Pillar 3 Disclosures

for the year ended 31 December 2019

www.icbcstandard.com

Contents

Statement on Ownership

Industrial and Commercial Bank of China Limited (ICBC) and Standard Bank London Holdings Limited (SBLH), a wholly owned subsidiary of Standard Bank Group Limited (SBG), hold 60% and 40% respectively of the issued share capital of ICBC Standard Bank Plc (ICBCS).

ICBC Group Profile

On 28 October 2005, ICBC was restructured to a joint-stock limited company. On 27 October 2006, ICBC was listed on both the Shanghai and Hong Kong stock exchanges and has developed into one of the largest listed banks in the world, possessing a significant customer base, a diversified business structure, strong innovation capabilities and market competitiveness. ICBC has a presence on six continents and its overseas network spans 47 countries and regions.

ICBC provides a comprehensive suite of financial products and services to over five million corporate customers and over 500 million personal customers through its various distribution channels. These consist of domestic institutions, overseas institutions and correspondent banks worldwide, as well as the e-banking network comprising a range of internet and telephone banking services and self-service banking centres. These form a diversified and international operating structure focusing on commercial banking business while maintaining a leading position in ICBC's domestic market.

Standard Bank Group Profile

Standard Bank Group Limited, listed on the Johannesburg Stock Exchange, is the ultimate holding company for the global activities of SBG. SBG is one of Africa's leading banking and financial services organisations. In 2007, SBG entered into a major strategic partnership with ICBC which resulted in ICBC becoming a 20% shareholder in SBG.

SBG operates in three key business segments: Personal & Business Banking (PBB), Corporate & Investment Banking (CIB), and Investment Management & Life Insurance. These global business segments operate across South Africa, other African countries and selected international locations outside of Africa.

The Consolidated Pillar 3 Disclosures presented in this document are shown as at 31 December 2019.

References to ICBCS Annual Financial Statements 2019 are shown in gold text.

1. Foreword

1.1 Introduction

This document comprises ICBC Standard Bank Plc's (ICBCS) Pillar 3 disclosures on capital and risk management as at 31 December 2019. The disclosures are prepared in accordance with 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'. In particular, articles 431 to 455 of the CRR specify the Pillar 3 disclosure requirements. The CRD IV legislative package has been in force since 1 January 2014.

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

1.2 ICBCS 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 Consolidated 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 ICBCS website: 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 (referred to herein as "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 for ICBCS have not been made on a standalone basis due to the immateriality of risks contained within the other entities in the ICBCS group. The risk weighted assets of ICBCS Plc (solo-consolidated) account for 99.76% of the total RWAs of the ICBCS group as at 31 December 2019.

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

Zero values in all the tables included in this document are shown as "-" in order to distinguish these from non-zero values, which may appear as zeros due to rounding differences.

It is important to note that a number of significant differences could exist between accounting disclosures published in accordance with International Financial Reporting Standards ('IFRS') and Pillar 3 disclosures, which are provided in accordance with prudential requirements. See section 3.1, on scope of consolidation, for details.

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 written attestations in respect of the both the quantitative and qualitative disclosures from the most senior functional heads of the relevant areas within the group.

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 the group's risk profile.

The Pillar 3 disclosures included herein focus 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. The ICBCS Board is satisfied that the disclosures contained within this document, are appropriate to convey the risk profile of the firm. Additional disclosures are also provided in respect of liquidity risk.

1.4 Statement of ICBC Support

ICBC has provided ICBCS with a letter of support stating that ICBC intend to financially support ICBCS in ensuring that it meets all of its financial obligations as they fall due, including the maintenance of a minimum level of capital adequacy; the letter states:

"We confirm ICBC Standard Bank Plc (ICBCS) is viewed as a long-term investment and is an integral part of our overall operational strategy. Our goal is to develop ICBCS into a major link in our international network, and therefore, we undertake to support its development and growth.

ICBC hereby confirms that it intends to financially support ICBCS in ensuring that it meets all of its financial obligations as they fall due, including the maintenance of a minimum capital adequacy level in ICBCS.

Specifically, ICBC 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 letter shall remain valid unless or until ICBC ceases to be the controlling shareholder of ICBC Standard Bank Plc."

2. Overview

The risk profile of the ICBCS group (the 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 risk profile remains aligned to 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:

- Liquidity risk (see section 4.10)
- Credit risk (see section 5)
- Counterparty risk (see section 5.6)
- Market risk (see section 8)
- Operational risk (see section 9)
- Climate change risk (see section 10)

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 2019

2.2.1 General

The period has seen reduced economic growth across the globe having recorded the weakest growth pace since the financial crisis. Rising trade barriers, pressures from emerging markets and geopolitical tensions across the globe have impacted the global economy in one way or another.

With global growth slowing markedly, large central banks, especially the US Federal Reserve and the European Central Bank, cut interest rates and restarted asset purchases. The about turn by the US Federal Reserve, which was expected to raise rates during the year, resulted in a surge in many asset prices. Notable increases include the Nasdaq (35%), S&P 500 (29%), gold (19%) and silver (15%).

ICBCS incurred a net loss of $248m, largely driven by a loss of US$199 million on a commodity inventory intermediation transaction with Philadelphia Energy Solutions following a fire at their oil refinery and their subsequent bankruptcy, weaker market conditions, and the incurrence of $30m restructuring costs.

With regards to the commodity inventory intermediation transaction, the group is pursuing recovery of its losses by exercise of security rights and claims against the client's bankruptcy estate, including any recoveries under insurance policies maintained by the client in respect of its business and operations. Various other parties, including the client's term lenders, are seeking to recover losses they have incurred as a result of this incident from the client's bankruptcy estate and the various claims are to be considered by the bankruptcy court. As a result, the timing and extent of any recovery of losses incurred by the group on its inventory intermediation activities in 2019 remain uncertain and consequently no amount has been recognised in respect of any such recovery at 31 December 2019.

2.2.2 Risk appetite and stress testing

2.2.2.1 Year in brief

ICBCS operated within its Board Approved risk appetite throughout 2019.

Macroeconomic stress testing was carried out across the entire ICBCS group during 2019, 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 in February 2020.

2.2.2.2 Focus areas for 2020

The ICBCS risk management areas will continue to support the ICBCS business model and strategy whilst conforming with any regulatory obligations. This will include:

- Analysis of new product and counterparty requests
- Enhancing the relationship with, and understanding of, ICBC's Risk management team and processes
- Enhancing stress testing methodologies in line with evolving business strategy
- Building internal capacity to managed financial risks arising from climate change
- Continuing to move towards exiting remaining Service Level Agreements (SLAs) currently in place with Standard Bank of South Africa (SBSA)

2.2.3 Credit risk

2.2.3.1 Year in brief

Total Credit Risk exposure was 14% higher year-on-year, driven primarily by higher balances held at the Bank of England and a higher level of pre-settlement risk at the end of 2019. There was a continued focus on title based financing; including the Philadelphia Energy Solutions oil/product intermediation facility (the execution of the facility and the subsequent work-out), as well as a strategic initiative of the Precious Metals desk to finance metal on an allocated basis at client owned locations.

2.2.3.2 Focus areas for 2020

The ICBCS Credit and Country Risk team will continue to provide support for the Bank's business origination strategies, by ensuring appropriate second line risk management is in place and building required expertise where necessary.

ICBCS has defined frustration risk within the risk taxonomy, recognising the risk as contingent credit risk.

In order to recognise potential frustration risk within title based transactions, ICBCS is developing an appetite guideline that is informed by the credit risk grade of the counterparty compared to the notional financing and risk weighting of where the inventory is held. For example frustration risk weighting will be considered to be higher if inventory is held at a client location/custody rather than an LME warehouse or Euroclear.

There is ongoing engagement with ICBC to determine potential joint initiatives, especially in the credit ratings models area.

2.2.4 Market risk

2.2.4.1 Year in brief

Throughout 2019, the ICBCS trading book market risk, including VaR, Stressed VaR, and stress testing remained well within approved limits, with market risk exposures remaining subdued in volatile market conditions. The group's banking book interest rate risk also remained well within approved limits.

2.2.4.2 Focus areas for 2020

The emphasis for Market Risk in 2020 is to continue to focus on the implementation of the new requirements arising from the standards for minimum capital requirements for market risk , which will require ICBCS to provide regulatory reporting based on the revised methodology, Fundamental Review of the Trading Book (FRTB), from 2021 and is expected to become binding for the determination of capital requirements from 2023.

2.2.5 Operational risk

2.2.5.1 Year in brief

Operational Risk losses for the year were within risk appetite. Legal expenses continued to be incurred for the material incidents of 2014 and 2015.

During 2019 the Operational Risk function has completed its process mapping activity and has extended its role to include Physical Commodities Risk Assurance.

2.2.5.2 Focus areas for 2020

In 2020, the Operational Risk function will repatriate an operational risk internal capital model, currently operated by Standard Bank group under an SLA to London. The Operational Risk function will also continue to contribute to the roll-out and embedding of the group's Operational Resilience framework.

2.2.6 Capital Management

2.2.6.1 Year in brief

The group remains sufficiently capitalised, above minimum regulatory capital adequacy and leverage ratio requirements. ICBCS had a CET1 ratio of 13.64%, a tier 1 ratio of 15.94% and a total capital ratio of 19.54% as at 31 December 2019. The ICBCS leverage ratio as at 31 December 2019 was 4.78%.

During the year ended 31 December 2019, ICBCS raised $100m of tier 2 capital through the issuance of long-term subordinated debt. The group also issued US$160 million of additional tier 1 (AT1) securities to mitigate against the losses incurred from the commodity intermediation transaction. Both issues were subscribed for by ICBC.

The AT1 securities (Notes) are perpetual, with no fixed redemption date, callable by the issuer in its sole and absolute discretion (in whole, but not in part) after five-years or any date thereafter at their par value plus accrued but unpaid interest. The Notes are subordinate to any existing tier 2 instruments issued by ICBCS and senior to its ordinary shares. They pay interest annually for five-years at a fixed rate of 7.617 per cent and subsequently pay interest quarterly in perpetuity at a floating rate of three-month US$ Libor plus 436 basis points. Interest payments are non–cumulative, payable at the sole and absolute discretion of the issuer and will be mandatorily cancelled to the extent required if there are insufficient distributable reserves to make payment. The Notes include a write down feature, whereby their full principal amount and all accrued but unpaid interest will be written down to zero if ICBCS's fully loaded common equity tier 1 ratio falls below 7.0 per cent.

2.2.6.2 Focus areas for 2020

Capital resources will continue to 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:

- Ensuring an optimal capital mix for the ICBCS group, taking into account the different forms of capital resources (e.g. Tier 1 and Tier 2 capital) available to ICBCS
- Continuing to ensure that the group is adequately positioned to respond to regulatory capital rules under CRD IV and developing EU regulations (CRD V).

3. Regulatory Consolidation

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. However, there can be a number of differences in the methods by which certain undertakings are consolidated for regulatory purposes, as described below:

- 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.

In 2019, all investments held by ICBCS and its subsidiaries were treated as equity exposures. As a result, 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 relevant regulatory requirements.

The legal and regulatory structure of ICBCS and its subsidiaries is simple, and provides a capability for the transfer of surplus capital resources over and above regulatory requirements or repayment of liabilities when due. See solo consolidation described in section 3.3, for details.

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

3.2 Sub Group Disclosures

ICBC Standard Bank Plc is the most significant entity 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 resources and requirements of a subsidiary undertaking, within the calculation of the capital resources and capital requirement of 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 resources and requirements of SRC with its own, on a solo-consolidated basis. SRC is a commodity trading company incorporated in China. SRC is not subject to any local regulatory capital or liquidity requirements.

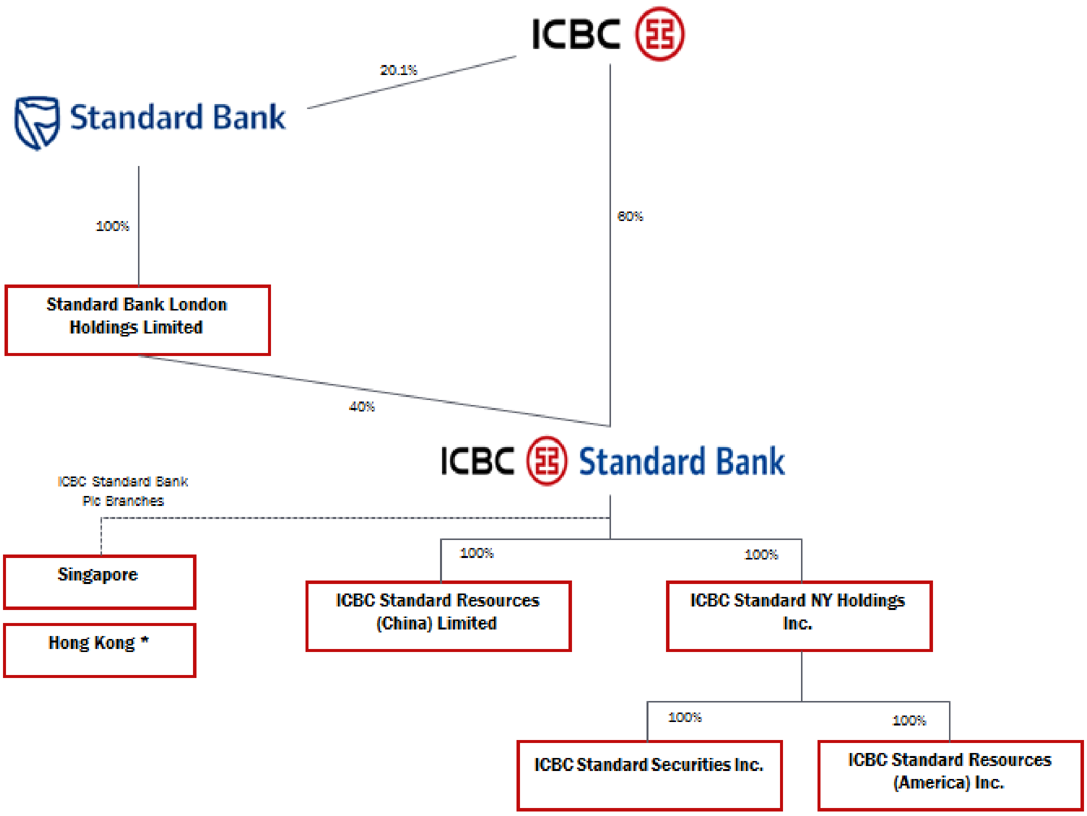
In December 2019, ICBC Standard Resources (China) Limited declared and authorised a dividend payment to ICBCS of RMB314.0 million (US$45.1 million).

3.4 Consolidated Balance Sheet under Regulatory Consolidation

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

The consolidated balance sheet for ICBC Standard Bank Plc is shown on page 42 of the ICBCS Annual Financial Statements 2019.

3.5 Group Structure



* Hong Kong branch has ceased trading, pending license revocation

4. Risk and Capital Management

4.1 Board Responsibility

The group Board of Directors (ICBCS Board) has the ultimate responsibility for the oversight of risk and capital management. The Board also ensure that the firm complies with all regulatory requirements set by the regulatory bodies. The group, led by the Chairman, ensures that all directors commit sufficient time to perform their functions in the group.

Members of the Board are subject to additional rules dictated by the Senior Managers and Certification Regime (SMCR). ICBCS has adopted a framework to ensure compliance with the SMCR, and the firm remains compliant with these requirements.

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 internal review process (including review by the Remuneration Committee of skills and experience, and screening as part of ICBCS's 'fit and proper' review procedures). Regulatory approvals will be sought, or notifications made in accordance with the SMCR Regime as required.

Candidates for independent non-executive director roles of ICBCS 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 also ensures that the recruitment process is compliant with the Senior Managers and Certification Regime.

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, other independent non-executive Directors.

4.1.2 Diversity and Composition

The group has a Diversity Policy that recognises the importance of diversity and that it is a much wider issue than gender. It recognises and embraces the benefits of having a diverse Board and management body, and views the increasing of diversity at Board and executive management body level as an essential element in maintaining a competitive advantage. Diversity will continue to be an active consideration whenever changes to the Board and executive management body are contemplated.

The Board believes 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 use of differences in the skills, regional and industry experience, background and other qualities of Directors and members of the executive management body. These differences will be considered in determining the optimum composition of the Board and senior management team and where possible will be balanced appropriately.

All Board and executive management body appointments are to be made on merit, in the context of the skills, experience, independence and knowledge which the Board and executive 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 in 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 SBG, 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 SBG respectively. The company's independent non-executive directors also have other general board-level experience.

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 training programme for board members covering both technical and company specific matters has been delivered during 2019.

The table below shows the number of directorship held by the members of the Board as at 31 December 2019.

Table 1: Number of Directorships for Directors of ICBC Standard Bank Plc at 31 December 2019

Director's Name	Directorships within ICBCS group of Companies (includes ICBC Standard Bank Plc)	External Directorships of other Commercial Companies*
Ms Isabella da COSTA MENDES	1	2
Ms Judith EDEN	1	3
Mr Guido HALLER	1	-
Mr Ruixiang HAN	1	1
Mr David HODNETT	1	1
Ms Yabing HU	1	-
Mr Binliang JIN	1	-
Mr Garry JONES	1	3
Mr Barend KRUGER	1	5
Mr Andrew SIMMONDS	1	2
Mr Lubin WANG	1	1
Dr Shoujiang WANG	1	-
Dr Wenbin WANG	1	-

* Excludes charities, trusts, non-commercial purpose entities and organisations and other dormant companies. More than one directorship in the same corporate group of companies counts as a single external directorship.

4.1.3 Board Review

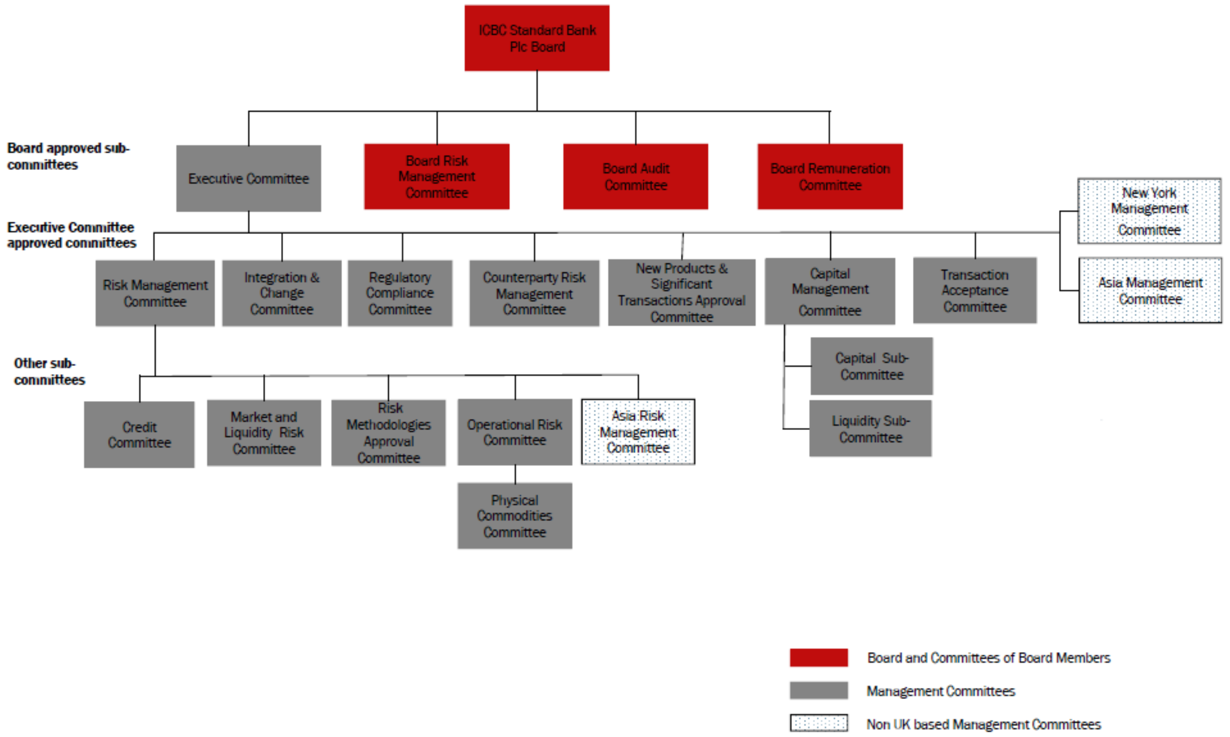
For the period under review, the Board is satisfied that the group's risk, compliance, treasury, capital management and internal audit processes generally operated effectively and that the group managed its funding and capital in support of its strategy.

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 2019.

Table 2: Governance Committees



4.2.1 Risk Governance committees

4.2.1.1 Board Risk Management Committee (BRMC)

The primary risk management committee is the BRMC which reports to the 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.

The committee is comprised of Non-Executive Directors and the members of the committee during 2019 were as follows:

Table 3: Board Risk Management Committee

Ms I da Costa Mendes	Appointed a member on 1 March 2019 and appointed Chair on 16 December 2019
Mr A Simmonds	Member throughout 2019 and Chair until 16 December 2019
Ms J Eden	Member throughout 2019
Mr D Hodnett	Appointed a member on 6 November 2019
Ms Y Hu	Appointed a member on 25 June 2019
Mr G Jones	Appointed a member on 14 May 2019
Mr A Hall	Ceased to be a member upon resignation as a director on 5 November 2019
Mr B Kruger	Member throughout 2019
Mr L Wang	Member throughout 2019
Dr W Wang	Ceased to be a member on 1 April 2019
Mr R Weerasekera	Ceased to be a member upon resignation as a director on 31 March 2019

The BRMC is the highest authority on risk management below the Board. The Board has delegated to the Committee broad functions to provide independent and objective oversight of risk management and compliance across the group. In order to achieve this, the Committee must:

- Ensure that risk management and compliance policies and standards are well documented, up to date and support the group's strategic objectives by being fit for purpose;
- Review, assess and challenge the appropriateness of the risk management and compliance control frameworks;
- Review and assess the adequacy and appropriateness of the risk appetite including the state of compliance with current and known future legal and regulatory obligations, to support the delivery of current strategic objectives;
- Support a climate of discipline and control that will reduce the opportunity for fraud;
- Provide challenge to management in their review and oversight of risk and compliance;
- Hold management to account against the matters delegated and be able to challenge the executive effectively and promptly;
- Monitor effective communication between the Head of Compliance, the management and the regulators; and,
- Maintain a continuing liaison with the Chief Risk Officer (CRO) and Head of Compliance who report to the Committee on risk exposures and compliance with legal and regulatory obligations relative to risk appetite and tolerance.

The Committee performs specific review of Credit, Market, Operational, Country, Liquidity and Physical Commodity Risk inherent within ICBCS and also has responsibility for Compliance Risk oversight.

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.

The Head of Compliance provides a report to each BRMC meeting detailing key matters and updates from each function within the Compliance department together with reports on compliance monitoring and issues raised by regulators.

If the BRMC members request an update to a risk or compliance related matter outside of a meeting, the CRO or Head of Compliance will facilitate the response before updating all the members.

BRMC Governance during 2019

A total of four meetings of the BRMC were held during 2019.

The BRMC considered the current and future risk profile in relation 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. It also considered the group's exposure to country, single name obligor and sector concentration risk on an ongoing basis.

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

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

4.2.1.2 Executive Committee

The ICBCS Executive Committee (ExCo) (formerly called Governance Committee (GovCo) until 7 November 2019) is the executive governance committee with oversight of all business lines within ICBCS. It ensures that any additional policies and controls (in addition to the core risk framework) are put in place to ensure adherence to local regulatory requirements and best practice.

Key risk related responsibilities include:

- Ensuring business contingency management frameworks are in place
- Agreeing the risk appetite (which forms a recommendation to Board) and delegated authority to sub-committees;
- Noting any reputational risk matters escalated to Exco and initiating remedial action where necessary;
- Ensuring that ICBCS has an effective compliance programme covering regulatory and financial crime risk (including, but not limited to anti-money laundering, anti-bribery and corruption, counter terrorist financing, fraud, sanctions and any other financial crimes);
- Reviewing and approving terms of reference for and membership of executive sub-committees;
- Noting the minutes of sub-committees and monitoring their work.

The Exco also receives reports on the status of progress and outcomes of Internal Audits from the Head of Internal Audit and monitors progress in closing resulting Internal Audit actions.

4.2.1.3 Risk Management Committee

The Committee's primary responsibility is to monitor and control credit risk, market risk (including interest rate risk in the banking book), operational risk and liquidity risk and oversee adherence of ICBCS to the agreed risk appetite.

Key responsibilities include:

- Notifying the ExCo, 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 approval by the Board) for ICBCS, primarily from a Liquidity, Credit, Market (including IRRBB) 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, liquidity risk, interest rate risk in the banking book and operational risk

- Overseeing and reviewing stress testing , and escalating, as necessary, any matters relating to stress testing to the ExCo and the BRMC
- Setting risk control policy, as appropriate
- Requiring and approving any new risk approaches, methodologies, 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 protect the group, support sustainable business growth and ensure that any losses remain within the group's risk appetite. The Board has ultimate responsibility for risk oversight.

For this purpose, the 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

Risk Appetite, in the context of a Risk Appetite statement, is an expression of the amount or type of risk the Bank is willing to take in pursuit of its financial and strategic objectives, reflecting its capacity to sustain losses and continue to meet its obligations as they fall due, under both normal and a range of stress conditions.

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 Risk Appetite, as at 31 December 2019, is monitored using the following metrics:

- Earnings at Risk: Calibrated to represent a financial loss over a one year horizon and provide a directly comparable risk metric across risk classes, relevant for the annual budget.
- Regulatory Capital: After absorbing the impact of stress events contained in the macroeconomic scenarios used for capital stress testing, and after taking account of the effect of mitigating management actions, the CET1 ratio, Tier 1 ratio and the total regulatory capital adequacy ratio will not be lower than the level imposed by the regulator.
- Economic Capital: Economic capital adequacy ratio (Available Financial Resources (AFR)/ ECap).
- Liquidity Risk: Defined through two limits which are calculated as the higher of the regulatory surplus and the internal stress surplus. In order to ensure that there is sufficient time to react to a potential breach of liquidity risk appetite; ICBCS has set a headroom amber trigger above the minimum LAB requirement, which is based on the most constraining of the two measures above.
- Unacceptable Risk: ICBCS avoids exposure to unacceptable risk events, such as activities that may result in adverse reputational damage, illegal activities, breach of regulation and breach of customer mandate. In the event that such a risk event is identified, it will be addressed through management action with appropriate urgency.

4.5 Capital Management

4.5.1 Objective

ICBCS group's Treasury and Capital Management (TCM) function ensures that regulatory capital requirements are met at all times both under business as usual conditions and under stressed conditions. The function advises senior management on the quantum and form of capital required, and when the required capital should be raised in line with business requirements.

4.5.2 Governance

The Capital Management Committee (CapCom) is a subcommittee of the ExCo. CapCom is the primary forum for maintaining oversight of the size and composition of the balance sheet, including the capital and liquidity positions. CapCom is responsible for reviewing the current capital, large exposures, funding, leverage, encumbrance and bank levy positions and where also appropriate, the projected positions. It is also responsible for making appropriate operational level decisions regarding these matters.

CapCom's responsibilities in relation to financial resources include, but are not restricted to, the following:

- Ensuring appropriate management arrangements are in place to ensure compliance, in relation to capital and liquidity, with both internal risk appetite and external regulatory minimum requirements
- Reviewing internal assessments of the overall adequacy of capital and liquidity resources
- Ensuring there are appropriate contingency management frameworks in place for capital and liquidity management

- Reviewing opportunities for raising capital and liquidity resources as required, including review of the funding plans and strategy
- Reviewing and monitoring relevant future / emerging legislation and regulation and ensuring appropriate arrangements are in place to ensure compliance with these requirements as they come into force
- Providing governance oversight of relevant projects where appropriate
- Providing governance oversight of the integrity of the firm's regulatory reporting in respect of its regulated activities where appropriate
- Reviewing and endorsing the ICAAP and ILAAP documents for approval by the Board
- Reviewing and endorsing the Recovery and Resolution Plan (RRP) for approval by the Board
- Developing such strategies as the Committee may deem appropriate for the hedging of the group's capital resources where denominated in a currency other than USD, and for the hedging of the group's cost base where costs are incurred in currencies other than USD
- Reviewing reports setting out any capital or cost hedges which have been executed, and their effectiveness in achieving the objectives set
- Managing the large exposures position of the firm

The Capital Sub Committee (CSC) is responsible for instituting a response to early signs of risk to the group's capital adequacy and large exposures as part of the Early Warning Indicators (EWI) escalation mechanism. The CSC is mandated to take a number of defined actions with a view to improving the capital and large exposures position of the group. Should the actions within the CSC mandate be considered insufficient, the CSC may decide to escalate the position to Contingency CapCom.

The Liquidity Sub Committee (LSC) is responsible for overseeing liquidity risk management in the early signs of possible stressed conditions. This responsibility is delegated by CapCom, as the primary forum for managing liquidity.

4.5.3 Capital Transferability

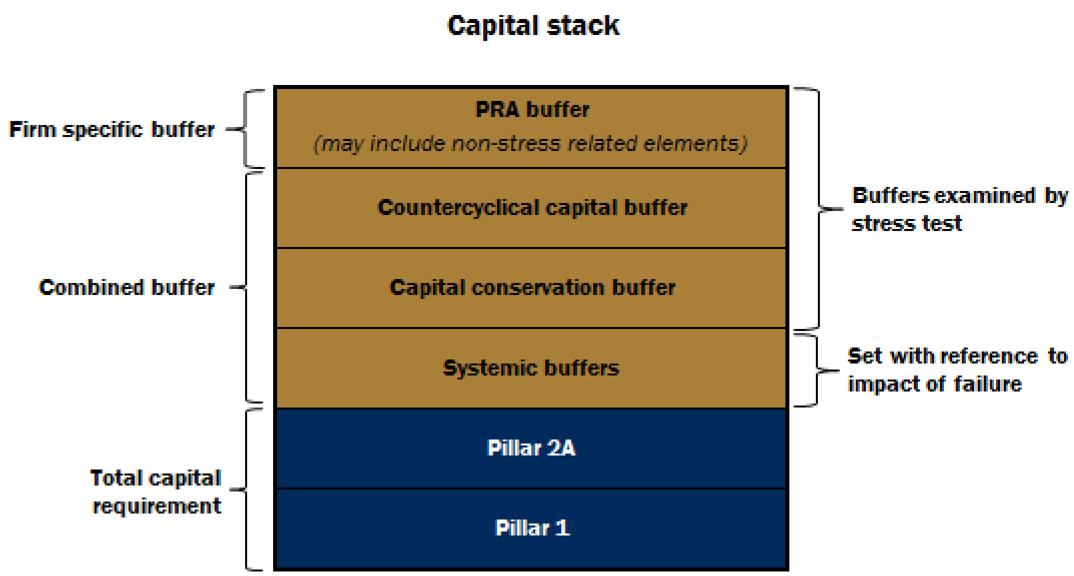
Subject to compliance with the corporate laws and the required regulatory approvals of relevant jurisdictions, no significant restrictions exist on the transfer of funds and regulatory capital within the ICBCS group.

4.6 Regulatory Capital

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 ratios (see section 4.8 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 total 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 are both the on- and off-balance sheet exposures risk weighted according to the relative credit risk of the counterparty, and capital requirements for concentration risk calculated under the CRR requirements, where required.

Under CRD IV, the minimum CET1, Tier 1 and Total capital adequacy ratios are supplemented by a number of capital buffers. The capital buffers applicable to ICBCS are collectively referred to as the Combined Buffer Requirement.

4.6.2 Pillar 2A Requirements

The Pillar 2 capital framework is intended to ensure that firms have adequate capital to support the relevant risks in their businesses. In addition to the Pillar 1 and the Combined Buffer Requirement mentioned above, the PRA performs a periodic supervisory review of ICBCS's Internal Capital Adequacy Assessment Process (ICAAP), which leads to a final determination by the PRA of Individual Capital Guidance (ICG) amount under Pillar 2A. The Pillar 2A requirement is an additional capital requirement that a firm needs to hold to cover risks that are not adequately captured in Pillar 1. This is a point in time assessment of the minimum amount of capital the PRA considers that an entity should hold.

4.6.3 Capital Buffers

The PRA also requires firms to hold capital buffers to meet additional regulatory requirements. There are three main buffers that apply to ICBCS – the PRA Buffer, Capital Conservation Buffer and the Countercyclical Buffer. Systemic buffers are not applicable to ICBCS as the group is not systemically important in the UK (see above diagram).

4.6.3.1 Capital Conservation Buffer (CCB)

The CCB introduced under CRD IV is designed to ensure that banks build up capital buffers outside periods of stress which can be drawn down as losses are incurred.

4.6.3.2 Countercyclical Capital Buffer

CRD IV also introduced a cyclical buffer in line with CRR, in the form of an institution- specific countercyclical capital buffer requirement ('CCyB'). The CCyB is an extension of the CCB and aims to achieve a broader macroprudential goal of protecting the banking sector from periods of excess aggregate credit growth.

The UK Financial Policy Committee (FPC) is responsible for setting the UK CCyB rate (for credit exposures located in the UK), and have indicated that this rate would be set at 1% under normal economic conditions. Post the Brexit vote in June 2016 and in light of economic uncertainty, the FPC set the UK CCyB to 0%. In June 2017, the UK CCyB rate was subsequently increased to 0.5% and increased further in November 2017 to 1% in line with the long term FPC expectation. These rate increases applied from 27 June 2018 and 28 November 2018, respectively.

From 16 December 2020 the UK CCyB rate will be set to 2%, which the FPC judges to be an appropriate rate for the current standard risk environment.

CRD IV as implemented in the UK includes a transitional period, during which the FPC is responsible for deciding whether CCyB rates set by EEA States should be recognised and for taking certain decisions about third country (non EEA) rates, including whether a higher rate should be set for the purposes of UK institutions calculating their CCyBs.

As at 31 December 2019, the FPC has recognised the following CCyB rates:

- 0.5% for Bulgaria
- 1.5% for the Czech Republic
- 1% for Denmark
- 0.25% for France
- 2% for Hong Kong
- 1.75% for Iceland
- 1% for Ireland
- 1% for Lithuania
- 2.5% for Norway
- 1.5% for Slovakia
- 2.5% for Sweden
- 1% for the United Kingdom

Each institution's specific countercyclical capital buffer rate is a weighted average of the countercyclical capital buffers that apply in the jurisdictions where the relevant credit exposures are located. The ICBCS CCyB rate, calculated based on exposures as at 31 December 2019 was 0.21%.

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 2019. The table below also shows that the corresponding capital (own funds) requirement, to be held in CET1 capital for CCyB was $14.6m.

Table 4: Countercyclical buffer requirements

As at 31 December 2019	
Total risk weighted exposure amount	$6,952.8m
ICBCS countercyclical buffer rate	0.21%
ICBCS countercyclical buffer requirement	$14.6m

4.6.4 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 because it has chosen, on a cost and 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 deemed appropriate.

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

4.6.4.1 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 5: Risk Based Capital Requirements

Risk Type	Approach
Credit Risk	Standardised Approach
Counterparty Credit Risk (Derivatives)	Standardised (Mark-to-Market Method)
Counterparty Credit Risk (SFT)	Standardised (Financial Collateral Comprehensive Method)
Operational Risk	The Standardised Approach (TSA)
Market Risk	Internal Model Approach (Value-at Risk) & Standardised Approach

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

4.7 ICBCS Group's Approach to Managing Capital

4.7.1 External requirements

During the period under review, the ICBCS Group complied with 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 Group from 1 January 2014 for PRA reporting.

4.7.2 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 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.

4.7.3 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 stress analysis to determine the adequacy of the group's capital resources against the minimum requirements, including the ICBCS specific Total Capital Requirement ('TCR') 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 PRA Buffer for the group (see section 4.6.3). This PRA buffer comprises a minimum level of capital buffer 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 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. The capital plans are tested for capital adequacy using a range of stress scenarios covering adverse economic conditions and the group maintains a Recovery Plan which sets out a range of potential mitigating actions; including parental support, 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 BRMC and CapCom.

4.7.4 Monitoring

ICBCS uses Early Warning Indicators (EWIs), which are monitored on a daily basis to ensure that minimum regulatory capital requirements are not likely to be 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 group to remediate the issue. For example, a problem with the current capital position would be treated with more urgency than one with a forecast capital position in three years' time. Under the framework, relevant capital issues are escalated to the CapCom which can operate under its contingency management terms of reference if required by the escalation framework. This allows the group 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 contingency ExCo 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.

4.8 Capital Position

4.8.1 Summary

The group's capital position applying prevailing rules as at 31 December 2019 is set out in the following sections. The group complied with externally imposed capital requirements during the current and prior year.

The group's CET 1 capital was $948.3 million as at 31 December 2019 (2018: $1,204.0 million), the group's Tier 1 capital was $1,108.3 million as at 31 December 2019 (2018: $1,204.0 million) & the group's total capital was $1,358.3 million as at 31 December 2019 (2018: $1,446.1 million).

The ratios are measured against the regulatory minimum requirements. The table below shows the capital position of ICBCS group as at 31 December 2019.

Table 6: ICBCS - Minimum capital adequacy ratios and buffers

As at 31 December 2019	As at disclosure date	Minimum Regulatory Ratios & Buffers
Capital ratios and buffers		
Common Equity Tier 1 (as a percentage of risk exposure amount)	13.64%	4.50%
Tier 1 (as a percentage of risk exposure amount)	15.94%	6.00%
Total capital (as a percentage of risk exposure amount)	19.54%	8.00%
Institution specific buffer requirement (CET1 requirement in accordance with CRR Article 92 (1) (a) plus buffers, expressed as a percentage of risk exposure amount:	2.71%	Not applicable
of which: capital conservation buffer requirement	2.50%	-
of which: countercyclical buffer requirement	0.21%	Firm specific
of which: systemic risk buffer requirement	Not applicable to ICBCS	Not applicable to ICBCS
of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	Not applicable to ICBCS	Not applicable to ICBCS

The total capital adequacy ratio, based on the EU Capital Requirements Regulations as at 31 December 2019, was 19.54% (2018: 22.25%). The decrease in ratio is driven by a rise in RWA and a reduction in total capital during the year as a result of losses incurred on commodity intermediation which were partially offset by the issuance of AT1 capital.

ICBCS is subject to a Pillar 2A requirement as per the PRA's Total Capital Requirement (TCR) for 2019. The requirement is based on a point in time assessment, of which 56% of the requirement needs to be met in CET1 form and 75% by Tier 1 capital.

The PRA refers to the amount and quality of capital (CET1, Tier 1 and Tier 2) that a firm must maintain in order to comply with the minimum capital requirements under the CRR (Pillar 1) and the Pillar 2A requirements as the Total Capital Requirement (TCR). The TCR for ICBCS was set as 11.4% for 2019, of which 8.55% was met with CET1 capital.

4.8.2 Capital Resources

The capital position for ICBCS group on a consolidated basis as at 31 December 2019 is shown in the tables below.

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

Table 7: ICBCS - Capital Resources

Regulatory Capital	2019 ($m)	2018 ($m)
Common Equity Tier I		
Share capital	1,083.5	1,083.5
Share premium	996.0	996.0
Reserves	(1,066.0)	(821.6)
Less regulatory deductions	(65.2)	(53.9)
Total Common Equity Tier I	**948.3**	**1,204.0**
Additional Tier I		
Total Additional Tier I	160.0	-
Total Tier I	**1,108.3**	**1,204.0**
Tier II		
Subordinated debt instruments	250.0	242.1
Less regulatory deductions	-	-
Total Tier II	250.0	242.1
Total eligible capital	**1,358.3**	**1,446.1**

	2019	2018
Risk Weighted Assets	6,952.8	6,500.2
Common Equity Tier 1 Ratio	13.64%	18.52%
Tier 1 Risk Asset Ratio	15.94%	18.52%
Capital Adequacy ratio	19.54%	22.25%

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

4.8.3 Capital Requirements

The capital requirements for ICBCS group on a consolidated basis as at 31 December 2019 are shown in the table below.

Table 8: ICBCS - Capital Requirements

Capital Requirements Calculated as per Regulation (EU) 575/2013 (CRR)	2019 ($m)	2018 ($m)
Credit, counterparty credit and dilution risks (standardised approach)	287.2	249.3
Central governments or central banks	25.1	19.6
Regional governments or local authorities	-	-
Public sector entities	-	0.5
Multilateral development banks	-	-
International organisations	-	-
Institutions	69.5	80.3
Corporates	166.5	144.2
Retail	-	-
Secured by mortgages on immovable property	-	-
Exposures in default	15.6	0.5
Items associated with particularly high risk	1.4	-
Covered bonds	-	-
Claims on institutions and corporate with a short-term credit assessment	-	-
Claims in the form of CIU	-	-
Equity exposures	0.3	0.3
Other items	8.9	3.9
Securitisation positions	-	-
Settlement/delivery risk	0.8	0.2
Credit Valuation Adjustment (CVA) Capital Requirements	22.3	48.1
Market Risk : Position, foreign exchange and commodity risks (standardised approach)	10.3	13.8
Position risk	5.2	5.9
Foreign exchange	4.8	6.3
Collective Investment Undertakings	-	1.7
Commodities	0.2	-
Market Risk : Position, foreign exchange and commodity risks (internal models)	181.4	145.5
Operational risk (standardised approach)	54.2	63.2
Large exposures in the trading book	-	-
Total capital @ at 8% minimum capital requirement	**556.2**	**520.0**
Total Risk Weighted Assets	**6,952.8**	**6,500.2**

4.9 Regulatory Capital Instruments

As at 31 December 2019, the recognition, classification and valuation of securities included 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 Consolidated 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 main features of all capital instruments are shown in Annex A.

4.10 Liquidity Risk Management

Liquidity risk means the risk that the group, although solvent, does not have available sufficient financial resources to enable it to meet its obligations as they fall due. Funding risk is the risk that the group does not have stable sources of funding in the medium and long term to enable it to meet its financial obligations, as they fall due, either at all or only at excessive cost. The group's liquidity risk framework also captures funding risk, as the two horizons overlap due to the short and liquid dated nature of the trading focused business model.

4.10.1 Liquidity Management Framework

The group's liquidity risk management framework is documented in the ILAAP, which is reviewed and approved by the Board.

The core objectives of the framework are:

- To ensure that the group has adequate liquidity resources for both regulatory and internal purposes on a daily and forward-looking basis, both under normal and stressed conditions;
- To ensure strong policies, governance and escalation mechanisms exist, in line with the risk and control monitoring framework; and
- To maintain a prudent funding profile, with early warning indicators (EWIs) and stress testing methodologies in place to alert management to potential liquidity and funding deterioration and have sufficient time for mitigating actions.

ICBCS incorporates the following policies, methodologies and processes into its liquidity risk management and monitoring framework:

- *Cashflow management and forecasting:* daily monitoring of the funding and liquidity position supplemented by active monitoring of the group's forecasted liquidity position to ensure sufficient LAB headroom is maintained.
- *Liquid Asset Investment Policy ("LAIP"):* Defines the asset classes that can be included in the LAB and the procedures for controlling and monitoring it.
- *Risk Appetite Statement ("RAS") and Framework ("RAF"):* Establish the liquidity risk appetite, ensuring alignment to the wider group strategy, resource availability and business requirements.
- *Liquidity Limit/EWI Monitoring Policy:* Uses group specific and macroeconomic indicators to alert Senior Management to potential liquidity deficiencies. It also details the escalation procedures to be followed in the event of EWI triggers and RAS limit breaches to maximize time available to execute appropriate mitigation actions.
- *Internal Stress Testing Methodology and Internal Stress Testing Policy:* Help the group understand potential vulnerabilities to severe but plausible stress events across all applicable liquidity risk drivers, and assist the group in determining its management actions.
- *Funds Transfer Pricing ("FTP") and the Contingent Liquidity Charge ("CLC") mechanism:* Set out the methodology used by the group to recharge the cost of funding to the business, based on the desks' funding and contingency liquidity requirements.
- *Recovery Plan:* Establishes a framework to respond to liquidity stress events and, includes a suite of management actions and roles and responsibilities for their enactment.
- *Funding Plan:* Articulates the group's funding strategy across the 4 year planning horizon, while ensuring alignment with the overall budget process and RAS.

4.10.2 Organisational structure

The group has a robust operating model for the management and monitoring of liquidity risk.

The capital management committee (CapCom) is the primary forum for managing liquidity. CapCom delegates responsibility to the liquidity sub-committee (LSC) for overseeing liquidity risk management in the early signs of possible stressed conditions.

Treasury and Capital Management (TCM) is the functional area responsible for the day to day liquidity and funding management. TCM's main responsibilities are to:

- Ensure that the Bank's liquidity and funding positions are actively and efficiently managed within the constraints of the RAS
- Maintain the funding plan
- Be responsible for TCM P&L

- Maintain the Bank's methodologies for liquidity stress testing, funds transfer pricing and recharge of liquidity risk (i.e. the contingent liquidity charge)
- Produce funding and liquidity reports including: internal liquidity management information and regulatory returns
- Own the ILAAP, liquidity sections of the Recovery and Resolution Pack, and internal liquidity policy documents (e.g. the Liquid Asset Investment Policy)
- Ensure compliance with changes in funding and liquidity regulations and ensures that the impact on the Bank's business model is articulated and effectively communicated to Senior Management

The Board Risk Management Committee (BRMC) provides the primary non-executive committee oversight and delegates responsibility to the Executive Committee (ExCo)'s sub-committees, the Risk Management Committee (RMC) and the Market and Liquidity Risk Committee (MLRC). The RMC and MLRC ensure liquidity risk is monitored appropriately in BAU and stressed conditions, including monitoring breaches of the RAS.

These executive committees are supported at the functional level by Liquidity Risk on a daily basis.

Liquidity Risk's main responsibilities are to:

- Own the Liquidity section of the RAS, the Liquidity Limit/EWI framework and to be responsible for the annual update of associated sections of the ILAAP
- Monitor the Bank's adherence to the Board approved RAS
- Report the daily Limit/EWI monitoring dashboard and monitor and escalate triggers of the EWIs as required
- Perform the independent review of regulatory returns prior to submission, and of associated adjustments and Business Requirement Documentations
- Provide feedback to and challenge and formal review of the internal liquidity stress testing methodology
- Undertake the second line review of TCM owned policies and the ILAAP

Internal Audit provides independent and objective assurance and is mandated by the Board Audit Committee to assess the adequacy and effectiveness of the risk management framework.

4.10.3 Liquidity stress testing

The group's RAS-based internal stress test is a combined market and group-specific stress test with a survival period of 91 days; however, the group also runs separate market and group-specific stresses to ensure that the group's survival horizon is tested across a range of severe but plausible stress scenarios. Each of the stresses is parameterised to ensure that all material on- and off-balance sheet funding and liquidity risks are captured and mitigated.

The group's reverse stress testing framework supplements the stress testing framework and informs the RAS calibration and pre-emptive management actions to mitigate against reaching the point of non-viability.

The stress testing and reverse stress testing policies are approved annually by the Board.

4.10.4 Meeting Liquidity Requirements

The group's liquidity risk appetite statement (RAS) limits are measured through two metrics:

- Liquid asset buffer (LAB) surplus over the PRA's internal liquidity guidance (ILG) requirement; and
- LAB surplus over the group's most constraining internal stress test requirement i.e. the Combined Stress Test

These limits ensure that the group holds sufficient LAB to meet both regulatory requirements and the anticipated stressed net contractual and contingent outflows as determined by the group's internal stress tests.

As at 31 December 2019, the LCR position was 236% (2018: 224%), and the group held surplus LAB of:

- US$2,714 million over the ILG requirement, measured at calendar day 30 (2018: US$2,329 million).
- US$2,982 million over the combined internal stress test requirement, measured at the low point of the 91-day survival horizon (2018: US$1,571 million).

4.10.5 Liquidity and funding risk monitoring

In addition to RAS limits, the group has further EWIs that can identify the emergence of increased liquidity risk based on the assumptions and liquidity risk drivers which are of particular relevance to the group's business model e.g. funding concentration, and ratings downgrade thresholds.

ICBCS monitors the composition of its funding base on an ongoing basis. The group's monitoring procedures include the daily reporting of EWIs designed to detect changes in the funding base, including new areas of concentration. Where concentrations are identified, the group ensures that it is appropriately parameterised within its internal stress testing framework to ensure the risk of funding withdrawal is adequately mitigated.

In addition to RAS limits, the group has further EWIs that can identify the emergence of increased liquidity risk based on the assumptions and liquidity risk drivers which are of particular relevance to the group's business model.

As the business model evolves, the group remains mindful of liquidity and funding risk, with daily management by TCM, and monitoring by Risk, while committee level oversight is provided by CapCom, MLRC and RMC.

This is supplemented by a regular review of the liquidity limit/EWI monitoring policy and the stress testing methodologies, to inform the setting of RAS.

4.10.6 Reporting

The group's main liquidity measurement reporting system is the Assets and Liabilities Database (ALDB). The ALDB provides the group with an effective liquidity tool to enable daily monitoring of the funding and liquidity position.

All liquidity regulatory returns and management information for the group, including all material branches and subsidiaries, are sourced from this in-house system, which is subject to the internal IT governance and controls to ensure continuous completeness and accuracy of data.

Liquidity management information is produced in accordance with regulatory liquidity and internal management reporting requirements to ensure appropriate monitoring of the group's liquidity and funding risks. These range from daily reports (e.g. the limit/EWI dashboard), packs provided to the main executive and non-executive committees and regulatory returns.

4.10.7 Liquidity Coverage Ratio (LCR)

The EBA guidelines on LCR disclosure specify the uniform disclosure tables and templates required to be to be disclosed. The tables below provide a quarterly breakdown of the LCR for ICBCS at an individual and group (Consolidated) level. The tables show the averages of month end observations over the twelve months preceding the end of each quarter, as required under the guidelines.

Disclosures at both levels are provided in compliance with the disclosure requirements. ICBCS TCM manages the funding and liquidity risk for the consolidated ICBCS group.

Table 9: Individual Liquidity Coverage Ratio for ICBCS

	31 March 2019	30 June 2019	30 September 2019	31 December 2019
Liquidity buffer	4,942	5,004	4,943	4,856
Total net cash outflows	2,215	2,306	2,451	2,526
Liquidity coverage ratio	224%	220%	201%	193%

The tables above show the averages of month end observations over the twelve months preceding the end of each quarter.

Table 10: Consolidated Liquidity Coverage Ratio for ICBCS

	31 March 2019	30 June 2019	30 September 2019	31 December 2019
Liquidity buffer	4,942	5,004	4,943	4,856
Total net cash outflows	2,209	2,296	2,434	2,509
Liquidity coverage ratio	225%	220%	203%	195%

The tables above show the averages of month end observations over the twelve months preceding the end of each quarter.

As required by the LCR Delegated Act, the group's LAB composition is aligned to the currency denomination of net cash outflows.

The group's derivative trading activity also generates the risk of margin calls which are likely to increase in the event of stress. The group's LCR calculation incorporates the Historical Look Back Approach's cash outflows for stressed margin calls to ensure that this risk is adequately mitigated. The risk is also parameterised accordingly in the group's internal stress tests.

5. Credit Risk

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 includes counterparty risk (composed of primary, pre-settlement, issuer and settlement risk) and concentration risk.

5.2 Approach to managing credit risk

ICBCS's credit risk arises mainly from loans, commodity leasing, financing transactions related to commodities and securities and derivative contracts entered into with 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;
- continual monitoring of underlying counterparty performance and news flows and adjusting appetite where appropriate
- 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 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 extent to which ICBCS is exposed to counterparty credit risk is informed by the ability to net mark to market across a portfolio of trades, take collateral and call for margin under eligible trading documentation. See section 5.9 for additional details on counterparty credit risk management.

5.2.1 Governance Committees

The Credit Committee is convened as a sub-committee of the Risk Management Committee (RMC) 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 framework;
- 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 RMC 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;
- Review and approve counterparty trading documentation (e.g. ISDA Master Agreements, Global Master Repurchase Agreements, etc.) and Legal opinions on Netting, Collateral and other forms of credit risk mitigation;
- Approve any underwriting commitments related to Primary Markets transactions.

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 to monitor and measure credit risk limits and exposures.

Credit risk reports are produced on a monthly basis for the RMC and Portfolio Credit Committee. Reports are also provided to the Board Risk Management Committee (BRMC) on a quarterly basis. 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 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.

Additional disclosures on non-performing and forborne exposures can be found in Appendix E.

5.3.3 IFRS 9 Adoption

IFRS 9 Financial Instruments was adopted by the group from 1 January 2018. This introduced an expected credit loss (ECL) impairment requirement, providing timelier recognition of credit losses. Implementation of IFRS 9 required the development of models for estimating credit losses, incorporating multiple scenarios and forward looking macro-economic information. The new standard also introduced a principles based approach for classification and measurement of financial assets, based on the underlying business model and their contractual cash flow characteristics.

The group has adopted the regulatory transitional arrangements published by the EU on 27 December 2017 for IFRS 9: Financial Instruments. These permit Banks to add back to their capital base a proportion of the impact that IFRS 9 has upon their loan loss allowances during the first five years of use. The proportion that banks may add back starts at 95% in 2018 and reduces to 25% by 2022.

The impact of these transitional arrangements on the ICBCS capital base can be seen in the table below, and also in Appendix B.

Table 11: IFRS9 Transitionals

		As at 31st December 2019	As at 31st December 2018
	Available capital (amounts)		
1	Common Equity Tier 1 (CET1) capital	948.3	1,204.0
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	947.8	1,203.7
3	Tier 1 capital	1,108.3	1,204.0
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	1,107.8	1,203.7
5	Total capital	1,358.3	1,446.1
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	1,357.8	1,445.8
	Risk weighted assets (amounts)		
7	Total risk-weighted assets	6,952.8	6,500.2
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	6,952.8	6,500.2
	Capital Ratios		
9	Common Equity Tier 1 (as a percentage of risk exposure amount)	13.64%	18.52%
10	Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	13.63%	18.52%
11	Tier 1 (as a percentage of risk exposure amount)	15.94%	18.52%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	15.93%	18.52%
13	Total capital (as a percentage of risk exposure amount)	19.54%	22.25%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	19.53%	22.24%
	Leverage Ratio		
15	Leverage ratio total exposure measure	23,165.6	24,256.4
16	Leverage ratio	4.78%	5.02%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	4.78%	5.02%

Additional disclosures on impairments are included on pages 99 and 120-123 of the ICBC Standard Bank Plc Consolidated Annual Report 2019.

5.4 Credit Risk Portfolio Characteristics

The credit risk exposures presented in this section relate to positions which attract a credit risk regulatory capital charge on a standardised basis. This excludes the credit risk exposures in the banking and 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 2019 is shown in the table below.

Table 12: Credit Risk Exposures by Exposure Class (pre-mitigation)

As at 31 December 2019	Average exposure over the year ($m)	Exposure pre-mitigation as at 31 December 2019 ($m)
Central governments or central banks	3,542	4,563
Regional governments or local authorities	-	-
Public sector entities	286	298
Multilateral development banks	1,133	1,232
International organisations	0	0
Institutions	1,024	834
Corporates	1,812	1,427
Retail	0	0
Secured by mortgages on immovable property	0	0
Exposures in default	100	160
Items associated with particularly high risk	6	14
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	3	3
Other items	106	112
Securitisation positions	0	0
Total	**8,013**	**8,644**

As at 31 December 2019, the credit risk exposures of ICBCS group before credit risk mitigation were predominantly to central governments and central banks, multilateral development banks, corporates and institutions, as shown in the table above. ICBCS places a large amount of short dated deposits at the Bank of England, which result in the large exposure to central banks. In addition, ICBCS held a significant amount of debt securities issued by multilateral development banks in 2019 as part of the LAB.

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 under the EBA Regulatory Technical Standards (RTS) on specialised lending exposures. These are project finance, object finance, commodities finance and income-producing real estate ('IPRE'). Each of these sub-classes is defined under the RTS.

As at 31 December 2019, the ICBCS group had no specialised lending exposures.

5.4.1.2 Retail Exposures

Retail exposures are defined as exposures to either a natural person or persons, or to a small or medium-sized enterprise (SME) where the total amount owed to ICBCS group is less than €1 million. Such exposures are typically one of a significant number of exposures with similar characteristics such that the risks associated with such lending are substantially reduced.

The following exposures are generally considered to be retail exposures under the CRR 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 31 December 2019, 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 tranched and where payments to investors in the transaction are dependent upon the performance of the exposure or pool of exposures.

As at 31 December 2019, ICBCS group has no securitisation exposures on its balance sheet. Additionally, there are no impaired or past due assets securitised or 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 exposures to central banks predominantly related to cash balances held with the Bank of England.

Table 13: Distribution of Credit Exposure by Industry (post-mitigation)

									Credit Risk Adjustments
As at 31 December 2019	**Central governments or central banks ($m)**	**Corporates ($m)**	**Institutions ($m)**	**Multi-lateral Development Banks**	**Public Sector Entities**	**Other ($m)**	**Total exposure post-mitigation ($m)**	***Of which: impaired and past due exposures ($m)***	**Specific ($m)**
Agriculture	0	0	0	0	0	0	0	-	0
Electricity	0	25	0	0	0	0	25	-	0
Finance: banks	0	19	974	1,232	298	0	2,524	-	0
Finance: non-bank financial institutions	0	22	48	0	0	2	72	-	0
Individuals	0	0	0	0	0	0	0	-	0
Manufacturing	0	237	0	0	0	0	237	10	12
Mining	0	180	0	0	0	0	180	-	2
Transport	0	47	0	0	0	0	47	-	2
Wholesale	0	479	0	0	0	1	479	-	0
Government and Public Administration	3,317	72	0	0	0	0	3,389	-	0
Other	0	148	0	0	0	112	260	136	
Total	3,317	1,229	1,022	1,232	298	115	7,215	**146**	17

5.4.2.2 Geographic Region

A breakdown of exposures by geographic regions is shown below.

Table 14: Geographical Distribution of Credit Exposures (post-mitigation)

									Credit Risk Adjustments
As at 31 December 2019	**Central governments or central banks ($m)**	**Corporates ($m)**	**Institutions ($m)**	**Multi-lateral Development Banks ($m)**	**Public Sector Entities ($m)**	**Other ($m)**	**Total exposure post-mitigation ($m)**	***Of which: impaired and past due exposures ($m)***	**Specific ($m)**
United Kingdom	2,908	157	154	41	0	115	3,375	0	0
Eurozone	45	296	59	237	298	0	936	0	1
Rest of Europe	0	316	77	0	0	0	394	136	2
Asia-Pacific	5	197	573	150	0	1	926	0	0
Middle East & North Africa	0	132	90	0	0	0	222	0	0
Sub-Saharan Africa	66	17	2	0	0	0	85	0	2
North America	289	110	66	804	0	0	1,268	10	12
Latin America	4	3	0	0	0	0	8	0	0
Total	**3,317**	**1,241**	**1,022**	**1,232**	**298**	**115**	**7,215**	**158**	**17**

5.4.2.3 Maturity

The credit exposures of ICBCS are predominantly short dated (less than 1 year residual maturity), as shown in the table below.

Table 15: Credit Risk Exposures by Residual Maturity (post-mitigation)

As at 31 December 2019	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	3,077	185	54	3,317
Regional governments or local authorities	-	-	-	-
Public sector entities	50	248	0	298
Multilateral development banks	320	912	0	1,232
International organisations	0	0	0	0
Institutions	1,006	17	0	1,023
Corporates	785	238	76	1,098
Retail	-	-	-	-
Secured by mortgages on immovable property	-	-	-	-
Exposures in default	10	121	0	131
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	3	0	0	3
Other items	112	0	0	112
Securitisation positions	-	-	-	-
Total	5,364	1,720	130	7,215

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 group 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.

Table 16: Credit risk exposures by credit quality step

			As at 31 December 2019	
Credit Quality Step	**Fitch**	**Moody's**	**Exposure pre-mitigation ($m)**	**Exposure post-mitigation ($m)**
Unrated			1,962	1,285
1	AAA to AA-	Aaa to Aa3	4,895	5,018
2	A+ to A-	A1 to A3	471	771
3	BBB+ to BBB-	Baa1 to Baa3	67	108
4	BB+ to BB-	Ba1 to Ba3	7	9
5	B+ to B-	B1 to B3	1,234	16
6	CCC+ and below	Caa1 and below	8	8
Deductions			0	0
Total			**8,644**	**7,215**

Where the post-mitigation exposure value is greater than the pre-mitigation exposure value, this reflects the application of guarantees.

The level of exposures shown as "Unrated" by ECAIs is a reflection of the group’s commodity and 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. 37% of these exposures carry an internal rating equivalent to BBB- or better (investment grade), 32% are in the BB category, 19% single-B and the remaining 12% are CCC or below, including past due items.

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 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 group'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 agreements are in place and legally recognised.

In 2017, the EU introduced rules governing the mandatory posting of collateral for derivatives that are not cleared. These rules require in-scope counterparties to post variation margin for derivatives not cleared via a clearing house. A phased-in implementation is in place for initial margin over a period from 1 September 2017 through to 1 September 2020. ICBCS adheres to these new variation margin requirements and has variation margin agreements in place with in-scope counterparties.

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).

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 take into account the type of 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 ICBCS 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 and commodities.

For derivative transactions, the group 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 firm's 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 firm's 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 group's credit exposure to the counterparty increases or as the value of the collateral held by the group 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. Where appropriate, consideration is given to factors which may mitigate the high degree of correlation.

As a general principle, credit risk exposures whether in the Banking or Trading Book should be right way risk and significant 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. This is in line with the group's business strategy and is monitored through the WWR framework and reporting.

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 group'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
- Other factors of a substantial similar nature

The group has limited appetite for SWWR and such risk will only be considered in the most exceptional circumstances.

Any credit risk mitigation received is specifically assessed to ensure that it does not exhibit material positive correlation between the collateral and the borrower. Where such correlation is considered to be material, the benefits of such mitigation are not recognised for capital purposes. This assessment of materiality is undertaken at the Credit Committee, as part of transaction approval.

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 and monitored under the approved WWR framework.

5.7.5 Contingent Risk

Contingent Risk is the risk that approved credit risk mitigation techniques applied prove to be less effective than expected. Exit, Frustration and Gap Risk are components of Contingent Risk although Gap Risk is largely a “hybrid” between Market and Credit risk.

5.7.5.1 Gap Risk

Gap Risk is defined as the risk of a shortfall due to a dislocation of the collateral value due to a sudden unexpected change in its price. This applies typically to transactions where the Bank would predominantly rely on the underlying collateral to cover a default or non-performance of a loan. This arises where the value of recourse to the counterparty is deemed low or zero because

a) There is no legal recourse

b) The collateral represents all or a significant portion of the counterparty value (e.g. an SPV whose only assets are the collateral) or

c) There is deemed to be a significant correlation (wrong way risk) between the value of recourse to the counterparty and the underlying collateral.

A stressed calculation is used to capture the loss in case of a gap event. Distinct calculations are defined for calculating the potential event loss on recourse versus non-recourse transactions. The loss in a gap event arising from trades that fall into the recourse classification is seen as a direct credit loss, as to realise the loss the counterparty must default. In the non-recourse case, the marginal risk is driven by market moves in the collateral; however it is expected the gap event is a credit type event (e.g. accounting fraud etc.). It is estimated through a European put option on the underlying stock assuming the stock value has fallen to the transaction unwind trigger level and the option strike is set at the Loan Value, i.e. the level at which further decline in the stock value will be a loss which is estimated by the price of the put. Any risk mitigation in the form of hedging is taken into account by offset of the strike.

Individual exposures are aggregated using the root sum square approach. If transaction structures are deemed to be correlated, they are included in the aggregation assuming a correlation of one, whereas if transaction structures are deemed to be uncorrelated, they are included in the aggregation assuming a correlation of zero.

5.7.5.2 Exit Risk

Exit Risk is defined as the risk of a shortfall arising from the costs of exercising legal rights over the Bank's security interest or our own physical assets and liquidating them in an orderly and reasonably anticipated scenario.

Exit risk is calculated and included within the monthly credit risk economic capital calculation. The calculation reflects actual volumes though physical / logistical costs may be updated quarterly, which may include but not limited to demurrage rates, lithering costs, freight rates, piping and storage costs. Costs are based on actual current operating costs or by more conservative estimations under instruction from PCRA.

5.7.5.3 Frustration Risk

Frustration Risk is defined as the risk of potential additional losses due to an unforeseen event, which would not have been reasonably anticipated at the transaction inception. This would occur when the Bank's access or legal rights to a security interest or our own physical assets are frustrated or set aside due to this event; leading to an inability to liquidate it in an orderly manner. Exit risk is calculated and included within the monthly credit risk economic capital calculation. The calculation reflects actual volumes though physical / logistical costs may be updated quarterly, which may include but not limited to demurrage rates, lithering costs, freight rates, piping and storage costs. Costs are based on actual current operating costs or by more conservative estimations under instruction from PCRA.

The measurement of frustration risk is currently under consideration and is outlined in section 2.

5.7.6 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 2019, ICBCS would be required to post a maximum of $39.5 million in additional collateral, arising specifically as a result of a hypothetical idiosyncratic two notch downgrade of ICBCS's current long-term debt rating and any accompanying short-term downgrade implemented simultaneously by all major rating agencies.

5.7.7 Derivative Valuation Adjustments

Credit and Debit Valuation Adjustments (CVA and DVA) are incorporated into derivative valuations to reflect the impact on fair value of counterparty credit risk and ICBCS's own credit quality, respectively. Details on the application of derivative valuation adjustments, including CVA and DVA are provided in the ICBCS Annual Report [as referenced below].

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.

Additional disclosures on derivative valuation adjustments are included on page 89 (Note 23.3) of the ICBC Standard Bank Plc Consolidated Annual Financial Statements 2019.

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 2019 was $3,756m. 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.

Table 17: Counterparty Credit Risk – Exposure Value

As at 31 December 2019	Amount ($m)
OTC derivatives (mark-to-market method)	3,058
Securities financing transactions	693
Other	5
Total exposure post-mitigation	**3,756**

A breakdown of the counterparty credit risk exposure (for derivatives only) 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 18: Counterparty Credit Risk - Net Derivatives Credit Exposure

As at 31 December 2019	Amount ($m)
Gross positive fair value	4,887
Less: netting benefits	3,393
Netted current credit exposure	**1,494**
Of which:	
Central governments or central banks	2
Regional governments or local authorities	-
Public sector entities	-
Multilateral development banks	1
International organisations	-
Institutions	901
Corporates	590
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 applied	(794)
Total net derivatives credit exposure post collateral	**700**

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 19: Counterparty Credit Risk on Credit Derivative Transactions

As at 31 December 2019	Protection bought ($m)	Protection sold ($m)	Total ($m)
Credit derivative products used for own credit portfolio			
Credit default swaps	278	252	530
Total return swaps	50	0	50
Total notional value	**328**	**252**	**580**
Credit derivative products used for intermediation			
Credit default swaps	650	650	1,300
Total return swaps	750	750	1,500
Total notional value	**1,400**	**1,400**	**2,800**
Total Notional Value of Credit Derivatives	**1,728**	**1,652**	**3,380**

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

6. Credit Risk Mitigation

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 and 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.

The policy outlines the application of credit risk mitigation by ICBCS, including the monitoring and reporting associated with the provision of collateral. It also highlights the key considerations that ICBCS adheres to in relation to the liquidity and volatility of collateral, and the legal enforceability of all such credit risk mitigation arrangements.

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 Risk Technical Committee and Risk Methodology Approval Committees retain oversight and review 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 group'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.

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 monthly. This covers the following:

6.2.5.1 Counterparty Stressed Expected Exposures

Expected exposures are modelled on a daily basis under business as usual assessments. These assessments are based on a Monte Carlo simulation of the underlying risk factors across all asset classes (e.g. FX, Interest rates, equity, commodity and credit). All individual transactions are priced under this framework and the aggregated exposure is calculated based on the legal agreements in place (e.g. considering the presence of an ISDA netting agreement and a corresponding credit support annex) with individual counterparties.

Assessments for stress testing involve the determination of macroeconomic scenarios which are translated into a term structure of risk factors by an external service provider. A Monte Carlo simulation is undertaken by applying these risk factor stresses across the term structure (applied as stressed market rates). This process repeated for all points across the scenario term structure resulting in modelled counterparty stressed expected exposures for each macro-economic scenario.

6.2.5.2 Credit Rating Migration

Under Business as Usual (BAU) assessments, credit managers assign country and counterparty ratings to exposures based on internal assessments of the probability of default (PD) and the loss given defaults (LGD). The assessments are carried out using a combination of internally developed credit models based on scorecards, and detailed knowledge of the client and market.

These ratings are frequently reviewed, typically annually and more frequently if input data (e.g. financials) is out of date. Internally modelled ratings and assessments can only be overridden with the appropriate level of oversight and authorisation.

The process for a stressed assessment is undertaken based on internally determined macroeconomic stress scenarios as follows:

- The top credit counterparties (Financial Institutions, Corporates and Sovereigns) are individually reviewed and ratings migrations (notches) are assigned to match the severity and nature of each macroeconomic stress scenario
- For the remaining counterparties, the sectors and geographies are reviewed and ratings migrations (notches) are assigned to match severity and nature of each macroeconomic stress scenarios

In order to mitigate the risks associated with expert judgement, a variety of stakeholders are approached to provide input and recommendations. This leads to discussion and robust challenge regarding the proposed stressed parameters to be applied. Once the assessments are consolidated, the results are redistributed to the expert stakeholders, who review the output to ensure that individual inputs used amounted in a final result that is plausible.

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 transactions 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, institutions & corporates. 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 and Derivatives 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 value 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 reduction factor in the valuation 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 group 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 recovered 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 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 typically includes cash on deposit within the group, 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 mitigated 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, government bonds or commodities. 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 client’s domicile. Typically there would be insistence on trades being margined daily, trades may be short dated and sufficient haircuts will be applied to manage gap risk and enable a close out to take place to minimise 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 corporates and institutions. All guarantees and credit derivatives recognised for credit risk mitigation were from counterparties rated BBB- and above.

Table 20: Credit Risk Mitigation Received by Exposure Class

As at 31 December 2019	Eligible financial collateral ($m)	Guarantees and credit derivatives ($m)
Central governments or central banks	1,055	45
Regional governments or local authorities	-	-
Public sector entities	-	-
Multilateral development banks	-	-
International organisations	-	-
Institutions	198	432
Corporates	147	193
Retail	-	-
Secured by mortgages on immovable property	-	-
Exposures in default	-	-
Items associated with particularly high risk	3	-
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	-	-
Total	**1,403**	**670**

The table above illustrates that the majority of financial collateral in the banking book is received under secured lending transactions undertaken with central banks.

6.4.2.1 Counterparty credit risk mitigation

Eligible collateral post regulatory haircuts recognised for securities financing and other similar transactions included in the banking and trading book was $4,425m, of which $498m was placed by corporates, $1,922m was placed by institutions and $2,005m placed by central governments and central banks.

The collateral recognised as counterparty credit risk mitigation against derivative exposures in the trading book ($794m) is shown in table 17. This collateral was primarily received in the form of cash margin.

7. Country Risk

7.1 Definition

Cross-border country risk is the uncertainty that obligors (including the relevant sovereign, and including the obligations of the group's branches and subsidiaries in a country) may not be able to fulfil their obligations to the group 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 group in a host country.

7.2 Approach to Managing Country Risk

All countries to which the group is exposed are reviewed at least annually. Internal rating models are employed to determine ratings for jurisdiction (on a rating scale aaa to c), sovereign, and transfer and convertibility risk (on a rating scale RG01 to RG25). In determining the ratings, extensive use is made of the group's network of operations and external information sources. These internal ratings are also a key input into the group's credit rating models.

Country risk may be 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 BRMC 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 128-130 (Note 37.5) of the ICBC Standard Bank Plc Consolidated Annual Financial Statements 2019.

8. Market risk

8.1 Definition

Market Risk can be defined as the risk of losses in on- and off-balance sheet positions arising from adverse movements in market prices. Market prices include currency exchange rates, interest rates, commodity prices, credit spreads, recovery rates, correlations and implied volatilities within 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 the banking book
- Foreign currency risk in the banking book

8.2 Governance Committees

8.2.1 Market and Liquidity Risk Committee

The Market and Liquidity Risk Committee's (MLRC) primary responsibility is to monitor and control market risk for the group, and oversee adherence to the agreed risk appetite. The MLRC 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 and liquidity risk profile and establishing a proper control framework to manage market and liquidity risk across the group in line with the agreed risk appetite
- Recommend Level 1 limits (legal entity or business unit level) across the group, to be ratified by RMC and approved at Board level committees
- Developing, managing and implementing a framework of sub limits (level 2 limits)
- Monitoring VaR, SVaR, Economic Capital and stress testing exposures against limits across the group
- Reviewing Market and Liquidity risk policies (at least annually)

8.2.2 Risk Methodology Approval Committee

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

The committee is responsible for the approval of models and methodologies presented to the committee.

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.

The Risk Technical Forum ("RTF") is a sub-forum of the RMAC. The detailed review of the technical or quantitative aspects of the relevant models or methodologies is delegated by RMAC to the RTF. The RTF must report its findings together with its recommendations to the RMAC. The RMAC will consider these findings / recommendations from RTF together with relevant qualitative aspects of the models & methodologies in order to make an informed decision.

8.2.3 Risk Technical Forum

The purpose of the Risk Technical Forum (RTF) is to provide a platform for all standing invitees to discuss and challenge models / methodologies related material in advance of formal RMAC governance. At this forum technical and other aspects of model development and quantitative methodologies can be discussed. Further model monitoring and model validation results can be debated and potentially rejected in advance of going to RMAC.

The core function of RTF is to provide a review and challenge process in advance of Risk Methodologies Approval Committee (RMAC). This ensures RMAC is streamlined to focus on broadly supported models which have been workshopped to a reasonable degree at RTF. Senior management is then engaged at RMAC whilst minimising unnecessary technical discussion. As RMAC is ultimately responsible for ensuring models and methodologies are technically sound, robust, accurate and appropriate, RTF is seen as a value add process to the formal RMAC governance.

The RTF operates in tandem with the Credit Risk Model Review Forum and the Proxy and Risks Not in VaR Forum.

8.3 Market Risk in the Trading Book

8.3.1 Definition

Trading book market risk arises from financial instruments and 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 Board sets the risk appetite for each risk category, typically in terms of earnings at risk (EaR) and approves the entity level 1 limits, in terms of VaR, SVaR and Stress testing. The MLRC 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 group 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 group'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 group calculates an 'Incremental Risk Charge' (IRC) as part of the 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 (including the Risk not in VaR and Proxy framework) and the Incremental Risk Charge are subject to review and validation by a 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, and implementation of 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 RMAC.

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 group 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 group 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 one year 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 (IRC)

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 by acting as a prompt to 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 2019 did not exceed the maximum tolerable losses as represented by the group's stress scenario limits.

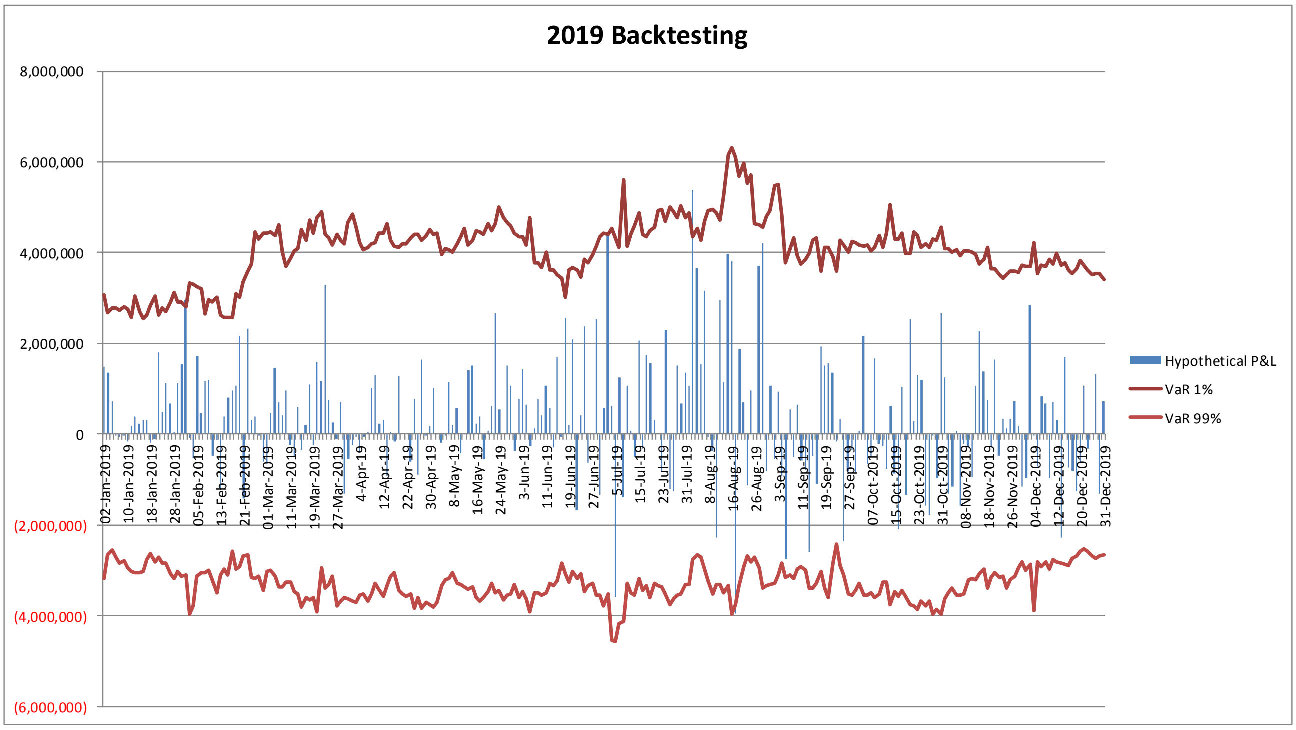
8.3.2.3.5 Backtesting

The group 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.

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 group's approved models were assigned green status for the year ended 31 December 2019 (2018: green).

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

Graph 21: Hypothetical Profit and Loss and VaR



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 group 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 and Liquidity 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 group's valuation policy and financial asset classification is governed by IFRS and changes in asset classification is subject to IFRS requirements. 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 FVPL positions to be recorded at fair value on the balance sheet. Fair value standard IFRS9 was adopted in 2018 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 independent 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 acts 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 group 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. 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 group employs internal policies and strict controls around all activities which are defined as forming part of the "trading book" 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 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 group 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 trading for the group's own account. In general, the group's trading desks have run moderate to low levels of market risk throughout the year ended 31 December 2019.

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 year based on the last trading day of 31 December 2019, calculated based on the group'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 22: Normal VaR (1 day 95%)

	Maximum ($m)	Minimum ($m)	Average ($m)	Year end ($m)
Commodities	1.6	0.8	1.1	0.8
Foreign Exchange	0.9	0.4	0.6	0.5
Equities	0.5	0.2	0.3	0.2
Debt Securities	2.5	1.1	1.5	2.0
Diversification benefit*	-	-	-	**(1.2)**
Total (including diversification)	**2.9**	**1.6**	**2.3**	**2.3**

* 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 group'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 31 December 2019.

Table 23: Stressed VaR (10 days 99%)

	Maximum	Minimum	Average	Year end
	$m	$m	$m	$m
Commodities	14.2	2.5	7.3	11.8
Foreign exchange	17.9	2.5	6.8	17.9
Equities	2.7	0.9	1.7	1.0
Debt securities	33.3	8.2	19.2	17.9
Diversification benefit*	-	-	-	**(17.0)**
Total (including diversification)	**38.3**	**14.0**	**23.3**	**31.6**

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

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

Table 24: Incremental Risk Charge

	Maximum	Minimum	Average	Year end
	$m	$m	$m	$m
Total	133.3	30.2	67.3	45.1

The IRC assigns a liquidity horizon of one year across all assets.

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 account for 94.6% of the total market risk capital charge.

Table 25: Market Risk Capital Requirements at 8% of RWA

Market Risk Capital Requirements @ 8% ($m)	**31-Dec-19**
VaR Charge 99% - 10 day holding	27.7
Stressed VaR	67.2
Incremental Risk Charge (IRC) based on a 12 week average	57.6
Risks not captured in modelled VaR (Stress type)	28.9
Capital requirement for modelled population	**181.4**
Standardised Market Risk Capital Requirements	10.3
Total Market Risk Capital requirement	**191.7**

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 current or prospective risk to the Bank's economic value and earnings arising from adverse movements in interest rates that affect interest rate sensitive instruments in the Banking Book.

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

- Re-pricing Risk: arising from the timing mismatch in the maturity and repricing of assets and liabilities and off balance sheet short and long term positions – in general arising from Fixed vs Floating
- Yield Curve Risk: arising when unanticipated shifts in the yield curve have adverse effects on the group's income or underlying economic value.
- Basis Risk: arising from the impact of relative changes in interest rates on interest rate sensitive instruments that have similar tenors but are priced using different interest rate indices.
- Optionality Risk: arising from options where the institution or its customer can alter the level and timing of their cash flows, namely
    a) the risk arising from interest rate sensitive instruments where the holder will almost certainly exercise the option if it is in their financial interest to do so (embedded or explicit automatic options) and
    b) the risk arising from flexibility embedded implicitly or within the terms of interest rate sensitive instruments, such that changes in interest rates may affect a change in the behaviour of the client (embedded behavioural option risk).

8.4.1.2 Approach to managing IRRBB

The group's Risk team monitor banking book interest rate risk operating under the oversight of MLRC/RMC and CapCom.

IRRBB mitigation by TCM can be achieved by balance sheet management actions (e.g. changing the composition of assets and liabilities) and/or via a hedging programme as instructed by CapCom.

8.4.1.2.1 Measurement

In considering IRRBB within the group, the group uses the internal model for Economic Value of Equity measure (which is owned by Risk) to quantify the potential loss of earnings. The Economic Value of Equity is at a confidence interval of 99.9% and is scaled down to a confidence interval of 90% to translate into Earnings at Risk. The NII model is used mainly for risk monitoring purposes.

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

- Economic Value of Equity: Measures changes in the net present value of the equity to changes in Market Rates. Considers the adverse impact of a parallel +/- 200bps shock of the interest rate curve and the 6 other prescribed shock scenarios (Parallel up, Parallel down, Flattener – short rates up & long rates down, Steepener – short rates down long rates up, Short rates Up, Short rates down). The EVE model also includes a Risk add-on for model limitations. The assumed confidence interval of the EVE model is at 99.9%

- Net Interest Income (NII) or Earnings: Measures of changes in expected potential future profitability within a given time horizon resulting from interest rate movements. Calculated as the maximum NII Volatility at a given confidence level of a 1 year timeframe to a 200bps shock up/down and the six prescribed shocks as above.

The results obtained assist in evaluating and monitoring the interest rate risk run by the group. 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 change in economic value.

Economic Capital

The Bank utilises the EVE metric to derive the Risk Appetite of the bank and the resultant economic capital charge for IRRBB. This is by using the worst of the parallel 200bps shock up/down shocks and the six prescribed shocks and including an add-on for any Non-Modelled Risks.

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.

The Economic Value of Equity limits are set at a confidence interval of 99.9%. These 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.

IRRBB is incorporated into the group’s risk appetite framework through the Earnings at Risk (EaR) metric, one of the key risk appetite metrics.

Earnings at Risk are calibrated to represent a financial loss over a one year horizon and provide a directly comparable risk metric across risk classes, relevant for the annual budget. Earnings at risk express the quantum of financial loss the group is likely to sustain at the 90th percentile, or 1-in-10 years (i.e. at a 90% confidence interval).

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

8.4.1.2.3 Limit Breaches

All limit breaches and triggers are required to be immediately escalated to MLRC by Risk. MLRC chair (or delegate) will escalate to RMC chair and CapCom chair as appropriate. RMC is responsible for addressing limit breaches and may use the assistance of CapCom to rectify the limit breach. The RMC may decide to escalate to ExCo at their discretion.

CapCom is the main governance committee responsible for IRRBB management and hedging decisions. CapCom chair will decide to escalate to ExCo at the committees discretion or recommend action to be taken. A regulatory breach requires notification to the PRA by chair of CapCom.

Any breach in the overall EaR risk appetite is managed through the RMC and notified to CapCom.

8.4.1.3 Banking book interest rate exposure characteristics

The table below indicates the group's market value sensitivities for the shock scenarios run for the year ended 31 December 2019. Note that all numbers are in $m.

Table 26: Market sensitivities to interest rate in the banking book

	Parallel Up	Parallel Down	Short Down	Short Up	Steepener	Flattener	Parallel Up Outlier	Parallel Down Outlier
Underlying Currency								
USD	16.0	(16.5)	(17.2)	16.8	(7.8)	11.3	(16.5)	16.0
GBP	(2.5)	1.9	1.9	(2.6)	1.6	(2.0)	1.9	(2.0)
EUR	0.4	(0.1)	(0.3)	0.9	(0.5)	0.9	(0.1)	0.4
NGN	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CNH	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	(0.1)	0.2	0.2	(0.2)	0.1	(0.1)	0.2	(0.1)
Total	**13.7**	**(14.5)**	**(15.5)**	**14.9**	**(6.6)**	**10.1**	**(14.5)**	**14.2**

Note: A $10m non-modelled risk add on is added to the worst of the outlier test shocks to determine the ECAP for the month. The ECAP number for IRRBB as at 31 December 2019 is $25.5m.

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 one of the above two categories.

8.4.2.2 Approach to managing equity risk in the banking book

The group 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 group designates financial assets (other than those held for trading) at FVPL and in 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 FVPL 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.

In certain instances, the group also designates equity positions as non-trading financial assets designated at FVPL.

8.4.2.3 Banking book equity portfolio characteristics

Equity investments included in the banking book as at 31 December 2019 consisted entirely of unlisted equities ($5.9m as at 31 December 2019). All of the $5.9m equities were non-trading financial assets designated at FVPL, as disclosed in the Annual Financial Statements of the group. These include equity investments required for business reasons, such as SWIFT shares and LME shares.

The cumulative net realised gains and losses from the sale or liquidation of equity positions in the banking book in 2019 were negligible.

Additional disclosures on non-trading financial assets at FVPL are included on page 73 (Note 6) of the ICBC Standard Bank Plc Consolidated Annual Report 2019. The statement of changes in shareholders' equity is shown on page 48.

8.4.3 Foreign Currency Risk in the Banking Book

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 group'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.

CapCom manages the strategies for the hedging of the group's capital resources where these are denominated in a currency other than USD, and the hedging of the group's cost base where the costs are incurred in currencies other than USD, with a view to reducing volatility in the group's available financial resources and earnings, respectively.

In executing these hedging strategies, CapCom considers the cost, effectiveness and the accounting impact of the proposed strategies, as well as the economic rationale. CapCom may delegate the execution of transactions within the scope of this hedging mandate, where appropriate.

CapCom also monitors all capital or cost hedges which have been executed, and reviews the effectiveness of such hedges in achieving the stated objectives.

9. Operational risk

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.

Operational risk event types are in line with the Basel Event Categories namely:

- **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 and disruption or failure arising from utilities failure, changes in organisational structure, people and processes.
- **Damage to Physical Assets** - The risk of losses arising from loss or damage to physical assets from natural disaster or other events. It includes environmental risk.
- **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, 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 and 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. This includes compliance / conduct risks and legal risks.
- **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

The group has developed an Operational Risk Management framework intended to keep the firm within appetite. The framework comprises:

- A formal risk appetite for operational risk that includes both financial and non-financial measures
- Common taxonomies including an event / risk taxonomy; a causal taxonomy and an effect / impact taxonomy
- Operational risk incident / near miss and loss data capture, including root cause analysis
- A portfolio of Key Risk and Control Indicators which are tracked against thresholds
- Risk & Control Self-Assessments to identify and assess the group’s inherent and residual risks
- Process Mapping

- Scenario Analysis, to assess the group's exposure to "*severe but plausible*" events
- Operational risk capital modelling to support Pillar 2A and 2B assessments
- Purchasing insurance to transfer specific operational risks (see below)
- Tracking of remedial actions
- Targeted reviews
- Induction training and awareness training
- Review of external events (the group subscribes to ORX's news service), in order to learn lessons and to assist with Scenario Analysis

The Operational Risk Management function is independent from business line management and is part of the second line of defence i.e. it reports directly into the Chief Risk Officer. It is responsible for:

- Developing and maintaining the operational risk governance framework
- Facilitating business' adoption of the framework
- Overseeing and reporting, as well as, monitoring and challenging the management of the operational risk profile
- Identifying emerging threats

Additionally, an independent team, reporting directly to the Head of Operational Risk, has responsibility for second line assurance of the Physical Commodities business. The function, based in London, Singapore and Shanghai, 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 provision of related services such as shipbrokers, insurers, warehouse providers and security companies.

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

Ensuring that appropriate insurance cover for specific risks is in place is the first line's responsibility. The group's Insurance Forum provides independent oversight and challenge.

9.3 Governance committees

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

Key responsibilities of the Operational Risk Committee include:

- Propose any changes to operational risk appetite for approval by RMC
- Ensuring the Operational Risk policies / framework are 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, including the review and challenge of any risk acceptances
- Reporting potential breaches of operational risk appetite and tolerance
- Monitoring key metrics and controls and ensuring the appropriate levels of quality control are applied by 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
- Review the outputs of scenario analysis and of operational risk capital modelling

- Ensuring that an effective Business Continuity Planning process is in place for all business units in all locations of the business, supported by the group's standards and procedures

9.3.1 Business Continuity Management Framework

Business Continuity Management (BCM) is a critical part of ICBCS (the group's) control environment and enables business units to effectively continue critical business functions following significant disruption. BCM is regarded as having three distinct purposes:

- Protection of the company assets, earning capacity, information, reputation, the brand and value of the organisation
- Reduction in the likelihood and impact of potential business interruption(s) to an acceptable level and to ensure that ICBCS have a resilient organisation
- Compliance with Legal and Regulatory obligations

The Business Continuity capability that the group maintains and continues to develop is relative to the nature, scale and complexity of the organisation and is aligned to external best practice. The group has a Crisis Management Team (CMT) supported by a Crisis Management Plan (CMP) that is chaired by senior management. The primary responsibility of this team is to lead, manage and communicate the overall response to a crisis. The CMT are supplemented by a number of functional specialists, who are experts within specific areas e.g. Disaster Recovery, Human Resources, and Corporate Communications. During any material business interruption, one of the group's key objectives will be to proactively communicate its position with clients and stakeholders in an expedient fashion. Existing under the direction of the CMT are a number of departmental Business Recovery Teams) and associated Business Continuity Plans (BCPs) which are responsible for delivering the recovery of critical business processes, within pre-defined timescales. The group has a number of recovery strategies and solutions in place to respond to a business interruption including but not limited to:

- Third Party Work Area Recovery
- Remote Working
- Reciprocal arrangements with other ICBC Standard Bank offices

9.3.2 Scope of Risk Reporting Systems

The Operational Risk function uses an in-house developed Operational Risk Management system for recording:

- Operational risk loss events and near misses;
- Key Risk and Control Indicators and the associated thresholds;
- Risk & Control Self-Assessments;
- Remedial actions.

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.

All incidents are rated and the escalation within the group reflects these ratings. The Operational Risk function reviews all incidents to validate the appropriateness of the ratings and any resulting remedial actions

9.4 Regulatory capital approach

The ICBCS group calculates its Pillar 1 operational risk capital requirement under The Standardised Approach (TSA). This approach is known not to be risk sensitive. In particular TSA does not adequately reflect either emerging risks or the very remote risks associated with the group's commodities' business. Consequently, the group additionally uses an internal model to calculate its Operational Risk utilising both internal and external loss data, as well as the outputs of scenario analysis, with consideration for the group's Business Environment and Internal Control Factors. In assessing the appropriateness of its capital, the group also considers the effectiveness of its various insurance policies in mitigating specific operational risks. These insurance policies cover a range of risks, and include, goods and cargo insurance for physical commodities; crime; and environmental risks. During 2020 this model will be migrated from Standard Bank to London.

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 policies or equivalent documents and are enforced through independent dedicated specialist functions. These are:

9.5.1 Clients, Products & Business Practices

9.5.1.1 Compliance Risk Management

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.

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 group.

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

9.5.1.1.1 Conflicts of Interest Policy

The group conducts its business according to the principles that (i) it must take all appropriate steps to identify and to prevent or manage conflicts of interest that may arise in the course of the group conducting its business and (ii) it maintains and operates effective organisational and administrative arrangements designed to prevent such conflicts of interest.

The group's conflict of interest policy details the group's control framework that is designed to help staff identify and to prevent or manage conflicts of interest as well as examples of the types of conflicts of interest that could arise within their department/business units.

9.5.1.2 Financial Crime Risk Management

Financial Crime Risk consists of:

(i) The risk that criminal parties will abuse the products and services of the group;

(ii) The risk that regulators/law enforcement authorities will apply civil sanctions, civil penalties and/or criminal penalties against the group for failure to comply with Anti-Money Laundering, Counter Terrorist Financing, Anti-Bribery & Corruption, Tax Evasion, Fraud and Sanctions laws, regulations, codes of conduct and regulatory/industry standards of good practice that are applicable to the group's activities; and

(iii) The risk that through the markets and/or through media outlets, the good reputation of the group is harmed by unfavourable adverse media or market word-of-mouth, as a result of financial crime risk events, allegations, or the actions of regulators/law enforcement authorities

9.5.1.2.1 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 group, taking into account local jurisdictional requirements where these may be more stringent.

9.5.1.2.2 Approach to managing Bribery and Corruption Risk

Bribery and corruption risk arises as a result of a failure by the group to prevent persons performing services for or on its behalf (including staff, business partners and stakeholders) from bribing in order to obtain business or business benefits for the group, or as a result of failing to have effective anti-bribery and corruption procedures in place. The group has implemented a programme of policies, procedures and other controls to combat bribery and corruption risk.

9.5.1.2.3 Approach to managing Fraud Risk (Internal and External)

Fraud Risk arises where internal or external parties (or a combination) commit acts intended to defraud, misappropriate property or circumvent anti-fraud laws or internal policies. The group has implemented procurement-related controls, as well as wider financial controls intended to combat fraud.

9.5.1.2.4 Approach to managing Sanctions Risk

The group 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 Financial Crime Compliance team is responsible for providing advice on all sanctions-related matters in a fluid sanctions environment.

9.5.1.2.5 Approach to managing Tax Evasion Risk

The risk of the criminal facilitation of tax evasion arises when an associated person of the group knowingly and dishonestly assists a person or entity in evading taxes. The group has various policies and procedures in place that mitigate the risk of the criminal facilitation of tax evasion, including the Tax Strategy which prohibits any member of Staff from providing tax advice to clients.

9.5.1.3 Legal Risk Management

Legal Risk is risk of any of the following descriptions, namely:

- That business is or may be carried on otherwise than in accordance with applicable laws and regulations;
- That contractual arrangements either are or may not be binding or enforceable as intended against counterparties or are or may be binding or enforceable against the group otherwise than as intended; and
- That property rights of any descriptions are or may be infringed; or that liability to others may be incurred

9.5.1.4 Information Risk Management

Information Risk is the risk of accidental or intentional unauthorised use, modification, disclosure or destruction of information resources, which would compromise the confidentiality, integrity or availability of information and which could potentially harm the business. This risk principally concerns electronic information and data, although it also covers hardcopy formats.

9.5.2 Business Disruption & Systems Failure

9.5.2.1 Information Technology Risk Management

Information Technology Risk is the risk associated with the use, ownership, operation, involvement, influence and adoption of Information Technology within the group. It consists of Information Technology related events and conditions that could potentially impact the business by impacting service availability, performance or function.

9.5.3 Execution, Delivery & Process Management

9.5.3.1 Model Risk Management

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.

Model Risk is focused on “three pillars”

1. Correctness of the mathematics and implementation of the model
2. Applicability of the model, including all the assumptions and approximations relative to a model’s usage
3. Data i.e. the impact of subjectivity and uncertainty around employed data, e.g. for calibration of the model

Internal credit risk based models and operational risk capital models are validated at initial development and at least annually thereafter by the SBG validation function. All models validated by SBG under an SLA are subject to review and approval through the ICBCS Risk Methodologies Approval Committee.

Other models are validated at initial development and reviewed at fixed intervals or 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.

9.5.3.2 Tax Risk Management

Tax risk is the risk of financial or other loss resulting from (among others) the following:

- An incorrect technical position being taken on the treatment of any item in the tax return and / or forming part of the calculation of a tax liability;
- Tax authority challenge of a filed position taken in a tax return;
- Failure to submit a tax return or to make a tax payment within the relevant statutory deadline;
- Errors in the computation of a tax liability or in the submitted return;
- Change in tax law or practice affecting a filed position;
- Operational / process errors in the computation of the group’s tax assets or liabilities;
- Missing claims / elections / deadlines, etc.; and
- Incorrect financial accounting information being used in the tax return or the calculation of a tax liability.

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.

9.5.4 Damage to Physical Assets

9.5.4.1 Environmental Risk Management

Environmental risk is the risk of financial loss suffered due to environmental damage resulting directly from the bank’s activities, products and services. Environmental risk is primarily relevant in relation to the bank’s Energy business.

9.5.5 Causal Factors

9.5.5.1 Change Risk Management

Change Risk is defined as a risk that emerges through changes, updates or alterations made to operational processes across the group due to changes in people, process or technology. Change, whether internal in the form of people, process and technology or external in the form of market conditions or regulations, is a significant driver of operational risk.

Significant change is approved through the Integration and Change Committee which has representation from across business areas. Once approved, projects have dedicated steering committees and project managers which ensure appropriate testing and due diligence has been performed before go-live. Post implementation reviews are performed to assess whether there were any lessons to be learnt for future initiatives.

9.5.5.1.1 Approach to Managing Regulatory Change

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

The group 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 ICBCS 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. Climate Change Risk

10.1 Definition

Climate change risk arises through two primary channels: physical and transition risk.

Physical risks arise from a number of factors are relate to specific weather events (heatwaves, floods, wildfires and storms) as well as longer-term shifts in the climate (changes in precipitation, extreme weather variability, sea level rise and rising mean temperatures).

Transition risks can arise from the process of adjustment towards a low-carbon economy. A range of factors could influence this adjustment, including: climate-related developments in policy and regulation, the emergence of disruptive technology or business models, shifting sentiment and societal preferences or evolving evidence, frameworks and legal interpretations.

Climate change risk can manifest across credit, market and operational risk.

10.2 Approach to managing climate change risk

The management of climate change risk is in its early stages and work is ongoing to understand the groups exposure to climate risk and developing mitigation strategies.

Climate change risk presents both risks and opportunities for the group. With an emerging markets and commodities focused business model and with global momentum behind a transition to a low-carbon economy, ICBCS will seek to adapt its decision making to avoid the risk of stranded assets and other climate-related financial risk.

The group will seek to develop its approach to managing climate change risk over the short to medium term which will include:

- Undertaking a risk identification exercise to determine which areas of the group are at the greatest risk from climate change
- Undergo a series of climate change risk training sessions
- Integration of climate change risk management into the existing risk management framework and governance
- Ensure the Board is fully aware of climate change risk exposure in the business model
- Developing scenario analysis that will assess the short and longer term impact of physical and transition risks on the group's business
- Identify potential opportunities for new products that will assist in mitigating financial risks from climate change
- Disclosure of climate related exposures in the group's annual report and potential alignment with the Task Force for Climate-related Financial disclosures

As knowledge and capacity is built out, the groups approach to managing climate change risk is expected to evolve.

10.3 Governance Committees

As the group's approach to climate change risk develops, it is expected that the monitoring of climate change risk will be integrated into the current governance and oversight structure.

The Board will be responsible for executive oversight for climate change risk as is the case for other risk types and compliance with legal and regulatory obligations. It is expected that the BRMC will provide independent and objective oversight of climate change risk and the RMC will provide functional oversight.

The group has assigned relevant SMF responsibilities for climate change risk to the Chief Risk Officer.

11. Leverage

The leverage ratio was introduced as a non-risk based capital requirement to complement the risk-based capital requirements. The ratio is generally based on the accounting value as the relevant exposure measure for assets. Specific regulatory exposure measures which apply to derivatives and securities financing transactions and off-balance sheet exposures must be added to determine the total leverage exposure.

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

An observation period had 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 was then required to report to the European Parliament and Council and put forward a regulatory proposal covering the methods for applying and calculating the ratio. In June 2019, the revised capital and liquidity regulations were finalised, inclusive of binding leverage ratio regulatory requirements. The group is not expected to be subject to these requirements until 2021, but remains above the scheduled minimum requirement of 3%. Firms will be expected to continue to manage the risks of excessive leverage until the ratio becomes binding.

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 2019, ICBCS's leverage ratio stood at 4.78%.

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 and the reconciliation of the accounting balance sheet to the leverage ratio exposure measure are also shown in the appendix.

11.1 Factors that had an impact on the leverage ratio during 2019

The leverage ratio decreased from 5.02% to 4.78%. Tier 1 Capital declined at a higher relative rate than leverage exposure, primarily driven by a loss on commodity intermediation (which was partially offset by issuance of AT1 capital). Leverage exposure decreased due to a reduction in securities financing transactions (SFTs) and derivatives, partially offset by an increase in cash placed at the Bank of England.

11.2 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.

12. Asset Encumbrance

As an integral aspect of its business, the group engages in activities that result in certain assets being encumbered.

An asset is defined as encumbered if it has been pledged as collateral against an existing liability or used to secure, collateralise or credit enhance a transaction, which impacts its transferability and free use, and, as a result, is no longer available to the group to secure funding, satisfy collateral needs or be sold to reduce funding requirements.

The main activity relates to the pledging of assets for repurchase agreements and securities and commodities lending agreements. The group also receives collateral in certain transactions, and the credit risk mitigation benefit is explained in section 6 above.

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 (31 December 2019), as required under the EBA guidelines on disclosure for encumbered assets. Asset encumbrance was not considered material for ICBCS, over the course of 2019. The table below shows the level of assets on the ICBCS balance sheet that were encumbered and unencumbered.

Table 27: Median Asset Encumbrance Over 2019

Median Over 2019	Carrying amount of encumbered assets ($m)		Fair value of encumbered assets ($m)		Carrying amount of unencumbered assets ($m)		Fair value of unencumbered assets ($m)	
		of which notionally eligible EHQLA and HQLA ($m)		of which notionally eligible EHQLA and HQLA ($m)		of which notionally eligible EHQLA and HQLA ($m)		of which notionally eligible EHQLA and HQLA ($m)
Total Assets of ICBC Standard Bank Plc	**1,255.5**	**190.1**			**22,850.9**	**2,064.7**		
Of which: Equity instruments	-	-			42.6	-		
Of which: Debt securities	197.9	190.1	197.9	190.1	3,677.3	2,064.7	3,677.3	2,064.7
of which: covered bonds	-	-	-	-	-	-	-	-
of which: asset-backed securities	-	-	-	-	-	-	-	-
of which: issued by central governments	28.3	20.6	28.3	-	2,040.8	1,242.0	2,040.8	1,242.0
of which: issued by financial corporations	169.5	169.5	169.5	169.5	1,311.1	822.7	1,311.1	822.7
of which: issued by non-financial corporations	-	-	-	-	325.5	-	325.5	-
Of which: Other assets	-	-			10,598.7	-		

*Extremely high quality liquid assets (EHQLA) and high quality liquid assets (HQLA) are assets which are typically liquid in markets during a time of stress;

n/a = not applicable

The "Other assets" category above includes commodity assets, as well as assets not available for encumbrance in the normal course of business (e.g. intangible assets, including goodwill, deferred tax assets, property, plant and other fixed assets, derivative assets, reverse repo and stock borrowing receivables). The remaining assets relate to cash placings which are not shown in the table.

The median level of collateral received by ICBCS in 2019 is shown in table 28, broken down by the collateral that is encumbered and the collateral that is available for encumbrance but not encumbered. The other collateral category shown in the table includes commodities received as collateral, as part of the normal business activities. The residual value of collateral received relates to cash receipts, which are not shown separately.

Table 28: Median Collateral Received Over 2019

Median Over 2019	Fair value of encumbered collateral received or own debt securities issued ($m)		Fair value of collateral received or own debt securities issued available for encumbrance but not encumbered ($m)	
		of which notionally eligible EHQLA and HQLA ($m)		of which notionally eligible EHQLA and HQLA ($m)
Total collateral received by ICBC Standard Bank Plc	**1,496.3**	**869.3**	**3,609.9**	**875.4**
Of which: Loans on demands	-	-	-	-
Of which: Equity instruments	-	-	260.1	-
Of which: Debt securities	1,483.3	869.3	3,248.8	875.4
of which: covered bonds	-	-	-	-
of which: asset-backed securities	-	-	-	-
of which: issued by central governments	1,483.3	869.3	2,397.4	875.4
of which: issued by financial corporations	-	-	722.6	-
of which: issued by non-financial corporations	-	-	128.9	-
Of which: Loans and advances other than loans on demand	-	-	-	-
Of which: Other collateral received	-	-	90.1	-
Own debt securities issued other than own covered bonds or asset-backed securities	-	-	-	-
Own covered bonds and asset-backed securities issued and not yet pledged			-	-
Total assets, collateral received and own debt securities issued**	**2,751.8**	**1,059.4**		

*Extremely high quality liquid assets (EHQLA) and high quality liquid assets (HQLA) are assets which are typically liquid in markets during a time of stress;

**Sum of total assets on table 27 & total collateral on table 28

n/a = not applicable

The table below shows the sources of encumbrance, by breaking down the median level of liabilities and lending of securities that resulted in encumbrance, and the assets encumbered. The table shows that $2,681m of assets were encumbered in respect of $4,391m of selected liabilities.

Table 29: Encumbered assets/collateral received by ICBC Standard Bank Plc and associated liabilities

Median over 2019	Matching liabilities, contingent liabilities or securities lent ($m)	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered ($m)
Carrying amount of selected financial liabilities	4,390.6	2,680.7
Other sources of encumbrance	-	-
TOTAL SOURCES OF ENCUMBRANCE	**4,390.6**	**2,680.7**

12.1 Asset encumbrance as at 31 December 2019

As at year-end 31 December 2019, $1,174m 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. This is shown in the table below.

Table 30: Asset Encumbrance as at 31 Dec 2019

As at Dec 2019	Carrying amount of encumbered assets ($m)		Fair value of encumbered assets ($m)		Carrying amount of unencumbered assets ($m)		Fair value of unencumbered assets ($m)	
		of which notionally eligible EHQLA and HQLA ($m)		of which notionally eligible EHQLA and HQLA ($m)		of which notionally eligible EHQLA and HQLA ($m)		of which notionally eligible EHQLA and HQLA ($m)
Total Assets of ICBC Standard Bank Plc	**1,173.9**	**339.1**			**23,251.6**	**2,064.7**		
Of which: Equity instruments	-	-			21.0	-		
Of which: Debt securities	395.7	339.1	395.7	339.1	3,353.7	1,467.8	3,353.7	2,064.7
of which: covered bonds	-	-	-	-	-	-	-	-
of which: asset-backed securities	-	-	-	-	-	-	-	-
of which: issued by central governments	56.7	0.0	56.7	0.0	2,177.3	47.3	2,177.0	1,242.0
of which: issued by financial corporations	339.1	339.1	339.1	339.1	1,156.5	822.7	1,156.5	822.7
of which: issued by non-financial corporations	-	-	-	-	7.0	-	7.0	-
Of which: Loans and advances other than loans on demand	2.0	-			6,291.4	-		
Of which: Other assets	-	-			10,713.5	-		
Of which: Cash placings	776.1	n/a			2,872.0	n/a		

The total collateral received which was available for encumbrance is shown in the table below, split by assets that were encumbered and those that remain available for encumbrance.

Of the $4,600m of debt and equity instruments received as collateral that were available for encumbrance, $1,470m of securities were pledged onwards. This is shown in the table below. A significant majority of the $1,470m collateral that was encumbered related to matched-book activity where reverse repurchase agreements are matched by repurchase agreements entered into to facilitate client activity.

Table 31: Collateral received by ICBC Standard Bank Plc as at 31 Dec 2019

As at 31 Dec 2019	Fair value of encumbered collateral received or own debt securities issued ($m)		Fair value of collateral received or own debt securities issued available for encumbrance but not encumbered ($m)	
		of which notionally eligible EHQLA and HQLA ($m)		of which notionally eligible EHQLA and HQLA ($m)
Total collateral received by ICBC Standard Bank Plc	**1,469.5**	**388.1**	**3,130.5**	**1,467.9**
Of which: Loans on demands	-		-	
Of which: Equity instruments	-		246.0	
Of which: Debt securities	1,469.5	388.1	2,862.2	1,467.9
of which: covered bonds	-		-	
of which: asset-backed securities	-		0.0	
of which: issued by central governments	1,319.9	47.3	2,353.1	350.2
of which: issued by financial corporations	149.6	340.8	411.5	1,117.7
of which: issued by non-financial corporations	-		97.6	
Of which: Loans and advances other than loans on demand	-		-	
Of which: Other collateral received	-		22.3	
Own debt securities issued other than own covered bonds or asset-backed securities	-		-	
Own covered bonds and asset-backed securities issued and not yet pledged			-	
Total assets, collateral received and own debt securities issued**	**2,643.4**			

The asset encumbrance ratio as at year-end 31 December 2019 was 9.11% as shown below.

Table 32: Asset Encumbrance Ratio

Encumbered Assets and Collateral	**31-Dec-19**
Encumbered Assets	1,173.9
Encumbered Collateral Received	1,469.5
Total Encumbered Assets and Collateral (A)	**2,643.4**
Total Assets and Collateral	
Total Assets of ICBCS (Encumbered and Unencumbered)	24,425.5
Total Collateral Received by ICBCS (Encumbered & Available for Encumbrance)	4,600.0
Total Assets and Collateral Received (B)	**29,025.5**
Asset Encumbrance Ratio (A/B)	**9.11%**

Additional disclosures on encumbered financial assets are included on page 144 (note 38) of the ICBC Standard Bank Plc Consolidated Annual Report 2019.

13. Remuneration

These disclosures contain remuneration awards made by ICBCS group (the "group") for the 66 (including non-executives and leavers) employees deemed Material Risk Takers (MRTs) in respect of the 2019 performance year and provide a summary of the group's decision-making policies.

13.1 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:

- Senior Leadership (including Supervision, Management and Governance)
- 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

13.2 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 ICBCS 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.

A strategic focus of the remuneration philosophy is to implement designs and practices that only reward value delivered on a pay for performance basis within the context of control management and sustainability, adjusted appropriately for risk assumed. Additionally, it should offer competitive remuneration in the global marketplace for skills and seek to reward all its employees in a manner that is fair, both to the individual and to shareholders, while avoiding a bonus-centric culture that distorts motivations and may encourage excessive risk-taking. A final vital component of the remuneration strategy is that scheme designs and performance evaluation processes must recognise strong and sustained performance within teams whilst being forward looking to motivate for business plan delivery.

13.3 Reward Framework

The reward framework comprises 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. Increases are typically to ensure appropriate pay positioning relative to the market range and relative pay of others doing the same or similar role.

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. Awards whilst primarily recognising past performance should also be forward looking and motivate for business plan delivery and retention. 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 (following consideration of risk-adjustment) pools for each of the business units and supporting functions.

A proportion of discretionary incentive compensation is deferred over a three, five or seven year period either as cash or via awards under the ICBCS Quanto Plan. The objective of the deferral is to ensure that employees have a proportion of their compensation “at risk” for an extended period [and also enables ICBCS to comply with regulatory requirements including deferral, malus and clawback]. 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 ICBCS 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.

13.4 Remuneration Committee

The committee is comprised of Non-Executive Directors and the members of the committee during 2019 were as follows:

Table 33: Number of Directorships for Directors of ICBC Standard Bank Plc at 31 December 2019

Mr R Weerasekera	Chair of the Committee until resignation as a director on 31 March 2019
Mr G Jones	Appointed a member and Chair of the committee on 14 May 2019
Ms J Eden	Member throughout 2019
Mr R Han	Member throughout 2019
Mr B Kruger	Member throughout 2019
Mr A Simmonds	Appointed a member on 15 May 2019
Mr L Wang	Member throughout 2019
Dr W Wang	Ceased to be a member on 1 April 2019

During 2019, the Committee met six times and considered the following principal matters:

- Remuneration philosophy including fixed pay ratios and strategic performance goals (Balanced Scorecard, weightings and metrics)
- Approval of senior executive appointments
- Determination of bonus pools based on group performance within the context of control management and sustainability, adjusted appropriately for risk assumed
- Bonus and salary awards for key executives
- Payment for loss of office for Chief Executive Officer
- Approval of remuneration and terms of service that fall within the Committee's terms of reference

With effect from FY2018 ICBCS became a "Proportionality Level 2 Firm" for the purposes of the Remuneration part of the PRA Rulebook and SYSC 19D of the FCA Handbook. Mercer Kepler as independent remuneration consultants to the Remuneration Committee have supported the Group throughout 2019 including delivery of a bespoke Non-Executive Director training workshop on the key roles & responsibilities of a RemCo, remuneration regulation and the external remuneration landscape.

Additional disclosures on remuneration are included on pages 29-33 and 101-103 of the ICBC Standard Bank Plc Consolidated Annual Report 2019.

13.5 Remuneration Policy Governance

The governance of remuneration policy including policies, structures and practices is delegated to the ICBCS 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 group to operate commercially and sustainably in a competitive environment. Members of the RemCo attend the ICBCS 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 ICBCS's RemCo can arrive at a decision on the discretionary incentive pool after full consideration of the risk profile of the group.

13.6 Remuneration Strategy

As a means of developing 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 ICBCS 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 ICBCS 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 ICBCS 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 ICBCS 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 pay for performance remuneration practices and underpins strong differentiation in individual pay.
- A portion of annual discretionary incentive, above a certain threshold, is deferred. In the case of awards over a certain (possibly higher) threshold, deferral will be into a vehicle with multi-year vesting and malus (forfeiture) provisions. Clawback also applies to awards where required under the FCA/PRA regulations.
- A significant portion of senior management reward is awarded in deferred instruments.
- 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 competitively against the local market for both fixed and variable compensation, but also needs to ensure positioning against local markets 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.

13.7 Analysis of 2019 Remuneration

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

Table 34: Remuneration to MRTs

	Performance Year 2019						Performance Year 2018					
Performance Year 2019	**Senior Management**	**FICE**	**Commodities**	**Investment Banking**	**Other**	**Total**	**Senior Management**	**FICE**	**Commodities**	**Investment Banking**	**Other**	**Total**
Number of MRTs	18	8	7	2	31	**66**	17	10	7	2	26	**62**
Base Salary ($'m)	10.2	3.6	3.3	0.8	7.3	**25.2**	9.1	4.4	2.8	0.8	4.9	**21.9**
Variable compensation ($'m)	0.5	2.4	1.3	0.0	2.1	**6.2**	10.0	6.0	3.9	0.4	2.3	**22.6**
Of which: Cash ($'m)	0.3	1.3	0.6	0.0	1.2	**3.4**	4.8	3.1	1.8	0.2	1.4	**11.3**
Deferred Cash ($'m)	0.1	0.5	0.3	0.0	0.4	**1.4**	2.6	1.5	1.0	0.1	0.5	**5.6**
Deferred Shares ($'m)	0.1	0.5	0.3	0.0	0.4	**1.4**	2.6	1.5	1.0	0.1	0.5	**5.6**

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

13.7.1 Outstanding Deferred Remuneration

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

Table 35: Deferred Remuneration to MRTs

	Performance Year 2019						Performance Year 2018					
Category of Deferred Remuneration ($'m)	**Senior Management**	**FICE**	**Commodities**	**Investment Banking**	**Other**	**Total**	**Senior Management**	**FICE**	**Commodities**	**Investment Banking**	**Other**	**Total**
Unvested from prior year*	17.8	6.8	4.3	0.3	4.3	**33.6**	14.1	6.0	3.3	0.1	1.0	**24.5**
Awarded during the financial year	0.2	1.1	0.7	0.0	0.8	**2.8**	5.2	2.9	2.0	0.2	0.9	**11.3**
Paid out	7.5	2.7	1.5	0.0	1.7	**13.4**	3.8	1.0	1.0	0.0	0.3	**6.2**
Unvested at year end	10.5	5.3	3.4	0.3	3.4	**23.0**	15.5	7.9	4.3	0.2	1.6	**29.5**

* Includes unvested historic awards for individuals that were classified as MRT in FY19 but NOT in FY18

Notes:

- There were no in-year risk and performance adjustments made to MRTs in 2019. Risk and performance adjustment (Malus/Clawback), in whole or in part, was considered for all deferred remuneration vesting in 2019 although not applied.
- There may be a disconnect between the closing position on the FY2018 table and the opening position of the FY2019 table caused by:
  - the inclusion of unvested historic awards for individuals that were classified as MRT in 2019 but were not identified as MRTs in 2018;
  - change of MRT status in FY2019 relative to the prior year; and
  - leavers who were not granted "good leaver" status and therefore forfeited their awards

13.7.2 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, 4 MRTs received total remuneration of over EUR 1 million. The breakdown is shown below.

Table 36: Remuneration Bands

	No. of Employees	
Remuneration > €1m	**2019**	**2018**
EUR 1m -1.5m	4	12
EUR 1.5m -2m	0	0
EUR 2m -2.5m	0	1
EUR 2.5m -3m	0	1
EUR 3m -3.5m	0	0
EUR 3.5m -4m	0	0
EUR >4m	0	0
Total	**4**	**14**

13.7.3 Sign on and severance payments

There were 3 severance payments made to MRTs in the performance year 2019 which totalled $1.7m. There were no sign-on payments or guaranteed incentives made to MRTs in the performance year 2019.

Annex 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	ICBC Standard Bank Plc
Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	Unlisted	Bloomberg ID: AN7413650	Bloomberg ID: BBG00PNR07D9	Bloomberg ID: BBG00R45GWG9
Governing law(s) of the instrument	English Law	English Law	English Law	English Law
Transitional CRR rules	Common equity Tier 1	Tier 2	Tier 2	Additional Tier 1
Post-transitional CRR rules	Common equity Tier 1	Tier 2	Tier 2	Additional Tier 1
Eligible at solo/(sub-)consolidated/solo & (sub-) consolidated	Solo and (Sub) Consolidated	Solo and (Sub) Consolidated	Solo and (Sub) Consolidated	Solo and (Sub) Consolidated
Instrument type	Common 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	Additional Tier 1 as published in Regulation (EU) No 575/2013 -Article 52
Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	$1,083.5m	$150m	$100m	$160m
Nominal amount of instrument	$1	$150m	$100m	$160m
Issue price	Ongoing Issuances	100% of Nominal Amount	100% of Nominal Amount	100% of Nominal Amount
Redemption price	N/A	100% of Nominal Amount	100% of Nominal Amount	100% of Nominal Amount
Accounting classification	Equity attributable to ordinary shareholders	Liability - Amortised cost	Liability - Amortised cost	Equity attributable to ordinary shareholders
Original date of issuance	Ongoing Issuances	15th June 2017	31st July 2019	27th December 2019
Perpetual or dated	N/A	Dated	Dated	Perpetual
Original maturity date	N/A	15th June 2027	31st July 2029	No maturity
Issuer call subject to prior supervisory approval	N/A	Yes	Yes	Yes
Optional call date, contingent call dates, and redemption amount	N/A	5 year call and Redemption at par based on capital disqualification event	5 year call and Redemption at par based on capital disqualification event	5 year call and Redemption at par based on capital or tax disqualification event
Subsequent call dates, if applicable	N/A	N/A	N/A	27th December 2024 and any time thereafter
Fixed or floating dividend/coupon	N/A	Floating	Floating	Fixed to Floating
Coupon rate and any related index	N/A	3 Month USD LIBOR + 3.67%, per annum, paid quarterly	3 Month USD LIBOR + 2.75% per annum, paid quarterly	7.617% until 27 December 2024. Resets to 3 Month USD LIBOR + 4.36% if not called. Paid annually.
Existence of a dividend stopper	N/A	No	No	No
Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A	Mandatory	Mandatory	Fully discretionary
Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A	Mandatory	Mandatory	Fully discretionary
Existence of step up or other incentive to redeem	N/A	No	No	No

Non-cumulative or cumulative	N/A	Cumulative	Cumulative	Non-cumulative
Convertible or non-convertible	N/A	Non-convertible	Non-convertible	Non-convertible
If convertible, conversion trigger (s)	N/A	N/A	N/A	N/A
If convertible, fully or partially	N/A	N/A	N/A	N/A
If convertible, conversion rate	N/A	N/A	N/A	N/A
If convertible, mandatory or optional conversion	N/A	N/A	N/A	N/A
If convertible, specify instrument type convertible into	N/A	N/A	N/A	N/A
If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A	N/A
Write-down features	N/A	No	No	Yes
If write-down, write-down trigger (s)	N/A	Yes	Yes	Yes
If write-down, full or partial	N/A	N/A	N/A	Group or Solo Consolidated Group CET1 is less than 7%
If write-down, permanent or temporary	N/A	N/A	N/A	Full
If temporary write-down, description of write-up mechanism	N/A	N/A	N/A	Permanent
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	N/A	N/A	N/A	N/A
Non-compliant transitioned features	N/A	Pari passu with claims of all subordinated creditors, subordinated to senior creditors and senior to Ordinary shares and junior subordinated creditors	Pari passu with claims of all subordinated creditors, subordinated to senior creditors and senior to Ordinary shares and junior subordinated creditors	Subordinate to Tier 2 Instruments
If yes, specify non-compliant features	N/A	No	No	No

Annex B: Transitional Own funds Disclosure Template

Transitional Own Funds Disclosure Template

	As at 31 December 2019	Amount ($m)	CRR Prescribed Residual Amount
	Common Equity Tier 1 capital: Instruments and Reserves		
1	Capital instruments and the related share premium accounts	2,079.4	
	of which: ordinary share capital and related share premium accounts	2,079.4	
2	Retained earnings	(817.5)	
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	(0.1)	
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 2019	-	
5	Minority Interests (amount allowed in consolidated CET1)	-	-
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	-	
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**1,261.7**	
	Common Equity Tier 1 (CET1) capital: regulatory adjustments	**-**	
7	Additional value adjustments (negative amount)	(14.5)	
8	Intangible assets (net of related tax liability) (negative amount)	(45.9)	-
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)	(0.1)	-
11	Fair value reserves related to gains or losses on cash flow hedges	(4.0)	
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	(1.2)	-
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 , indirect and synthetic 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)	(248.2)	-
25b	Foreseeable tax charges relating to CET1 items (negative amount)	-	-
	Adjustment under IFRS 9 transitional arrangements	0.5	
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	**Total regulatory adjustments to Common equity Tier 1 (CET1)**	**(313.5)**	
29	**Common Equity Tier 1 (CET1) capital**	**948.3**	

	Additional Tier 1 (AT1) capital: instruments	-	
30	Capital instruments and the related share premium accounts	160.0	
31	of which: classified as equity under applicable accounting standards	160.0	
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 2019	-	
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	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**160.0**	
	Additional Tier 1 (AT1) capital: regulatory adjustments	-	
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	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	**-**	
44	**Additional Tier 1 (AT1) capital**	**160.0**	
45	**Tier 1 capital (T1 = CET1 + AT1)**	**1,108.3**	
	Tier 2 (T2) capital: instruments and provisions	-	
46	Capital instruments and the related share premium accounts	250.0	
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 2019	-	
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	-	
		-	
51	**Tier 2 (T2) capital before regulatory adjustments**	**250.0**	
	Tier 2 (T2) capital: regulatory adjustments		
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	**Total regulatory adjustments to Tier 2 (T2) capital**	**-**	
58	**Tier 2 (T2) capital**	**250.0**	
59	**Total capital (TC = T1 + T2)**	**1,358.3**	
	Risk weighted assets		
	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	**Total risk weighted assets**	**6,952.8**	
	Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	13.64%	
62	Tier 1 (as a percentage of risk exposure amount)	15.94%	
63	Total capital (as a percentage of risk exposure amount)	19.54%	
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus	-	
65	of which: capital conservation buffer requirement	2.50%	
66	of which: countercyclical buffer requirement	0.21%	
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)	7.64%	
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)	6.4	
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)	0.4	
	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)	-	
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	89.6	
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	140.0	
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	

Annex C: Geographical Distribution of Credit Exposures

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

						Own funds requirements					
	As at 31 December 2019	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)	of which: Credit exposures ($m)	of which: Trading book exposures ($m)	of which: Securitisation exposures ($m)	Total ($m)	Own funds requirements weights	Countercyclical buffer rate (%)
1	Angola	0.1	0.0	0.0		0.0	0.0		0.0	0.00	0.000%
2	Argentina	3.6	0.0	0.0		0.4	0.0		0.4	0.00	0.000%
3	Austria	0.0	0.0	0.3		0.0	0.0		0.0	0.00	0.000%
4	Azerbaijan	5.4	0.0	0.0		0.4	0.0		0.4	0.00	0.000%
5	Bahamas	20.6	0.0	0.0		1.6	0.0		1.6	0.01	0.000%
6	Bahrain	34.3	0.0	0.0		2.7	0.0		2.7	0.01	0.000%
7	Belgium	20.6	0.0	0.7		1.7	0.0		1.7	0.01	0.000%
8	Botswana	2.1	0.0	0.0		0.2	0.0		0.2	0.00	0.000%
9	Brazil	5.0	0.1	0.2		0.4	0.2		0.6	0.00	0.000%
10	Bulgaria	0.0	0.0	0.0		0.0	0.0		0.0	0.00	0.500%
11	Cameroun	0.3	0.0	0.0		0.0	0.0		0.0	0.00	0.000%
12	Canada	0.6	0.0	0.0		0.1	0.0		0.1	0.00	0.000%
13	Cayman Islands	19.5	0.0	0.0		1.6	0.0		1.6	0.01	0.000%
14	Chile	1.9	0.1	0.0		0.2	0.0		0.2	0.00	0.000%
15	China	70.8	0.1	0.2		5.7	0.0		5.7	0.03	0.000%
16	Czech Republic	2.4	0.0	0.0		0.2	0.0		0.2	0.00	1.500%
17	Denmark	0.0	0.0	0.0		0.0	0.0		0.0	0.00	1.000%
18	Egypt	0.2	0.0	0.0		0.0	0.0		0.0	0.00	0.000%
19	Ethiopia	10.1	0.0	0.0		0.8	0.0		0.8	0.00	0.000%
20	Finland	5.2	0.0	0.7		0.4	0.0		0.4	0.00	0.000%
21	France	26.0	0.0	8.0		2.1	0.1		2.2	0.01	0.250%
22	Georgia	3.9	0.0	1.0		0.3	0.3		0.6	0.00	0.000%
23	Germany	32.6	0.0	5.2		2.5	0.1		2.6	0.01	0.000%
24	Ghana	0.4	0.0	0.0		0.0	0.0		0.0	0.00	0.000%
25	Great Britain	273.4	0.1	8.0		20.5	0.1		20.6	0.11	1.000%
26	Hong Kong	129.1	0.0	0.0		9.6	0.0		9.6	0.05	2.000%
27	Iceland	0.0	0.0	0.0		0.0	0.0		0.0	0.00	1.750%
28	India	32.2	0.0	0.0		2.6	0.0		2.6	0.01	0.000%
29	Indonesia	4.3	0.0	0.2		0.3	0.1		0.4	0.00	0.000%
30	Ireland	2.5	0.0	0.0		0.2	0.0		0.2	0.00	1.000%
31	Israel	0.3	0.0	0.0		0.0	0.0		0.0	0.00	0.000%
32	Italy	20.3	0.0	0.7		1.6	0.0		1.6	0.01	0.000%

	As at 31 December 2019	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)	of which: Credit exposures ($m)	of which: Trading book exposures ($m)	of which: Securitisation exposures ($m)	Total ($m)	Own funds requirements weights	Countercyclical buffer rate (%)
33	Ivory Coast	84.1	0.0	0.0		2.1	0.0		2.1	0.01	0.000%
34	Jamaica	0.9	0.0	0.0		0.1	0.0		0.1	0.00	0.000%
35	Japan	22.1	0.0	0.0		1.8	0.0		1.8	0.01	0.000%
36	Jersey , C.I.	146.5	0.0	0.0		17.1	0.0		17.1	0.09	0.000%
37	Jordan	20.9	0.0	0.0		1.4	0.0		1.4	0.01	0.000%
38	Kazakhstan	14.4	4.3	0.0		1.1	0.3		1.5	0.01	0.000%
39	Kenya	5.1	0.0	0.0		0.4	0.0		0.4	0.00	0.000%
40	Korea, Republic Of	7.7	0.0	0.0		0.5	0.0		0.5	0.00	0.000%
41	Lithuania	0.0	0.0	0.0		0.0	0.0		0.0	0.00	1.000%
42	Luxembourg	219.9	0.0	0.7		19.3	0.0		19.3	0.10	0.000%
43	Malawi	0.2	0.0	0.0		0.0	0.0		0.0	0.00	0.000%
44	Malta	0.1	0.0	0.0		0.0	0.0		0.0	0.00	0.000%
45	Mauritius	1.2	0.0	0.0		0.1	0.0		0.1	0.00	0.000%
46	Mexico	0.0	0.1	0.0		0.0	0.0		0.0	0.00	0.000%
47	Mongolia	0.1	0.0	0.0		0.0	0.0		0.0	0.00	0.000%
48	Morocco	0.3	0.0	0.0		0.0	0.0		0.0	0.00	0.000%
49	Mozambique	0.2	0.0	0.0		0.0	0.0		0.0	0.00	0.000%
50	Namibia	0.1	0.0	0.0		0.0	0.0		0.0	0.00	0.000%
51	Netherlands	39.2	0.0	3.5		3.1	0.1		3.1	0.02	0.000%
52	Nigeria	133.8	0.1	0.0		12.5	0.0		12.5	0.06	0.000%
53	Norway	0.0	0.0	0.7		0.0	0.0		0.0	0.00	2.500%
54	Panama	0.6	0.0	0.0		0.0	0.0		0.0	0.00	0.000%
55	Peru	4.6	0.0	0.0		0.4	0.0		0.4	0.00	0.000%
56	Philippines	0.8	0.0	0.0		0.1	0.0		0.1	0.00	0.000%
57	Qatar	62.6	0.0	0.0		2.9	0.0		2.9	0.01	0.000%
58	Russian Federation	69.5	0.0	0.0		6.2	0.0		6.2	0.03	0.000%
59	Saudi Arabia	5.1	0.0	0.0		0.4	0.0		0.4	0.00	0.000%
60	Senegal	0.1	0.0	0.0		0.0	0.0		0.0	0.00	0.000%
61	Serbia	0.9	0.0	0.0		0.1	0.0		0.1	0.00	0.000%
62	Sierra Leone	0.1	0.0	0.0		0.0	0.0		0.0	0.00	0.000%
63	Singapore	131.7	0.0	0.0		10.5	0.0		10.5	0.05	0.000%
64	Slovakia	0.0	0.0	0.0		0.0	0.0		0.0	0.00	1.500%
65	South Africa	1.6	0.3	0.7		0.1	0.2		0.3	0.00	0.000%
66	Spain	53.2	0.0	1.4		4.3	0.0		4.3	0.02	0.000%
67	Swaziland	0.1	0.0	0.0		0.0	0.0		0.0	0.00	0.000%
68	Sweden	0.4	0.0	1.0		0.0	0.0		0.0	0.00	2.500%
69	Switzerland	285.6	0.0	1.4		21.9	0.0		21.9	0.11	0.000%
70	Tajikistan	0.3	0.0	0.0		0.0	0.0		0.0	0.00	0.000%
71	Tanzania, United Republic Of	0.2	0.0	0.0		0.0	0.0		0.0	0.00	0.000%
72	Thailand	4.8	0.0	0.0		0.4	0.0		0.4	0.00	0.000%
73	Turkey	59.4	5.0	0.0		4.8	0.4		5.2	0.03	0.000%
74	Uganda	1.1	0.0	0.0		0.1	0.0		0.1	0.00	0.000%

75	Ukraine	23.5	0.0	0.1		2.8	0.0		2.8	0.01	0.000%
76	United Arab Emirates	101.1	0.0	0.0		5.3	0.0		5.3	0.03	0.000%
77	United States	126.7	0.0	0.0		9.7	0.0		9.7	0.05	0.000%
78	Virgin Islands (British)	24.1	0.0	0.0		1.9	0.0		1.9	0.01	0.000%
79	Zambia	41.0	0.0	0.0		4.9	0.0		4.9	0.03	0.000%
	Total	**2,423.7**	**10.3**	**34.6**	**0.0**	**192.7**	**1.9**	**0.0**	**194.6**	**1.0**	**16.500%**

Only exposures to countries relevant to ICBCS are shown in the table above.

Annex D: Leverage Ratio

Leverage Ratio Common Disclosure Template

	As at 31 December 2019	CRR Leverage Ratio Exposure ($m)
	On-balance sheet exposures (excluding derivatives and SFTs)	
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	17,131
2	(Asset amounts deducted in determining Tier 1 capital)	(45)
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	**17,086**
	Derivative exposures	
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	567
5	Add-on amounts for PFE associated with all derivatives transactions (mark-to-market method)	2,304
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)	(479)
8	(Exempted CCP leg of client-cleared trade exposures)	-
9	Adjusted effective notional amount of written credit derivatives	1,664
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	(1,460)
11	**Total derivative exposures (sum of lines 4 to 10)**	**2,597**
	Securities financing transaction exposures	
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	3,312
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14	Counterparty credit risk exposure for SFT assets	12
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)	-
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	**3,324**
	Other off-balance sheet exposures	
17	Off-balance sheet exposures at gross notional amount	168
18	(Adjustments for conversion to credit equivalent amounts)	(9)
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	**159**
	Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)	
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))	-
	Capital and total exposures	
20	**Tier 1 capital**	**1,108**
21	**Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	**23,166**
	Leverage ratio	
22	**Leverage ratio**	**4.78%**
	Choice on transitional arrangements and amount of derecognised fiduciary items	
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	-

Leverage Ratio Exposure Breakdown

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 cash balances held at central banks and highly liquid securities.

Leverage Ratio on Balance Sheet Exposures (excluding derivatives, SFTs and exempted exposures)

As at 31 December 2019	**CRR Leverage Ratio Exposure ($m)**
Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	**16,103**
Trading book exposures	7,586
Banking book exposures, of which:	8,517
Covered bonds	-
Exposures treated as sovereigns	4,862
Exposures to regional governments, MDB, international organisations and PSE NOT treated as sovereigns	1,232
Institutions	838
Secured by mortgages of immovable properties	-
Retail exposures	-
Corporate	1,265
Exposures in default	158
Other exposures (e.g. equity, securitisations, and other non-credit obligation assets)	163

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

Leverage Ratio Summary Reconciliation of Accounting Assets and Leverage Ratio Exposures

As at 31 December 2019	Applicable Amounts ($m)
Total assets as per published financial statements	**24,426**
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	-1,385
Adjustments for securities financing transactions "SFTs"	12
Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	159
(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	(45)
Total leverage ratio exposure	**23,166**

Annex E: Non-performing & forborne exposures

Collateral obtained by taking possession & execution processes

See the table below for information on the instruments that were cancelled in exchange for collateral obtained by taking possession and on the value of the collateral obtained by taking possession.

Collateral Obtained by Taking Possession & Execution Processes

As at 31 December 2019	Value at initial recognition **($)**	Accumulated negative charges **($)**
Property, plant and equipment (PP&E)	-	-
Other than PP&E	-	-
Residential immovable property	-	-
Commercial immovable property	-	-
Movable property (auto, shipping etc.)	-	-
Equity and debt instruments	-	-
Other	-	-
Total collateral obtained by taking possession	**-**	**-**

Performing & Non-Performing Exposures & Related Provisions

As at 31 December 2019	Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received	
	Performing exposures	*Of which stage 1*	*Of which stage 2*	*Non-performing exposures*	*Of which stage 1*	*Of which stage 2*	*Performing exposures, accumulated impairments & provisions*	*Of which stage 1*	*Of which stage 2*	*Non-performing exposures, accumulated impairments & provisions*	*Of which stage 1*	*Of which stage 2*	*Performing exposures*	*On performing exposures*	*On non-performing exposures*
	($m)	**($m)**	**($m)**	**($m)**	**($m)**	**($m)**	**($m)**	**($m)**	**($m)**	**($m)**	**($m)**	**($m)**	**($m)**	**($m)**	**($m)**
Loans and advances	9,788.0	8,339.8	14.1	135.9	0.0	135.9	(4.1)	(3.6)	(0.5)	(0.2)	0.0	(0.2)	0.0	0.0	135.7
Central banks	6,220.8	5,002.2	0.0	0.0	0.0	0.0	(0.4)	(0.4)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General governments	218.1	138.5	0.0	0.0	0.0	0.0	(0.1)	(0.1)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credit institutions	1,877.6	1,877.6	0.0	0.0	0.0	0.0	(0.6)	(0.6)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financial corporations	807.3	666.6	5.0	135.7	0.0	135.7	(0.1)	(0.1)	0.0	0.0	0.0	0.0	0.0	0.0	135.7
Non-financial corporations	664.1	655.0	9.1	0.2	0.0	0.2	(2.9)	(2.3)	(0.5)	(0.2)	0.0	(0.2)	0.0	0.0	0.0
Of which SMEs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Households	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt securities	1,866.6	1,865.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Central banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General governments	399.8	398.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credit institutions	1,276.7	1,276.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financial corporations	190.1	190.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-financial corporations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Off-balance-sheet exposures	17.9	17.9	0.0	0.0	0.0	0.0	(0.2)	(0.2)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Central banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General governments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credit institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financial corporations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-financial corporations	17.9	17.9	0.0	0.0	0.0	0.0	(0.2)	(0.2)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Households	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	11,672.4	10,223.2	14.1	135.9	0.0	135.9	(4.3)	(3.8)	(0.5)	(0.2)	0.0	(0.2)	0.0	0.0	135.7

Performing & Non-Performing Exposures & Related Provisions

The gross carrying amount of performing and non-performing exposures and the related accumulated impairment, provisions, accumulated change in fair value due to credit risk, accumulated partial write-off, and collateral and financial guarantees received, according to the scope of regulatory consolidation in accordance with Chapter 2 of Title II of Part One of the CRR.

Credit Quality of Performing & Non-Performing Exposures by Past Due Days

	Gross carrying amount/nominal amount											
	Performing exposures			**Non-performing exposures**								
As at 31 December 2019	**Performing exposures**	***Not past due or past due ≤ 30 days***	***Past due > 30 days ≤ 90 days***	**Non-performing exposures**	***Unlikely to pay that are not past due or are past due ≤ 90 days***	***Past due > 90 days ≤ 180 days***	***Past due > 180 days ≤ 1 year***	***Past due > 1 year ≤ 2 years***	***Past due > 2 years ≤ 5 years***	***Past due > 5 years ≤ 7 years***	***Past due > 7 years***	***Of which defaulted***
	($m)	**($m)**	**($m)**			**($m)**	**($m)**	**($m)**	**($m)**			**($m)**
Loans and advances	9,788.0	9,788.0	0.0	135.9	135.7	0.0	0.0	0.0	0.2	0.0	0.0	135.9
Central banks	6,220.8	6,220.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General governments	218.1	218.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credit institutions	1,877.6	1,877.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financial corporations	807.3	807.3	0.0	135.7	135.7	0.0	0.0	0.0	0.0	0.0	0.0	135.7
Non-financial corporations	664.1	664.1	0.0	0.2	0.0	0.0	0.0	0.0	0.2	0.0	0.0	0.2
Of which SMEs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Households	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt securities	1,866.6	1,866.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Central banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General governments	399.8	399.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credit institutions	1,276.7	1,276.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financial corporations	190.1	190.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-financial corporations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Off-balance-sheet exposures	17.9			0.0								0.0
Central banks	0.0			0.0								0.0
General governments	0.0			0.0								0.0
Credit institutions	0.0			0.0								0.0
Other financial corporations	0.0			0.0								0.0
Non-financial corporations	17.9			0.0								0.0
Households	0.0			0.0								0.0
Total	11,672.4	11,654.6	0.0	135.9	135.7	0.0	0.0	0.0	0.2	0.0	0.0	135.9

Credit Quality of Performing & Non-Performing Exposures by Past Due Days

The gross carrying amount of performing and non-performing exposures according to the scope of regulatory consolidation in accordance with Chapter 2 of Title II of Part One of the CRR.

Credit Quality of Forborne Exposures								
	Gross carrying amount/nominal amount of exposures with forbearance measures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral received and financial guarantees received on forborne exposures	
	Performing forborne	Non-performing forborne						
As at 31 December 2019	Performing forborne	Non-performing forborne	*Of which defaulted*	*Of which impaired*	On performing forborne exposures	On non-performing forborne exposures	Collateral received and financial guarantees received on forborne exposures	*Of which collateral and financial guarantees received on non-performing exposures with forbearance measures*
	($m)	($m)	($m)			($m)	($m)	($m)
Loans and advances	0.0	135.9	135.9	0.2	0.0	-0.2	135.7	135.7
Central banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General governments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Credit institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other financial corporations	0.0	135.7	135.7	0.0	0.0	0.0	135.7	135.7
Non-financial corporations	0.0	0.2	0.2	0.2	0.0	-0.2	0.0	0.0
Households	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt Securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loan commitments given	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	**0.0**	**135.9**	**135.9**	**0.2**	**0.0**	**-0.2**	**135.7**	**135.7**

Performing & Non-Performing Exposures & Related Provisions

The gross carrying amount of forborne exposures and the related accumulated impairment, provisions, accumulated change in fair value due to credit risk, and collateral and financial guarantees received, according to the scope of regulatory consolidation in accordance with Chapter 2 of Title II of Part One of the CRR.

Annex F: Glossary

Additional Tier 1 capital

Instruments that are not common equity however are eligible to be included within Tier 1. Examples include contingent convertibles and hybrid securities.

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.

Asset Encumbrance

Asset encumbrance refers to the existence of bank assets securing liabilities in the event that an institution fails to meet its financial obligations.

Backtesting

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

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.

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

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.

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.

CRD V

The revised rules on capital and liquidity (CRR2 and CRDV) and resolution (BRRD2 and SRMR2) were published in the Official Journal on 7 June 2019 following a legislative process which began at the end of 2016. Most changes will start to apply from mid-2021.

Credit quality step

A step in the EBA's credit quality assessment scale which is based on the credit ratings applied by ECAIs. 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 fails 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

CRR2

See CRD V

Debit Valuation Adjustment (DVA)

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

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.

Financial Collateral Comprehensive Method (FCCM)

An approach to regulatory credit risk mitigation, whereby the collateral adjusted value is deducted from the risk exposure (before assigning a risk weight).

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

Historical Look Back Approach (HLBA)

Method for calculating additional liquidity outflows corresponding to collateral needs resulting from the impact of an adverse market scenario on a firm's derivatives transactions, financing transactions and other contracts.

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.

Individual Liquidity Guidance (ILG)

The amount, quality and funding profile of liquidity resources that the regulator has asked the institution to maintain.

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.

Interest rate risk (IRR)

Interest rate risk in 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 III 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 Liquidity Adequacy Assessment Process (ILAAP)

The group's own assessment of the processes for the identification, measurement, management and monitoring of liquidity.

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.

Liquidity Coverage Ratio (LCR)

The proportion of highly liquid assets held to ensure of ongoing ability to meet short-term obligations.

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

Model validation

The process of assessing and providing evidence that the group'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 III framework sets out the minimum regulatory capital requirements for credit, operational and market risks.

Pillar 2

The second pillar of the Basel III framework is known as the Supervisory Review Process, and sets out the review process for a bank's capital and liquidity 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 2A

Pillar 2A addresses risks to an individual firm which are either not captured, or not fully captured, under the Pillar 1 requirements applicable to all banks.

Pillar 3

The third pillar of the Basel III framework aims to encourage market discipline by setting out disclosure requirements for banks on their capital, liquidity and 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 values 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 tranched 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 EBA 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

Senior Managers & Certification Regime (SM&CR)

The aim of the Senior Managers and Certification Regime (SM&CR) is to reduce harm to consumers and strengthen market integrity by making individuals more accountable for their conduct and competence.

Sovereign exposures

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

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 ECAIs 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 CRR. 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 CRR2, mainly comprising qualifying subordinated loan capital, certain non-controlling interests and eligible collective impairment allowances

Total Capital Requirement (TCR)

The amount and quality of capital a firm must maintain to comply with the minimum capital requirements under the Capital Requirements Regulation and the Pillar 2A capital requirement.

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.

Annex G: List of Tables & Graphs Included

Acronyms and abbreviations

ALDB	Assets and Liabilities Database
BAC	Board audit committee
BCM	Business Continuity Management
BCP	Business Continuity Plan
BRMC	Board risk management committee
CapCom	Capital and liquidity management committee
CCP	Central Clearing Counterparty
CCR	Counterparty Credit Risk
CCyB	Countercyclical Buffer
CEO	Chief Executive Officer
CMT	Crisis Management Team
Company	ICBC Standard Bank Plc company
CRD	Capital requirement directive
CRO	Chief Risk Officer
CSC	Capital Sub Committee
CVA	Credit valuation adjustment
DVA	Debit valuation adjustments
EAD	Exposure at default
EAR	Earnings at Risk
EBA	European Banking Authority
ECAI	External Credit Assessment Institutions
EHQLA	Extremely High Quality Liquid Assets
EL	Expected loss
EU	European Union
ExCo	Executive Committee of the group
EWI	Early warning indicator
FCA	Financial Conduct Authority
FIRB	Foundation internal ratings based
FOA	Futures and Options Association
FPC	Financial Policy Committee
FVPL	Fair Value through Profit and Loss
GWWR	General Wrong Way Risk
HQLA	High Quality Liquid Assets
ICAAP	Internal Capital Adequacy Assessment Process
ICBC	Industrial and Commercial Bank of China Limited
ICBCS	ICBC Standard Bank Plc
IFRS	International Financial Reporting Standards as adopted by the EU
ILAAP	Internal Liquidity Adequacy Assessment Process
ILG	Individual liquidity guidance
IRC	Incremental Risk Charge
IRRBB	Interest Rate Risk in the Banking Book
ISDA	International Swap Dealers Association
LAB	Liquid Asset Buffer
LGD	Loss given default
LCR	Liquidity Coverage Ratio
LME	London Metal Exchange
LSC	Liquidity sub-committee
MLRC	Market and Liquidity Risk Committee
MRT	Material Risk Taker
NIRF	Notional Inventory Risk Framework
OTC	Over-the-counter
PBB	Personal and Business Banking
PD	Probability of default
PFE	Potential future exposure
PIT	Point in time
PRA	Prudential Regulation Authority
RAS	Risk Appetite Statement
RemCo	Remuneration Committee of the group
Repos	Repurchase agreements
RMAC	Risk Methodologies Approval Committee
RMC	Risk management committee
RRP	Recovery and Resolution Plan
RTF	Risk Technical Forum
SBG	Standard Bank group Limited and subsidiaries
SBLH	Standard Bank London Holdings Limited
SBSA	Standard Bank of South Africa Limited
SLA	Service Level Agreement
SMCR	Senior Managers and Certification Regime
SME	Small and Medium Sized Enterprises
SVaR	Stressed VaR
SWWR	Specific Wrong Way Risk
TCM	Treasury and Capital Management
TSA	The Standardised Approach
TTC	Through the cycle
UL	Unexpected loss
VaR	Value-at-risk
WWR	Wrong Way Risk

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