

**Industrial and Commercial Bank of
China Limited - Abu Dhabi Branch**

PILLAR III DISCLOSURES

FOR THE YEAR ENDED 31 DECEMBER 2018

Industrial and Commercial Bank of China Limited - Abu Dhabi Branch
Pillar III Disclosures for the year ended 31st December 2018

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1. Consolidated Capital Structure

(AED 000's)

Capital Base	Amount
Tier 1 Capital	
1. Paid up share capital/common stock	312,120
2. Statutory and Legal Reserve	14,254
3. Cumulative Changes in Fair Value	-21,573
4. Retained Earnings	150,584
Sub-total	455,385
Less: Deductions for regulatory calculation	-
Less: Deductions from Tier 1 capital	-
Tier 1 Capital - Subtotal	455,385
Tier 2 capital	185,234
Less: Other deductions from capitals	-
Tier 3 capital	-
Total eligible capital after deductions	640,619

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2. Capital Adequacy

a) Qualitative Disclosure

Credit Risk: Industrial and Commercial Bank of China Limited - Abu Dhabi Branch (the “Branch”) applies the standardized approach to calculate RWA for credit risk. In accordance with the CBUAE guidelines, the Branch applies Credit Conversion Factor (CCF) for the off-balance sheet exposure. The risk weights are driven by credit ratings published by external credit agencies approved by the CBUAE.

Market Risk: The Branch applies the standardized approach to calculate RWA for market risk as per the CBUAE guidelines. The market risk includes Interest rate risk, Foreign exchange risk, Equity exposure risk, Commodity risk and Options risk. In calculating RWA for market risk, Interest rate risk is restricted to the Branch’s trading book, while the Foreign exchange risk applies on the Branch’s banking book and trading book.

Operational Risk: The Branch applies the Basic Indicator Approach for calculating capital requirement for operational risk.

Enterprise risk management is a process to effectively identify, assess, measure, monitor, control or mitigate and report risks in order to ensure the realization of the Branch’s operating and strategic objectives by setting up effective and balanced risk governance structure, fostering robust and prudent risk culture, formulating unified risk management strategies and risk appetite, and implementing the risk limit and risk management policies. The principles of enterprise risk management of the Branch include full coverage, matching, independence, perspectiveness and effectiveness, etc.

b) Quantitative Disclosures	Capital Charge (AED 000’s)	Capital Ratio (%)
Capital Requirements		
1. Credit Risk Standardized Approach	1,597,720	
2. Market Risk Standardized Approach	409	
3. Operational Risk - Basic Indicator Approach	80,971	
Total Capital requirements	1,679,100	
Capital Ratio		38.15%

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3(a). Qualitative Disclosures - Risk Management

Definition of past due and impaired (for accounting purposes)

The Branch defines a corporate borrower as in default when it meets one or more of the following criteria at the timing of recognition:

- The principal or interest of loan is past due more than 90 days to the Branch;
- The corporate borrower is unlikely to pay its credit obligations to the Branch in full, without recourse by the Branch to actions such as liquidation against collateral;
- The corporate borrower has the above matters in other financial institutions refers to the above criteria.

Generally, a financial asset is considered to be credit-impaired if:

- It has been overdue for more than 90 days;
- In light of economic, legal or other factors, the Branch has made concessions to a borrower in financial difficulties, which would otherwise have been impossible under normal circumstances;
- The borrower is probable to be insolvent or carry out other financial restructurings;
- Due to serious financial difficulties, the financial asset cannot continue to be traded in an active market;
- There are other objective evidences that the financial asset is impaired.

Description of approaches followed for specific and general allowances and statistical methods

Specific

Under IFRS9, equivalent of CBUAE Specific Provision is Stage 3 ECL, which the lifetime expected credit losses is recognised as loss allowance. The Branch reviews its impaired assets on a regular basis and assess the amount of specific provision required for Stage 3 assets. The Branch follows UAE Central Bank circular 28/2010 wherein specific provisions are taken for 'Substandard', 'Doubtful' and 'Loss' grades as per the circular.

General

Under IFRS9, equivalent of CBUAE General Provision is Stage 1 and Stage 2 ECL, which is measured based on the extent of credit deterioration which are defined as follows:

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- Stage 1: A financial instrument of which the credit risk has not significantly increase since initial recognition. The amount equal to 12-month expected credit losses is recognised as loss allowance.
- Stage 2: A financial instrument with a significant increase in credit risk since initial recognition but is not considered to be credit-impaired. The amount equal to lifetime expected credit losses is recognised as loss allowance.

Reconciliation between provision under IFRS 9 and Central Bank of the UAE guidance

As per the CBUAE notice no. CBUAE/BSA/2018/458 dated 30 April 2018, clause 6.4, if the CBUAE specific provision and general/collective provision cumulatively is higher than the impairment allowance computed under IFRS 9, the differential should be transferred to an “Impairment Reserve” as an appropriation from the Retained earnings.

As of 31 December 2018, the Branch has no asset classified as impaired asset, thus there is no specific provision taken under both IFRS 9 and Central Bank of the UAE guidance; In terms of the general provisions, the general provisions under Circular 28/2010 of CBUAE is AED 24,734,158, which is lower than the stage 1 and stage 2 provisions under IFRS 9 (AED 30,353,721). As the provisions under IFRS 9 exceed provisions under CBUAE, no amount shall be transferred to the impairment reserve.

Discussion of Bank’s credit risk management policy

The Branch strictly adheres to the guidance from CBUAE regarding credit risk management and other regulatory requirements, diligently fulfills established strategies and objectives under the leadership of ICBC Head Office and the Senior Management, and implements an independent and centralized credit risk management mode. The Branch's credit risk management has the following characteristics: (1) Unified risk appetite. Unified credit risk appetite is implemented for the Branch's credit risk exposures. (2) Entire-process management. The credit risk management covers the entire process including customer investigation, credit rating, loan evaluation, loan review and approval, loan payment and post-lending monitoring; (3) System management. It continues to enhance the building of credit information system, and improve the tools to manage and control credit risk; (4) Strict management over credits. Strict qualifications management is enforced on the credit practitioners.

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Partial adoption of foundation IRB/advanced IRB

Approach	Description of exposures	Plans and timing of migration to implement fully higher approach
Standardized Approach	As per Basel Categorization	The Branch is already on Standardized Approach.
Foundation IRB	As per Basel Categorization	<p>The Head Office of Industrial and Commercial Bank of China (The “Bank”) is responsible for implementation of internal rating based management across the Bank, which includes design, development, implementation, monitoring and promotion of the internal rating based management, as well as the internal audit of the internal rating system. The Branch is responsible for investigation, implementation and application regarding the relevant customers’ ratings and monitoring, application, analysis and reporting of the internal rating system at the level of the Branch.</p> <p>The Bank adopts the foundation IRB approach to measure non-retail credit risk satisfying regulatory requirements with rating models established based on quantitative technologies as well as judgmental experience. The models assess debt-paying ability and willingness of customers based on financial indicators, competitiveness, management quality and operation status of the customers from quantitative and qualitative aspects. Customer’s probability of default (PD), mapped via the master scale uniformly set, is determined by rating score. The Bank measures risk parameters of the internal rating models in strict accordance with relevant regulatory requirements. The internal rating parameters, maintained according to the rules regarding management of internal rating parameters of the Bank, are monitored and validated on a regular basis.</p> <p>The Branch only conducts the non-retail credit business and uses the internal rating results throughout the whole credit risk management process including customer access, credit approval, post-lending management, and provision management under the guidance of Head Office.</p>
Advanced IRB	As per Basel Categorization	At the Branch level, the relevant work will be planned as per the regulatory requirements and Head Office’s internal planning.

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3(b). Gross Credit Exposure by Currency

(AED 000's)

Currency	Loans	Debt Securities	Other Assets	Total Funded	Commitments	OTC Derivatives	Other Off-Balance Sheet exposures	Total Non-Funded	Total
Foreign Currency	1,027,799	608,789	729,980	2,366,568	-	-	126,668	126,668	2,493,236
AED	-	-	197,142	197,142	-	6,662	264,593	271,255	468,397
Total	1,027,799	608,789	927,122	2,563,710	-	6,662	391,261	397,923	2,961,633

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3(c). Gross Credit Exposure by Geographical Distribution

(AED 000's)

Geographic Distribution	Loans	Debt Securities	Other Assets	Total Funded	Commitments	OTC Derivatives	Other Off-Balance Sheet exposures	Total Non-Funded	Total
United Arab Emirates	356,874	253,305	270,902	881,081	-	2,755	300,176	302,931	1,184,012
GCC excluding UAE	88,140	350,136	-	438,276	-	-	-	-	438,276
Arab League (excluding GCC)	-	-	-	-	-	-	-	-	-
Asia	564,294	5,348	606,220	1,175,862	-	-	57,799	57,799	1,233,661
Africa	-	-	-	-	-	-	-	-	-
North America	18,491	-	28,276	46,767	-	-	-	-	46,767
South America	-	-	-	-	-	-	-	-	-
Caribbean	-	-	-	-	-	-	-	-	-
Europe	-	-	-	-	-	3,907	33,286	37,193	37,193
Australia	-	-	-	-	-	-	-	-	-
Others	-	-	21,725	21,725	-	-	-	-	21,725
Total	1,027,799	608,789	927,122	2,563,710	-	6,662	391,261	397,923	2,961,633

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3(d). Gross Credit Exposure by Industry Segment

(AED 000's)

Industry Segment	Loans	Debt Securities	Other Assets	Total Funded	Commitments	OTC Derivatives	Other Off-Balance Sheet exposures	Total Non-Funded	Total
Agriculture, Fishing & related activities	-	-	-	-	-	-	-	-	-
Crude Oil, Gas, Mining & Quarrying	36,725	29,274	-	65,999	-	-	-	-	65,999
Manufacturing	80,592	-	-	80,592	-	-	75	75	80,667
Electricity & Water	29,380	28,923	-	58,303	-	-	50	50	58,353
Construction	113,564	-	-	113,564	-	-	278,306	278,306	391,870
Trade	-	-	-	-	-	-	21,670	21,670	21,670
Transport, Storage & Communication	415,887	54,066	-	469,953	-	-	50	50	470,003
Financial Institutions	64,269	193,426	750,127	1,007,823	-	6,662	91,085	97,747	1,105,570
Services	287,382	7,374	-	294,756	-	-	25	25	294,781
Government	-	290,378	155,270	445,648	-	-	-	-	445,648
Retail/Consumer banking	-	-	-	-	-	-	-	-	-
All Others	-	5,348	21,725	27,073	-	-	-	-	27,073
Total	1,027,799	608,789	927,122	2,563,710	-	6,662	391,261	397,923	2,961,633

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3(e). Gross Credit Exposure by Residual Contract Maturity

(AED 000's)

Residual Contractual Maturity	Loans	Debt Securities	Other Assets	Total Funded	Commitments	OTC Derivatives	Other Off-Balance Sheet exposures	Total Non-Funded	Total
Less than 3 months	184,038	-	629,635	813,673	-	-	101,613	101,613	915,286
3 months to one year	236,091	-	191,995	428,086	-	2,755	235,186	237,941	666,027
One to five years	343,674	608,789	-	952,463	-	-	54,412	54,412	1,006,875
Over five years	263,996	-	105,492	369,488	-	3,907	50	3,957	373,445
Grand Total	1,027,799	608,789	927,122	2,563,710	-	6,662	391,261	397,923	2,961,633

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3(f). Impaired Loans by Industry Segment

At the end of the reporting date, there is no financial asset which is considered to be credit-impaired.

3(g). Impaired Loans by Geographical Distribution

At the end of the reporting date, there is no financial asset which is considered to be credit-impaired.

3(h). Reconciliation of changes in Provisions for Impaired Loans

There is no loan classified as impaired loan for the year ended 31 December 2017 and the year ended 31 December 2018, thus the provisions for impaired loans have been kept as zero for both years.

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3(i). Basel II Portfolio as per Standardized Approach

(AED 000's)

ASSET CLASSES	ON BALANCE SHEET	OFF BALANCE SHEET	CREDIT RISK MITIGATION (CRM)			RISK WEIGHTED ASSETS
	GROSS OUTSTANDING	NET EXPOSURE AFTER CREDIT CONVERSION FACTORS (CCF)	EXPOSURE BEFORE CRM	CRM	AFTER CRM	
See Basel II, June 2006, Para 50 to 81, and Central Bank National Discretions						
CLAIMS ON SOVEREIGNS	445,648	-	445,648	-	445,648	-
CLAIMS ON NON-COMMERCIAL PUBLIC SECTOR ENTERPRISES (PSEs)	29,380	-	29,380	-	29,380	-
CLAIMS ON MULTI LATERAL DEVELOPMENT BANKS	5,348	-	5,348	-	5,348	5,348
CLAIMS ON BANKS	1,007,823	97,748	1,105,571	-	1,105,571	606,304
CLAIMS ON SECURITIES FIRMS	-	-	-	-	-	-
CLAIMS ON CORPORATES AND GOVERNMENT RELATED ENTERPRISES (GRE)	1,053,787	300,176	1,353,963	3,432	1,350,531	964,348
CLAIMS INCLUDED IN THE REGULATORY RETAIL PORTFOLIO	-	-	-	-	-	-
CLAIMS SECURED BY RESIDENTIAL PROPERTY	-	-	-	-	-	-
CLAIMS SECURED BY COMMERCIAL REAL ESTATE	-	-	-	-	-	-
PAST DUE LOANS	-	-	-	-	-	-
HIGHER-RISK CATEGORIES	-	-	-	-	-	-
OTHER ASSETS	21,723	-	21,723	-	21,723	21,720
SECURITISATION EXPOSURES	-	-	-	-	-	-
CREDIT DERIVATIVES (Banks Selling protection)	-	-	-	-	-	-
TOTAL CLAIMS	2,563,709	397,924	2,961,633	3,432	2,958,201	1,597,720

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4. Basel II Portfolio as per Standardized Approach (Rated / Unrated)

a) Qualitative Disclosures

Under Standardized Approach, all credit exposures are assessed according to the counterparty classifications and against the External Credit Assessment Institutions (“ECAI”) ratings as advised under national discretion:

- Claims on sovereign and central banks in the GCC are risk weighted at 0% (where applicable).
- Claims on a non-commercial GCC Public Sector Enterprise (PSE) are treated as claims on their sovereigns if their central bank or monetary authority treats them as such. Foreign currency claims on such a PSE are risk weighted on grade less favorable than its sovereign i.e. 20% risk weight.
- Claims on commercial companies owned by a GCC sovereign or GREs are treated as claims on a corporate and risk weighted in accordance with ratings from acceptable ECAIs.
- Claims on banks and financial institutions are risk weighted at prescribed risk weights applicable per the latest ECAI rating of the counterparty.
- Claims on corporate entities are risk weighted at prescribed risk weights applicable per the latest ECAI rating of the counterparty. Claims on unrated corporate entities are risk weighted at 100%.
- All other assets are risk weighted at 100%.

For standardized capital adequacy calculations, the following rules are applied consistently to determine the appropriate ECAI ratings:

- Where more ECAI ratings of two acceptable rating agencies are available, the lower (worse) of the two is considered.
- Where the ECAI ratings are split evenly between all four rating agencies, the more conservative ratings are considered.
- Acceptable ECAI agencies are Moody’s, S&P, Fitch and Capital Intelligence.

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(AED 000's)

b) Quantitative Asset Class	Gross Credit Exposures				
	Rated	Unrated	Total	Post CRM	RWA Post CRM
Claims on Sovereigns	445,648	-	445,648	445,648	-
Claims on Public Sector Entities	-	29,380	29,380	29,380	-
Claims on Multilateral Development Banks	-	5,348	5,348	5,348	5,348
Claims on Banks	1,065,947	39,624	1,105,571	1,105,571	606,304
Claims on securities firms	-	-	-	-	-
Claims on Corporate and Government Related Entities	87,577	1,266,386	1,353,963	1,350,531	964,348
Regulatory & other retail exposure	-	-	-	-	-
Residential retail exposure	-	-	-	-	-
Commercial Real Estate	-	-	-	-	-
Other assets	-	21,723	21,723	21,723	21720
Claims on Securitised Assets	-	-	-	-	-
Credit Derivatives (Banks selling protection)	-	-	-	-	-
Grand Total	1,599,172	1,362,461	2,961,633	2,958,201	1,597,720

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5. Credit Risk Mitigation - Disclosures for Standardized Approach

a) Qualitative Disclosures

The Branch generally transfers or lowers credit risk through collaterals and guarantees. The credit risk mitigation instruments effectively cover credit risk exposure of borrowers. The Branch reviews its risk mitigation instruments in the credit business to ensure their credit risk mitigation capability. The Branch implements the simple approach in the banking book, which substitutes the risk weighting of the collateral for the risk weighting of the counterparty for the collateralized portion of the exposure (generally subject to a 20% floor).

(AED 000's)

b) Quantitative Disclosures		Exposures	Risk Weighted Assets
	Gross Exposure prior to Credit Risk Mitigation	2,961,633	1,599,436
Less:	Exposure covered by on-balance sheet netting	-	-
Less:	Exposures covered by Eligible Financial Collateral	3,432	1,716
Less:	Exposures covered by Guarantees	-	-
Less:	Exposures covered by Credit Derivatives	-	-
	Net Exposures after Credit Risk Mitigation	2,958,201	1,597,720

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6. Market Risk - Capital Requirements under Standardized Approach

(AED 000's)

Market Risk	Amount
Interest rate risk	-
Equity position risk	-
Foreign exchange risk	409
Commodity risk	-
Total Capital Requirement	409

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7. Interest Rate Risk in the Banking Book

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability, cash flows or the fair values of financial instruments. The Branch is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or reprice in a given period. The Head Office of Industrial and Commercial Bank of China has established acceptable levels of interest rate risk. The Branch manages interest rate risk by matching the repricing of assets and liabilities through risk management strategies and monitors the positions on a regular basis to ensure they are maintained within established limits. Adherence to these limits is monitored by ALCO.

Interest rate risk is also assessed by measuring the impact of defined movements in interest yield curves on the Branch's net interest income.

(AED 000's)

Shift in Yield Curves	Net Interest Income
+200 basis point	772.46
- 200 basis point	-772.46

The above interest rate sensitivities are illustrative only and adopt simplified scenarios. The sensitivities do not incorporate actions that could be taken by management to mitigate the effect of interest rate movements.