N/A	N/A	N/A
If write-down, full or partial	N/A	N/A	N/A
If write-down, permanent or temporary	N/A	N/A	N/A
If temporary write-down, description of write-up mechanism	N/A	N/A	N/A
Position in subordination hierarchy in liquidation	N/A	Senior Unsecured	Senior Unsecured
Non-compliant transitioned features	N/A	Yes	No
If yes, specify non-compliant features	N/A	Incentives to redeem	N/A

# Annexure B: Transitional Own funds Disclosure Template

## Transitional Own Funds Disclosure Template

As at 31 December 2015	Amount (\$m)	CRR Prescribed Residual Amount
<b>Common Equity Tier 1 capital: Instruments and Reserves</b>		
1 Capital instruments and the related share premium accounts	1,814.5	
of which: ordinary share capital and related share premium accounts	1,814.5	
2 Retained earnings	(467.9)	
3 Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	(3.9)	
3a Funds for general banking risk	-	
4 Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1	-	
Public sector capital injections grandfathered until 1 January 2018	-	
5 Minority Interests (amount allowed in consolidated CET1)	-	-
5a Independently reviewed interim profits net of any foreseeable charge or dividend	-	
6 <b>Common Equity Tier 1 (CET1) capital before regulatory adjustments</b>	<b>1,342.7</b>	
<b>Common Equity Tier 1 (CET1) capital: regulatory adjustments</b>		
7 Additional value adjustments (negative amount)	(24.3)	
8 Intangible assets (net of related tax liability) (negative amount)	-	-
9 Empty Set in the EU	-	
10 Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	(1.8)	-
11 Fair value reserves related to gains or losses on cash flow hedges	8.4	
12 Negative amounts resulting from the calculation of expected loss amounts	-	-
13 Any increase in equity that results from securitised assets (negative amount)	-	
14 Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	(6.2)	-
15 Defined-benefit pension fund assets (negative amount)	-	-
16 Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	-	-
17 Holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	-
18 Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)	-	-
19 Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	-
20 Empty Set in the EU	-	
20a Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	-	
20b of which: qualifying holdings outside the financial sector (negative amount)	-	
20c of which: securitisation positions (negative amount)	-	
20d of which: free deliveries (negative amount)	-	
21 Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in 38 (3) are met) (negative amount)	-	
22 Amount exceeding the 15% threshold (negative amount)	-	-
23 of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	-	-
24 Empty Set in the EU	-	
25 of which: deferred tax assets arising from temporary differences	-	-
25a Losses for the current financial year (negative amount)	(267.7)	-
25b Foreseeable tax charges relating to CET1 items (negative amount)	-	-
26 Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	-	
26a Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	-	
Of which: filter for unrealised gains on equity instruments	-	
26b Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR	-	
27 Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	-	
28 <b>Total regulatory adjustments to Common equity Tier 1 (CET1)</b>	<b>(291.6)</b>	
29 <b>Common Equity Tier 1 (CET1) capital</b>	<b>1,051.1</b>	



## Transitional Own Funds Disclosure Template

As at 31 December 2015		Amount (\$m)	CRR Prescribed Residual Amount
<b>Additional Tier 1 (AT1) capital: instruments</b>			
30	Capital instruments and the related share premium accounts	-	
31	of which: classified as equity under applicable accounting standards	-	
32	of which: classified as liabilities under applicable accounting standards	-	
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1 Public sector capital injections grandfathered until 1 January 2018	-	
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	-	-
35	of which: instruments issued by subsidiaries subject to phase out	-	
36	<b>Additional Tier 1 (AT1) capital before regulatory adjustments</b>	-	
<b>Additional Tier 1 (AT1) capital: regulatory adjustments</b>			
37	Direct and indirect holdings by an institution of own AT1 Instruments (negative amount)	-	-
38	Direct, Indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	-
39	Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)	-	-
40	Direct and indirect holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above the 10% threshold net of eligible short positions) (negative amount)	-	-
	Regulatory adjustments applied to additional tier 1 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	-	
	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	-	
	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	-	
	Of which: direct holdings of non-significant investments in the Tier 2 capital of other financial sector entities	-	
	Amount to be deducted from or added to Additional Tier 1 capital with regard to additional filters and deductions required pre CRR	-	
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	-	
43	<b>Total regulatory adjustments to Additional Tier 1 (AT1) capital</b>	-	
44	<b>Additional Tier 1 (AT1) capital</b>	-	
45	<b>Tier 1 capital (T1 = CET1 + AT1)</b>	<b>1,051.1</b>	
<b>Tier 2 (T2) capital: instruments and provisions</b>			
46	Capital instruments and the related share premium accounts	392.3	
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2 Public sector capital injections grandfathered until 1 January 2018	-	
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	-	-
49	of which: instruments issued by subsidiaries subject to phase out	-	
50	Credit risk adjustments	6.3	
51	<b>Tier 2 (T2) capital before regulatory adjustments</b>	<b>398.6</b>	

# Transitional Own Funds Disclosure Template

As at 31 December 2015		Amount (\$m)	CRR Prescribed Residual Amount
<b>Tier 2 (T2) capital: regulatory adjustments</b>			
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-	-
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	-
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	-
	Of which new holdings not subject to transitional arrangements	-	-
	Of which holdings existing before 1 January 2013 and subject to transitional arrangements	-	-
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	-	-
	Regulatory adjustments applied to tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	-	-
	Residual amounts deducted from Tier 2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	-	-
	Residual amounts deducted from Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	-	-
	Amount to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre CRR	-	-
57	<b>Total regulatory adjustments to Tier 2 (T2) capital</b>	-	-
58	<b>Tier 2 (T2) capital</b>	398.6	-
59	<b>Total capital (TC = T1 + T2)</b>	1,449.6	-
<b>Risk weighted assets</b>			
	Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013(i.e. CRR residual amounts)	-	-
60	<b>Total risk weighted assets</b>	7,579.7	-

**Transitional Own Funds Disclosure Template**

As at 31 December 2015

Amount  
(\$m)  
CRR Prescribed  
Residual Amount

**Capital ratios and buffers**

61	Common Equity Tier 1 (as a percentage of risk exposure amount)	13.87%	
62	Tier 1 (as a percentage of risk exposure amount)	13.87%	
63	Total capital (as a percentage of risk exposure amount)	19.13%	
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus	-	
65	of which: capital conservation buffer requirement	-	
66	of which: countercyclical buffer requirement	-	
67	of which: systemic risk buffer requirement	-	
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	-	
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	7.87%	
69	[non relevant in EU regulation]		
70	[non relevant in EU regulation]		
71	[non relevant in EU regulation]		

**Amounts below the thresholds for deduction (before risk weighting)**

72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	16.4	
73	Direct and indirect holdings by the institution of the CET 1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	-	
74	Empty Set in the EU		
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	1.2	

**Applicable caps on the inclusion of provisions in Tier 2**

76	Credit risk adjustments included in T2 in respect of exposures subject to standardized approach (prior to the application of the cap)	6.3	
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	35.3	
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	-	
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	-	

**Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)**

80	Current cap on CET1 instruments subject to phase out arrangements	-	
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	
82	Current cap on AT1 instruments subject to phase out arrangements	-	
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	
84	Current cap on T2 instruments subject to phase out arrangements	326.7	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	

# Annexure C: Geographical Distribution of Credit Exposures

Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer

As at 31 December 2015	Exposure value of credit exposures (\$m)	Sum of net long and short positions of trading book exposures (\$m)	Value of trading book exposures for internal models (\$m)	Exposure value of securitisation exposures (\$m)	Own funds requirements				Own funds requirements weights	Countercyclical buffer rate (%)
					of which: Credit exposures (\$m)	of which: Trading book exposures (\$m)	of which: Securitisation exposures (\$m)	Total (\$m)		
1	Afghanistan	-	-	-	-	-	-	-	-	0%
2	Åland Islands	-	-	-	-	-	-	-	-	0%
3	Albania	-	-	-	-	-	-	-	-	0%
4	Algeria	-	-	-	-	-	-	-	-	0%
5	American Samoa	-	-	-	-	-	-	-	-	0%
6	Andorra	-	-	-	-	-	-	-	-	0%
7	Angola	0.3	-	-	0.0	-	-	0.0	0.0	0%
8	Anguilla	-	-	-	-	-	-	-	-	0%
9	Antartica	-	-	-	-	-	-	-	-	0%
10	Antigua And Barbuda	-	-	-	-	-	-	-	-	0%
11	Argentina	0.4	0.0	-	0.1	0.0	-	0.1	0.0	0%
12	Armenia	-	-	-	-	-	-	-	-	0%
13	Aruba	-	-	-	-	-	-	-	-	0%
14	Australia	1.4	0.0	-	0.1	0.0	-	0.1	0.1	0%
15	Austria	2.8	-	2.9	0.2	0.2	-	0.5	0.3	0%
16	Azerbaijan	0.0	0.0	2.8	0.0	0.2	-	0.2	0.1	0%
17	Bahamas	0.0	-	-	0.0	-	-	0.0	0.0	0%
18	Bahrain	21.5	-	-	1.7	-	-	1.7	1.1	0%
19	Bangladesh	-	-	-	-	-	-	-	-	0%
20	Barbados	0.1	-	-	0.0	-	-	0.0	0.0	0%
21	Belarus	0.0	-	-	0.0	-	-	0.0	0.0	0%
22	Belgium	0.4	-	3.0	0.0	0.2	-	0.3	0.2	0%
23	Belize	-	-	-	-	-	-	-	-	0%
24	Benin	-	-	-	-	-	-	-	-	0%
25	Bermuda	-	-	-	-	-	-	-	-	0%
26	Bhutan	-	-	-	-	-	-	-	-	0%
27	Bolivia	1.5	-	-	0.1	-	-	0.1	0.1	0%
28	Bonaire, Saint Eustatius And Saba	-	-	-	-	-	-	-	-	0%
29	Bosnia-Herzegovina	-	-	-	-	-	-	-	-	0%
30	Botswana	61.1	-	-	0.1	-	-	0.1	0.1	0%
31	Bouvet Island	-	-	-	-	-	-	-	-	0%
32	Brazil	55.2	20.4	1.0	5.5	1.7	-	7.2	4.4	0%
33	British Indian Ocean Territory	-	-	-	-	-	-	-	-	0%
34	Brunei Darussaleh	-	-	-	-	-	-	-	-	0%
35	Bulgaria	0.2	-	0.2	0.0	0.0	-	0.0	0.0	0%
36	Burkina Faso	-	-	-	-	-	-	-	-	0%
37	Burundi	0.0	-	-	0.0	-	-	0.0	0.0	0%
38	Cambodia	-	-	-	-	-	-	-	-	0%
39	Cameroon	2.3	-	-	0.2	-	-	0.2	0.1	0%
40	Canada	0.1	-	-	0.0	-	-	0.0	0.0	0%
41	Cape Verde	-	-	-	-	-	-	-	-	0%
42	Cayman Islands	28.6	0.0	-	0.4	0.0	-	0.4	0.2	0%
43	Central Africa	-	-	-	-	-	-	-	-	0%
44	Central African Republic	-	-	-	-	-	-	-	-	0%
45	Chad	-	-	-	-	-	-	-	-	0%
46	Chile	50.1	0.2	0.1	0.2	0.0	-	0.2	0.1	0%
47	China	323.1	1.5	7.5	13.2	0.7	-	13.9	8.6	0%
48	Christmas Islands	-	-	-	-	-	-	-	-	0%
49	Cocos (Keeling) Islands	-	-	-	-	-	-	-	-	0%
50	Colombia	1.4	0.0	-	0.1	0.0	-	0.1	0.1	0%
51	Comoros	-	-	-	-	-	-	-	-	0%
52	Cook Islands	-	-	-	-	-	-	-	-	0%
53	Costa-Rica	0.1	-	-	0.0	-	-	0.0	0.0	0%
54	Croatia	0.0	0.7	2.7	0.0	0.3	-	0.3	0.2	0%
55	Cuba	1.6	-	-	0.2	-	-	0.2	0.1	0%
56	Curaçao	0.3	-	-	0.0	-	-	0.0	0.0	0%
57	Cyprus	80.3	-	-	5.1	-	-	5.1	3.1	0%
58	Czech Republic	31.6	-	-	1.0	-	-	1.0	0.6	0%
59	Czechoslovakia	-	-	-	-	-	-	-	-	0%
60	Democratic Republic Of Congo	0.7	0.1	-	0.1	0.0	-	0.1	0.0	0%
61	Denmark	-	-	-	-	-	-	-	-	0%
62	Djibouti	-	-	-	-	-	-	-	-	0%
63	Dominica	-	-	-	-	-	-	-	-	0%
64	Dominican Republic	-	0.0	-	-	0.0	-	0.0	0.0	0%
65	Dubai	-	-	-	-	-	-	-	-	0%

Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer

As at 31 December 2015	Exposure value of credit exposures (\$m)	Sum of net long and short positions of trading book exposures (\$m)	Value of trading book exposures for internal models (\$m)	Exposure value of securitisation exposures (\$m)	Own funds requirements				Own funds requirements weights	Countercyclical buffer rate (%)
					of which: Credit exposures (\$m)	of which: Trading book exposures (\$m)	of which: Securitisation exposures (\$m)	Total (\$m)		
66	East Timor	-	-	-	-	-	-	-	-	0%
67	Ecuador	-	-	-	-	-	-	-	-	0%
68	Egypt	0.2	-	-	0.0	-	-	0.0	0.0	0%
69	El Salvador	-	-	2.9	-	0.2	-	0.2	0.1	0%
70	Equatorial Guinea	-	-	-	-	-	-	-	-	0%
71	Eritrea	-	-	-	-	-	-	-	-	0%
72	Estonia	-	-	-	-	-	-	-	-	0%
73	Ethiopia	0.0	-	-	0.0	-	-	0.0	0.0	0%
74	Europe	-	-	-	-	-	-	-	-	0%
75	Falkland Islands (Malvinas)	-	-	-	-	-	-	-	-	0%
76	Faroe Islands	-	-	-	-	-	-	-	-	0%
77	Fiji	-	-	-	-	-	-	-	-	0%
78	Finland	-	-	1.8	-	0.1	-	0.1	0.1	0%
79	France	0.8	0.0	14.1	0.1	1.1	-	1.2	0.7	0%
80	French Guiana	-	-	-	-	-	-	-	-	0%
81	French Polynesia	-	-	-	-	-	-	-	-	0%
82	French Southern Territories	-	-	-	-	-	-	-	-	0%
83	Gabon	-	-	-	-	-	-	-	-	0%
84	Gambia	0.0	-	-	0.0	-	-	0.0	0.0	0%
85	Georgia	-	-	3.7	-	0.3	-	0.3	0.2	0%
86	Germany	78.2	-	6.5	5.0	0.5	-	5.5	3.4	0%
87	Ghana	0.0	0.4	-	0.0	0.0	-	0.0	0.0	0%
88	Gibraltar	10.3	-	-	0.8	-	-	0.8	0.5	0%
89	Great Britain	283.7	0.8	20.8	11.6	1.7	-	13.4	8.2	0%
90	Greece	2.4	-	0.0	0.2	0.0	-	0.2	0.1	0%
91	Greenland	-	-	-	-	-	-	-	-	0%
92	Grenada	-	-	-	-	-	-	-	-	0%
93	Guadeloupe	-	-	-	-	-	-	-	-	0%
94	Guam	-	-	-	-	-	-	-	-	0%
95	Guatemala	0.9	-	-	0.1	-	-	0.1	0.0	0%
96	Guernsey C.I.	-	-	-	-	-	-	-	-	0%
97	Guinea	0.0	-	-	0.0	-	-	0.0	0.0	0%
98	Guinea-Bissau	-	-	-	-	-	-	-	-	0%
99	Guyana	-	-	-	-	-	-	-	-	0%
100	Haiti	-	-	-	-	-	-	-	-	0%
101	Heard And Mcdonald Islands	-	-	-	-	-	-	-	-	0%
102	Honduras	-	-	-	-	-	-	-	-	0%
103	Hong Kong	478.5	0.0	-	17.7	0.0	-	17.7	10.9	0%
104	Hungary	-	-	-	-	-	-	-	-	0%
105	Iceland	0.0	-	-	0.0	-	-	0.0	0.0	0%
106	India	16.4	0.0	0.0	1.2	0.0	-	1.2	0.7	0%
107	Indonesia	14.3	0.0	-	1.1	0.0	-	1.1	0.7	0%
108	Internal	-	-	-	-	-	-	-	-	0%
109	Iran	-	-	-	-	-	-	-	-	0%
110	Iraq	-	-	-	-	-	-	-	-	0%
111	Ireland	3.3	-	0.0	0.3	0.0	-	0.3	0.2	0%
112	Isle Of Man	-	-	-	-	-	-	-	-	0%
113	Israel	11.0	-	0.6	0.3	0.1	-	0.4	0.2	0%
114	Italy	9.2	0.0	3.8	0.5	0.3	-	0.8	0.5	0%
115	Ivory Coast	0.0	-	-	0.0	-	-	0.0	0.0	0%
116	Jamaica	25.7	-	-	0.0	-	-	0.0	0.0	0%
117	Japan	44.1	0.0	-	2.9	0.0	-	2.9	1.8	0%
118	Jersey , C.I.	8.5	0.0	-	0.6	0.0	-	0.6	0.4	0%
119	Jordan	-	-	-	-	-	-	-	-	0%
120	Kazakhstan	0.0	4.1	1.6	0.0	0.5	-	0.5	0.3	0%
121	Kenya	10.9	-	-	0.3	-	-	0.3	0.2	0%
122	Kiribati Republic	-	-	-	-	-	-	-	-	0%
123	Korea, Democratic Peoples Rep.	-	-	-	-	-	-	-	-	0%
124	Korea, Republic Of	69.4	-	-	1.8	-	-	1.8	1.1	0%
125	Kuwait	2.0	-	-	0.1	-	-	0.1	0.0	0%
126	Kyrgyzstan	-	-	-	-	-	-	-	-	0%
127	Lao Peoples Democratic Rep.	-	-	-	-	-	-	-	-	0%
128	Latvia	-	-	-	-	-	-	-	-	0%
129	Lebanon	-	-	-	-	-	-	-	-	0%
130	Lesotho	0.0	-	-	0.0	-	-	0.0	0.0	0%

## Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer

As at 31 December 2015		Exposure value of credit exposures (\$m)	Sum of net long and short positions of trading book exposures (\$m)	Value of trading book exposures for internal models (\$m)	Exposure value of securitisation exposures (\$m)	Own funds requirements				Own funds requirements weights	Countercyclical buffer rate (%)
						of which: Credit exposures (\$m)	of which: Trading book exposures (\$m)	of which: Securitisation exposures (\$m)	Total (\$m)		
131	Liberia	7.0	-	-	-	0.6	-	-	0.6	0.3	0%
132	Libyan Arab Jamahiriya	-	-	-	-	-	-	-	-	-	0%
133	Liechtenstein	-	-	-	-	-	-	-	-	-	0%
134	Lithuania	-	-	-	-	-	-	-	-	-	0%
135	Luxembourg	11.0	-	3.0	-	0.6	0.2	-	0.9	0.5	0%
136	Macau	-	-	-	-	-	-	-	-	-	0%
137	Macedonia	5.0	-	-	-	0.4	-	-	0.4	0.2	0%
138	Madagascar	0.0	-	-	-	0.0	-	-	0.0	0.0	0%
139	Malawi	0.0	-	-	-	0.0	-	-	0.0	0.0	0%
140	Malaysia	0.2	0.0	-	-	0.0	0.0	-	0.0	0.0	0%
141	Maldives	-	-	-	-	-	-	-	-	-	0%
142	Mali	-	-	-	-	-	-	-	-	-	0%
143	Malta	-	-	-	-	-	-	-	-	-	0%
144	Marshall Islands	0.6	-	-	-	0.1	-	-	0.1	0.0	0%
145	Martinique	-	-	-	-	-	-	-	-	-	0%
146	Mauritania	-	-	-	-	-	-	-	-	-	0%
147	Mauritius	1.5	-	-	-	0.1	-	-	0.1	0.1	0%
148	Mayotte	-	-	-	-	-	-	-	-	-	0%
149	Mexico	0.1	0.9	0.5	-	0.0	0.1	-	0.1	0.1	0%
150	Micronesia	-	-	-	-	-	-	-	-	-	0%
151	Moldova, Republic Of	-	-	-	-	-	-	-	-	-	0%
152	Monaco	-	-	-	-	-	-	-	-	-	0%
153	Mongolia	-	0.0	-	-	-	0.0	-	0.0	0.0	0%
154	Montenegro	-	-	-	-	-	-	-	-	-	0%
155	Montserrat	-	-	-	-	-	-	-	-	-	0%
156	Morocco	0.3	-	0.7	-	0.0	0.1	-	0.1	0.1	0%
157	Mozambique	0.4	-	-	-	0.0	-	-	0.0	0.0	0%
158	Myanmar	-	-	-	-	-	-	-	-	-	0%
159	Namibia	0.0	-	-	-	0.0	-	-	0.0	0.0	0%
160	Nauru	-	-	-	-	-	-	-	-	-	0%
161	Nepal	-	-	-	-	-	-	-	-	-	0%
162	Netherlands	14.5	-	4.1	-	1.2	0.3	-	1.5	0.9	0%
163	Netherlands Antilles	-	-	-	-	-	-	-	-	-	0%
164	Neut Zone (Btw S/Arabia Iraq)	-	-	-	-	-	-	-	-	-	0%
165	New Caledonia	-	-	-	-	-	-	-	-	-	0%
166	New Zealand	0.0	-	-	-	0.0	-	-	0.0	0.0	0%
167	Nicaragua	-	-	-	-	-	-	-	-	-	0%
168	Niger	-	-	-	-	-	-	-	-	-	0%
169	Nigeria	442.2	0.2	0.2	-	11.4	0.0	-	11.4	7.0	0%
170	Niue	-	-	-	-	-	-	-	-	-	0%
171	Norfolk Islands	-	-	-	-	-	-	-	-	-	0%
172	Northern Mariana Islands	-	-	-	-	-	-	-	-	-	0%
173	Norway	0.0	-	1.5	-	0.0	0.1	-	0.1	0.1	1%
174	Oman	-	-	-	-	-	-	-	-	-	0%
175	Pakistan	0.0	-	-	-	0.0	-	-	0.0	0.0	0%
176	Palau	-	-	-	-	-	-	-	-	-	0%
177	Palestine	-	-	-	-	-	-	-	-	-	0%
178	Panama	24.8	-	-	-	0.1	-	-	0.1	0.1	0%
179	Panama Canal Zone	-	-	-	-	-	-	-	-	-	0%
180	Papua New Guinea	-	-	-	-	-	-	-	-	-	0%
181	Paraguay	-	0.0	-	-	-	0.0	-	0.0	0.0	0%
182	Peru	24.8	0.1	-	-	2.0	0.0	-	2.0	1.2	0%
183	Philippines	0.0	0.0	-	-	0.0	0.0	-	0.0	0.0	0%
184	Pitcairn Islands	-	-	-	-	-	-	-	-	-	0%
185	Poland	-	0.0	6.4	-	-	0.5	-	0.5	0.3	0%
186	Portugal	-	-	0.0	-	-	0.0	-	0.0	0.0	0%
187	Puerto Rico	-	-	-	-	-	-	-	-	-	0%
188	Qatar	147.1	0.0	0.0	-	1.2	0.0	-	1.2	0.7	0%
189	Republic Of Congo	-	-	-	-	-	-	-	-	-	0%
190	Reunion	-	-	-	-	-	-	-	-	-	0%
191	Romania	-	-	-	-	-	-	-	-	-	0%
192	Russian Federation	162.0	2.1	8.6	-	13.0	0.9	-	13.8	8.5	0%
193	Rwanda	0.0	-	-	-	0.0	-	-	0.0	0.0	0%
194	Saint Kitts And Nevis	0.0	-	-	-	-	-	-	-	-	0%
195	Samoa	-	-	-	-	-	-	-	-	-	0%

**Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer**

As at 31 December 2015		Exposure value of credit exposures (\$m)	Sum of net long and short positions of trading book exposures (\$m)	Value of trading book exposures for internal models (\$m)	Exposure value of securitisation exposures (\$m)	Own funds requirements				Own funds requirements weights	Countercyclical buffer rate (%)
						of which: Credit exposures (\$m)	of which: Trading book exposures (\$m)	of which: Securitisation exposures (\$m)	Total (\$m)		
196	San Marino	-	-	-	-	-	-	-	-	-	0%
197	Sao Tome And Principe	-	-	-	-	-	-	-	-	-	0%
198	Saudi Arabia	15.3	-	-	-	0.5	-	-	0.5	0.3	0%
199	Senegal	0.3	-	-	-	0.0	-	-	0.0	0.0	0%
200	Serbia	1.4	-	-	-	0.1	-	-	0.1	0.1	0%
201	Serbia And Montenegro	-	-	-	-	-	-	-	-	-	0%
202	Seychelles Islands	0.0	-	-	-	0.0	-	-	0.0	0.0	0%
203	Sierra Leone	0.1	-	-	-	0.0	-	-	0.0	0.0	0%
204	Singapore	108.8	0.0	-	-	6.8	0.0	-	6.8	4.2	0%
205	Sint Maarten (Dutch Part)	-	-	-	-	-	-	-	-	-	0%
206	Slovakia	-	-	-	-	-	-	-	-	-	0%
207	Slovenia	-	-	-	-	-	-	-	-	-	0%
208	Solomon Islands	-	-	-	-	-	-	-	-	-	0%
209	Somalia	-	-	-	-	-	-	-	-	-	0%
210	South Africa	76.4	3.2	24.8	-	0.3	2.2	-	2.5	1.5	0%
211	South Georgia And The South Sandwich Islands	-	-	-	-	-	-	-	-	-	0%
212	Spain	28.9	-	3.0	-	2.3	0.2	-	2.6	1.6	0%
213	Sri Lanka	0.0	-	-	-	0.0	-	-	0.0	0.0	0%
214	St. Helena	-	-	-	-	-	-	-	-	-	0%
215	St. Lucia	-	-	-	-	-	-	-	-	-	0%
216	St. Pierre Et Miquelon	-	-	-	-	-	-	-	-	-	0%
217	St. Vincent And The Grenadines	-	-	-	-	-	-	-	-	-	0%
218	Sudan	-	-	-	-	-	-	-	-	-	0%
219	Suriname	-	-	-	-	-	-	-	-	-	0%
220	Svalbard And Jan Mayen Islands	-	-	-	-	-	-	-	-	-	0%
221	Swaziland	0.0	-	-	-	0.0	-	-	0.0	0.0	0%
222	Sweden	1.3	0.0	4.7	-	0.1	0.4	-	0.4	0.3	1%
223	Switzerland	153.5	-	3.7	-	9.4	0.3	-	9.7	6.0	0%
224	Syrian Arab Republic	-	-	-	-	-	-	-	-	-	0%
225	Taiwan	82.8	-	-	-	0.7	-	-	0.7	0.4	0%
226	Tajikistan	-	-	-	-	-	-	-	-	-	0%
227	Tanzania, United Republic Of	1.0	-	-	-	0.1	-	-	0.1	0.0	0%
228	Thailand	70.0	-	-	-	4.0	-	-	4.0	2.5	0%
229	Timor-Leste	-	-	-	-	-	-	-	-	-	0%
230	Togo	-	-	-	-	-	-	-	-	-	0%
231	Tokelau	-	-	-	-	-	-	-	-	-	0%
232	Tonga	-	-	-	-	-	-	-	-	-	0%
233	Trinidad And Tobago	-	0.0	-	-	-	0.0	-	0.0	0.0	0%
234	Tunisia	0.2	-	-	-	0.0	-	-	0.0	0.0	0%
235	Turkey	282.6	0.5	0.6	-	2.2	0.1	-	2.2	1.4	0%
236	Turkmenistan	-	-	-	-	-	-	-	-	-	0%
237	Turks And Caicos Islands	-	-	-	-	-	-	-	-	-	0%
238	Tuvalu	-	-	-	-	-	-	-	-	-	0%
239	Uganda	0.2	-	-	-	0.0	-	-	0.0	0.0	0%
240	Ukraine	1.0	0.4	1.8	-	0.0	0.2	-	0.2	0.1	0%
241	United Arab Emirates	269.4	0.0	0.9	-	7.9	0.1	-	7.9	4.9	0%
242	United States	108.7	3.3	1.0	-	9.2	0.3	-	9.5	5.9	0%
243	United States Minor Outlying Islands	-	-	-	-	-	-	-	-	-	0%
244	Uruguay	0.0	-	-	-	0.0	-	-	0.0	0.0	0%
245	Uzbekistan	-	-	-	-	-	-	-	-	-	0%
246	Vanuatu	-	-	-	-	-	-	-	-	-	0%
247	Vatican	-	-	-	-	-	-	-	-	-	0%
248	Venezuela	-	0.0	-	-	-	0.0	-	0.0	0.0	0%
249	Vietnam	-	-	-	-	-	-	-	-	-	0%
250	Virgin Islands (British)	240.9	-	-	-	0.5	-	-	0.5	0.3	0%
251	Virgin Islands, U.S.	-	-	-	-	-	-	-	-	-	0%
252	Wallis And Futuna Islands	-	-	-	-	-	-	-	-	-	0%
253	Western Sahara	-	-	-	-	-	-	-	-	-	0%
254	Yemen, Republic Of	-	-	-	-	-	-	-	-	-	0%
255	Yugoslavia	-	-	-	-	-	-	-	-	-	0%
256	Zaire	-	-	-	-	-	-	-	-	-	0%
257	Zambia	6.8	0.0	-	-	0.5	0.0	-	0.5	0.3	0%
258	Zimbabwe	0.2	-	-	-	0.0	-	-	0.0	0.0	0%
259	Total	4,027.0	38.8	141.6	-	148.0	14.4	-	162.5	100.0	0.003%

## Annexure D: Leverage Ratio

### Leverage Ratio Common Disclosure Template

As at 31 December 2015		CRR Leverage Ratio Exposure (\$m)
<b>On-balance sheet exposures (excluding derivatives and SFTs)</b>		
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	9,764
2	(Asset amounts deducted in determining Tier 1 capital)	(8)
<b>3</b>	<b>Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)</b>	<b>9,755</b>
<b>Derivative exposures</b>		
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	3,136
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	2,718
EU-5a	Exposure determined under Original Exposure Method	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-
8	(Exempted CCP leg of client-cleared trade exposures)	-
9	Adjusted effective notional amount of written credit derivatives	2,144
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	(1,255)
<b>11</b>	<b>Total derivative exposures (sum of lines 4 to 10)</b>	<b>6,743</b>
<b>Securities financing transaction exposures</b>		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	3,063
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14	Counterparty credit risk exposure for SFT assets	45
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013	-
15	Agent transaction exposures	-
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	-
<b>16</b>	<b>Total securities financing transaction exposures (sum of lines 12 to 15a)</b>	<b>3,108</b>
<b>Other off-balance sheet exposures</b>		
17	Off-balance sheet exposures at gross notional amount	1
18	(Adjustments for conversion to credit equivalent amounts)	(1)
<b>19</b>	<b>Other off-balance sheet exposures (sum of lines 17 to 18)</b>	<b>0</b>
<b>Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)</b>		
EU-19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	-
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	-
<b>Capital and total exposures</b>		
<b>20</b>	<b>Tier 1 capital</b>	<b>1,051</b>
<b>21</b>	<b>Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)</b>	<b>19,607</b>
<b>Leverage ratio</b>		
<b>22</b>	<b>Leverage ratio</b>	<b>5.36%</b>
<b>Choice on transitional arrangements and amount of derecognised fiduciary items</b>		
EU-23	Choice on transitional arrangements for the definition of the capital measure	-
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO 575/2013	-



## Annexure E : Glossary

### Arrears

A customer is in arrears when they are behind in fulfilling their obligations with the result that an outstanding loan is unpaid or overdue. Such a customer is also said to be in a state of delinquency and the entire outstanding balance is delinquent.

### Back testing

Application of an analytical method where historical data is used to determine how accurately the model has predicted actual results

### Basel II

The capital adequacy framework issued by the Basel Committee on Banking Supervision in June 2006 in the form of the 'International Convergence of Capital Measurement and Capital Standards'.

### Basel 2.5

The 2009 update to the Basel II framework to strengthen market risk and securitisation capital requirements and to enhance disclosure in these areas. See also CRD III.

### Basel III

The capital reforms and introduction of a global liquidity standard proposed by the Basel Committee on Banking Supervision in 2010 and due to be phased in, through CRD IV, from 1 January 2014 onward.

### Basis point

One hundredth of a per cent (0.01 per cent). 100 basis points is 1 per cent. Used in quoting movements in interest rates or yields on securities

### Capital resources

Eligible capital held by the Group in order to satisfy its capital requirements.

### Central Counterparty (CCP)

An institution mediating between the buyer and the seller in a financial transaction, such as a derivative contract or repurchase agreement (repo). Where a CCP is used, a single bilateral contract between the buyer and the seller is replaced with two contracts, one between the buyer and the CCP and one between the CCP seller.

### Collectively assessed loan impairment provision

A provision established following an impairment assessment on a collective basis for homogeneous groups of loans, such as credit card receivables and personal loans, that are not considered individually significant and for loan losses that have been incurred but not separately identified at the balance sheet date.

### Common equity tier 1 (CET1) capital

The highest quality form of regulatory capital under CRD IV that comprises common shares issued and related share premium, retained earnings and other reserves excluding the cash flow hedging reserve, less specified regulatory adjustments.

### Contractual maturities

Contractual maturity refers to the final payment date of a loan or other financial instrument, at which point all the remaining outstanding principal will be repaid and interest is due to be paid.

### Common equity tier 1 capital

As defined by the PRA mainly comprising shareholders' equity and equity non-controlling interests after deducting goodwill, other intangible assets and other regulatory deductions.

### Common equity tier 1 ratio

Common equity tier 1 capital as a percentage of risk weighted assets.

### Counterparty credit risk

Counterparty credit risk is the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. Such transactions relate to contracts for financial instruments and may include derivative contracts and repo contracts.

## **CRD**

See CRD IV

## **CRD IV**

In June 2013, the European Commission published legislation for a Capital Requirements Directive (CRD) and Capital Requirements Regulation (CRR) which form the CRD IV package. The package implements the Basel III proposals in addition to the inclusion of new proposals on sanctions for non-compliance with prudential rules, corporate governance and remuneration. The rules are implemented in the UK via the PRA policy statement PS7/13 and are in force from 1 January 2014, with certain sections subject to transitional phase in.

### **Credit quality step**

A step in the PRA's credit quality assessment scale which is based on the credit ratings applied by ECAs. The scale is used to assign risk weights to exposures under the Standardised Approach.

### **Credit Conversion Factor (CCF)**

Credit conversion factors (CCF) are used in determining the exposure at default (EAD) in relation to a credit risk exposure. The CCF is an estimate of the proportion of undrawn commitments expected to be drawn down at the point of default.

### **Credit Default Swaps (CDS)**

A credit default swap is a type of credit derivative. It is an arrangement whereby the credit risk of an asset (the reference asset) is transferred from the buyer to the seller of protection. The entity selling protection receives premium or interest-related payments in return for contracting to make payments to the protection buyer upon a defined credit event. Credit events normally include bankruptcy, payment default on a reference asset or assets, or downgrades by a rating agency.

### **Credit derivatives**

A credit derivative is a financial instrument that derives its value from the credit rating of an underlying instrument carrying the credit risk of the issuing entity. The principal type of credit derivatives are credit default swaps, which are used by the Group as part of its trading activity and to manage its own exposure to credit risk.

### **Credit risk**

The risk that parties with whom the Group has contracted fail to meet their obligations (both on and off-balance sheet).

### **Credit risk mitigation**

A technique used to reduce the credit risk associated with an exposure (which continues to be held) by application of credit risk mitigants such as collateral, guarantees and credit protection.

### **Credit risk spread (or credit spread)**

The credit spread is the yield spread between securities with the same currency and maturity structure but with different associated credit risks, with the yield spread rising as the credit rating worsens. It is the premium over the benchmark or risk-free rate required by the market to take on a lower credit quality.

### **Credit Valuation Adjustments (CVA)**

These are adjustments to the fair values of derivative assets to reflect the creditworthiness of the counterparty.

## **CRR**

See CRD IV

### **Debit Valuation Adjustment (DVA)**

An adjustment to the measurement of derivative liabilities to reflect default risk of the entity.

### **Debt restructuring**

This is when the terms and provisions of outstanding debt agreements are changed. This is often done in order to improve cash flow and the ability of the borrower to repay the debt. It can involve altering the repayment schedule as well as reducing the debt or interest charged on the loan.

## **Debt securities**

Debt securities are assets held by the Group representing certificates of indebtedness of credit institutions, public bodies or other undertakings, excluding those issued by Central Banks.

## **Debt securities in issue**

These are unsubordinated debt securities issued by the Group. They include commercial paper, certificates of deposit, bonds and medium-term notes.

## **Equity risk**

The financial risk involved in holding equity in a particular investment.

## **Expected Loss (EL)**

Expected loss (EL) represents the anticipated loss, in the event of default, on a credit risk exposure modelled under the internal ratings based approach. EL is determined by multiplying the associated PD%, LGD% and EAD together and assumes a 12 month time horizon.

## **Exposure**

An asset, off-balance sheet item or position which carries a risk of financial loss.

## **Exposure at Default (EAD)**

Exposure at default (EAD) represents the estimated exposure to a customer in the event of default. In determining EAD amounts, consideration is made of the extent to which undrawn commitments may be drawn down at the point of default (see Credit Conversion Factors) and the application of credit risk mitigation (i.e. eligible financial collateral). Analysis of credit risk exposures under Pillar 3 is typically based on EAD amounts, prior to the application of credit risk mitigation.

## **External Credit Assessment Institutions (ECAI)**

External Credit Assessment Institutions (ECAIs) include external credit rating agencies such as Standard & Poor's, Moody's and Fitch.

## **Fair value adjustment**

Fair value adjustments arise on acquisition when assets and liabilities are acquired at fair values that are different from the carrying values in the acquired company. In respect of the Group's acquisition of HBOS the principal adjustments were write-downs in respect of loans and advances to customers and debt issued.

## **Forbearance**

Forbearance takes place when a concession is made on the contractual terms of a loan in response to an obligor's financial difficulties.

## **Group**

Refers to ICBCS Group

## **Impaired loans**

Impaired loans are loans where the Group does not expect to collect all the contractual cash flows or to collect them when they are contractually due.

## **Impairment charge and impairment allowances**

Impairment allowances are a provision held on the balance sheet as a result of the raising of an impairment charge against profit for the incurred loss inherent in the lending book. An impairment allowance may either be individual or collective.

## **Impairment losses**

An impairment loss is the reduction in value that arises following an impairment review of an asset that determines that the asset's value is lower than its carrying value. For impaired financial assets measured at amortised cost, impairment losses are the difference between the carrying value and the present value of estimated future cash flows, discounted at the asset's original effective interest rate.

## **Incremental Risk Charge**

Incremental risk charge ('IRC') The IRC model captures the potential distribution of profit and loss due to default and migration for a portfolio of credit positions. For credit positions held on the trading book, and subject to specific interest rate risk VAR for regulatory capital, an IRC based on the 99.9th percentile of the IRC distribution, over a one-year capital horizon, is used as a capital add-on to VAR.

#### **Individually / collectively assessed**

Impairment is measured individually for assets that are individually significant, and collectively where a portfolio comprises homogenous assets and where appropriate statistical techniques are available.

#### **Individually assessed loan impairment provisions**

Impairment loss provisions for individually significant impaired loans are assessed on a case-by-case basis, taking into account the financial condition of the counterparty, any guarantor and the realisable value of any collateral held.

#### **Interest rate risk (IRR)**

Interest rate risk arises from the different repricing characteristics of the Group's non-trading assets, liabilities and off-balance sheet positions of the Group. Interest rate risk arises predominantly from the mismatch between interest rate sensitive assets and liabilities, but also to the investment term of capital and reserves, and the need to minimise income volatility.

#### **Internal Assessment Approach (IAA)**

The Internal Assessment Approach is an IRB approach for securitisations whereby a firm applies its internal assessment of the credit quality of the positions in the risk weighted asset calculations. A firm must apply to the PRA for permission to use this approach and must satisfy the PRA of its internal assessment processes. The Internal Assessment Approach may only be applied to exposures arising from asset backed commercial paper programmes.

#### **Internal Capital Adequacy Assessment Process (ICAAP)**

The Group's own assessment, based on Basel II requirements, of the levels of capital that it needs to hold in respect of its regulatory capital requirements (for credit, market and operational risks) and for other risks including stress events as they apply on a solo level and on a consolidated level.

#### **Internal Model Method (IMM)**

The Internal Model Method is one of three methods available to calculate exposure values for counterparty credit risk. A firm must only apply the IMM if it has counterparty credit risk IMM permission from the PRA.

#### **Investment grade**

This refers to the highest range of credit ratings, from 'AAA' to 'BBB' as measured by external credit rating agencies.

#### **International Swaps and Derivatives Association (ISDA) master agreement**

A standardised contract developed by the ISDA which is used as an umbrella contract for bilateral derivative contracts.

#### **Leverage Ratio**

A capital leverage measure, introduced under the Basel III reforms, that is defined as the ratio of tier 1 capital to total exposures, where total exposures equal the sum of all balance sheet assets and off-balance sheet items not deducted in determining tier 1 capital. The leverage ratio is intended to reinforce risk based capital requirements with a simple, non-risk based 'backstop' measure.

#### **Loan-to-Value Ratio (LTV)**

The loan-to-value ratio is a mathematical calculation which expresses the amount of a mortgage balance outstanding as a percentage of the total appraised value of the property. A high LTV indicates that there is less value to protect the lender against house price falls or increases in the loan if repayments are not made and interest is added to the outstanding balance of the loan.

#### **Loans past due**

Loans are past due when a counterparty has failed to make a payment when contractually due.

#### **Loss Given Default (LGD)**

Loss given default (LGD) represents the estimated proportion of an EAD amount that will be lost in the event of default. It is calculated after taking account of credit risk mitigation and includes the cost of recovery.

## **Mark-to-Market (MTM) Approach**

The Mark-to-Market Approach is one of three methods available to calculate exposure values for counterparty credit risk. The method adjusts daily to account for profits and losses in the value of related assets and liabilities.

## **Market risk**

The risk that unfavourable market moves (including changes in and increased volatility of interest rates, market-implied inflation rates, credit spreads and bond prices, foreign exchange rates, equity, property and commodity prices and other instruments) lead to reductions in earnings and / or value.

## **Master netting agreement**

An agreement between two counterparties that have multiple derivative contracts with each other that provides for the net settlement of all contracts through a single payment, in a single currency, in the event of default on, or termination of, any one contract.

## **Minimum capital requirement**

The minimum regulatory capital that must be held in accordance with Pillar 1 requirements for credit, market and operational risk.

## **MRC**

Market Risk Committee

## **Model validation**

The process of assessing and providing evidence that the bank's models perform as planned and adequately reflect the risk profile of the business, and that there are no material misstatements of the capital requirement See also Backtesting

## **Multilateral Development Banks**

Institutions created by groups of countries to provide finance and professional advice for development.

## **Operational risk**

The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events

## **Over-the-Counter (OTC) derivatives**

Over the counter derivatives are derivatives for which the terms and conditions can be freely negotiated by the counterparties involved, unlike exchange traded derivatives which have standardised terms.

## **Past due items**

An exposure class under the Standardised Approach that recognises exposures that are more than 90 days past due

## **Pillar 1**

The first pillar of the Basel II framework sets out the minimum regulatory capital requirements for credit, operational and market risks.

## **Pillar 2**

The second pillar of the Basel II framework is known as the Supervisory Review Process, and sets out the review process for a banks capital adequacy; the process under which the supervisors evaluate how well financial institutions are assessing their risks and the actions taken as a result of these assessments.

## **Pillar 3**

The third pillar of the Basel II framework aims to encourage market discipline by setting out disclosure requirements for banks on their capital, risk exposures and risk assessment processes. These disclosures are aimed at improving the information made available to the market.

## **Potential Future Exposure (PFE)**

A regulatory add-on for the potential future credit exposure on derivatives contracts as calculated under the Mark-to-Market Approach.

## **Private equity investments**

Private equity is equity securities in operating companies not quoted on a public exchange. Investment in private equity often involves the investment of capital in private companies or the acquisition of a public company that results in the delisting of public equity. Capital for private equity investment is raised by retail or institutional investors and used to fund investment strategies such as leveraged buyouts, venture capital, growth capital, distressed investments and mezzanine capital.

#### **Prudent Valuation Adjustment (PVA)**

A regulatory deduction applied to CRD IV common equity tier 1 capital based upon the difference between the prudent value of trading book assets or other financial assets measured at fair value with the fair values recognised for these assets in the financial statements.

#### **Point-in-Time (PIT)**

Estimates of PD (or other measures) made on a Point-in-Time (PIT) basis generally cover a short time horizon (usually a 12 month period) and are sensitive to changes in the economic cycle. This differs from a Through-the-Cycle (TTC) basis which uses long run average economic and risk data to reduce such sensitivity.

#### **Probability of Default (PD)**

Probability of default (PD) represents an estimate of the likelihood that a customer will default on their obligation within a 12 month time horizon.

#### **Ratings Based Approach (RBA)**

The Ratings Based Approach is an IRB approach for securitisations applied to rated securitisation and re-securitisation positions. The approach applies risk weightings to positions based on a combination of ECAI ratings, the granularity of the underlying pool, the seniority of the position and whether the position is a re-securitisation position.

#### **Regulatory capital**

The amount of capital that the Group holds, determined in accordance with rules established by the PRA for the consolidated Group and by local regulators for individual Group companies.

#### **Re-securitisations**

A securitisation where the risk associated with an underlying pool of exposures is tranching and at least one of the underlying exposures is a securitisation position.

#### **Renegotiated loans**

Loans and advances are generally renegotiated either as part of an ongoing customer relationship or in response to an adverse change in the circumstances of the borrower. In the latter case renegotiation can result in an extension of the due date of payment or repayment plans under which the Group offers a concessionary rate of interest to genuinely distressed borrowers. This will result in the asset continuing to be overdue and will be impaired where the renegotiated payments of interest and principal will not recover the original carrying amount of the asset. In other cases, renegotiation will lead to a new agreement, which is treated as a new loan.

#### **Repurchase agreements or 'repos'**

Short-term funding agreements which allow a borrower to sell a financial asset, such as ABS or Government bonds as collateral for cash. As part of the agreement the borrower agrees to repurchase the security at some later date, usually less than 30 days, repaying the proceeds of the loan.

#### **Residual maturity**

The length of time remaining from present date until the maturity of the exposure.

#### **Risk appetite**

The amount and type of risk that the Group is prepared to seek, accept or tolerate.

#### **Risk weighted assets (RWAs)**

A measure of a bank's assets adjusted for their associated risks. Risk weightings are established in accordance with PRA rules.

#### **Securities financing transactions (SFTs)**

Securities financing transactions are repurchase and reverse repurchase agreements, buy / sell backs and securities lending. For the lender (seller) of the securities it is usually a way to raise funds to finance the securities positions. For the borrower (buyer) of the securities it is a way to invest short-term funds or to cover short (bond) positions.

## Securitisation

Securitisation is a process by which a group of assets, usually loans, are aggregated into a pool, which is used to back the issuance of new securities. Securitisation is the process by which ABS are created. A company sells assets to a structured entity which then issues securities backed by the assets. This allows the credit quality of the assets to be separated from the credit rating of the original company and transfers risk to external investors. Assets used in securitisations include mortgages to create mortgage backed securities or residential mortgage-backed securities (RMBS) as well as commercial mortgage backed securities (CMBS). The Group has established several securitisation structures as part of its funding and capital management activities. These generally use mortgages, corporate loans and credit cards as asset pools.

### Securitisation position

A retained or purchased position (exposure) in the securities issued by a securitisation.

### Sovereign exposures

Exposures to central governments and central government departments, central banks and entities owned or guaranteed by the aforementioned.

### ICBC

Industrial and Commercial Bank of China Ltd

### ICBCS

ICBC Standard Bank Plc

### Standardised Approach

The Standardised Approach to calculating credit risk capital requirements requires the use of a standard set of risk weights prescribed by the regulator. Use may be made of external credit ratings supplied by ECAs to assign risk weights to exposures. Standardised approaches, following prescribed methodologies, also exist for calculating market risk and operational risk capital requirements.

### Stressed VaR (SVaR)

Stressed VaR is a one year forward looking measure of VaR where certain parameters of the portfolio are calculated under a period of stress.

### Stress testing

Stress and scenario testing is the term used to describe techniques where plausible events are considered as vulnerabilities to ascertain how this will impact the capital resources which are required to be held.

### Subordinated liabilities

Liabilities which, in the event of insolvency or liquidation of the issuer, are subordinated to the claims of depositors and other creditors of the issuer.

### The Standardised Approach (TSA)

A standardised measure for calculating operational risk capital requirements based on the three year average of the aggregate risk weighted relevant indicators of the underlying business. The relevant indicators are derived from total income.

### Through-the-cycle (TTC)

See Point-in-time (PIT)

### Tier 1 capital

A measure of a bank's financial strength defined by the PRA. It captures common equity tier 1 capital plus other tier 1 securities in issue, but is subject to a deduction in respect of material holdings in financial companies.

### Tier 1 capital ratio

Tier 1 capital as a percentage of risk weighted assets.

### Tier 2 capital

A component of regulatory capital defined by the PRA, mainly comprising qualifying subordinated loan capital, certain non-controlling interests and eligible collective impairment allowances.

### **Trading book**

Positions in financial instruments and commodities held for trading purposes or to hedge other elements of the trading book.

### **Value-at-Risk (VaR)**

Value-at-Risk is an estimate of the potential loss in earnings which might arise from market movements under normal market conditions, if the current positions were to be held unchanged for one business day. It is measured to specified level of confidence, often 95 per cent or 99 per cent.

### **Write downs**

The depreciation or lowering of the value of an asset in the books to reflect a decline in their value, or expected cash flows.

### **Write-off**

The reduction of the value of an asset to zero, reflecting the inability to recover any residual value.

### **Wrong way risk (WWR)**

The risk that arises from the correlation between a counterparty exposure and the credit quality of the counterparty. It is therefore the risk that the probability of default of the counterparty increases with the exposure.



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