

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

PILLAR III DISCLOSURES

FOR THE YEAR ENDED 31 DECEMBER 2019

Industrial and Commercial Bank of China Limited - Abu Dhabi Branch
Pillar III Disclosures for the year ended 31st December 2019

Pillar III Tables

1 Consolidated Capital Structure

2 Capital Adequacy

3(a) Qualitative Disclosures - Risk Management

3(b) Gross Credit Exposure by Currency

3(c) Gross Credit Exposure by Geographical Distribution

3(d) Gross Credit Exposure by Industry Segment

3(e) Gross Credit Exposure by Residual Contract Maturity

3(f) Impaired Loans by Industry Segment

3(g) Impaired Loans by Geographical Distribution

3(h) Reconciliation of Changes in Provisions for Impaired Loans

3(i) Basel II Portfolio as per Standardized Approach

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

5 Credit Risk Mitigation - Disclosures for Standardized Approach

6 Market Risk - Capital Requirements under Standardized Approach

7 Interest Rate Risk in the Banking Book

Industrial and Commercial Bank of China Limited - Abu Dhabi Branch
Pillar III Disclosures for the year ended 31th December 2019

1. Consolidated Capital Structure

(AED 000's)

Capital Base	2019
Tier 1 Capital	
1. Paid up Share Capital / Common Stock	312,120
2. Statutory and Legal Reserve	16,484
3. Cumulative Changes in Fair Value	4,210
4. Retained Earnings	148,354
Subtotal	481,168
Less: Deductions for Regulatory Calculation	-
Less: Deductions from Tier 1 Capital	-
Tier 1 Capital	481,168
Tier 2 Capital	167,769
Less: Other Deductions from Capitals	-
Total Eligible Capital after Deductions	648,937

Industrial and Commercial Bank of China Limited - Abu Dhabi Branch

Pillar III Disclosures for the year ended 31st December 2019

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 Central Bank of the United Arab Emirates (“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.

(AED 000's)

b) Quantitative Disclosures	2019
Risk Weighted Assets	
1. Credit Risk - Standardized Approach	1,669,536
2. Market Risk - Standardized Approach	35,318
3. Operational Risk - Basic Indicator Approach	56,510
Total Risk Weighted Assets	1,761,364
Capital Ratio	36.84%

Industrial and Commercial Bank of China Limited - Abu Dhabi Branch
Pillar III Disclosures for the year ended 31st December 2019

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:

Industrial and Commercial Bank of China Limited - Abu Dhabi Branch

Pillar III Disclosures for the year ended 31st December 2019

- 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 2019, 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 25,043,040, which is lower than the stage 1 and stage 2 provisions under IFRS 9 (AED 31,253,504). 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.

Industrial and Commercial Bank of China Limited - Abu Dhabi Branch

Pillar III Disclosures for the year ended 31th December 2019

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.

Industrial and Commercial Bank of China Limited - Abu Dhabi Branch
Pillar III Disclosures for the year ended 31th December 2019

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	1,040,828	806,917	947,512	2,795,257	-	638	419,008	419,646	3,214,903
AED	-	-	97,794	97,794	-	-	-	-	97,794
Total	1,040,828	806,917	1,045,306	2,893,051	-	638	419,008	419,646	3,312,697

Industrial and Commercial Bank of China Limited - Abu Dhabi Branch
Pillar III Disclosures for the year ended 31th December 2019

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	433,067	428,344	407,072	1,268,483	-	-	302,071	302,071	1,570,554
GCC excluding UAE	211,223	373,281	-	584,504	-	-	-	-	584,504
Arab League (excluding GCC)	-	-	-	-	-	-	-	-	-
Asia	396,538	5,292	514,882	916,712	-	91	111,846	111,937	1,028,649
Africa	-	-	-	-	-	-	-	-	-
North America	-	-	104,399	104,399	-	-	-	-	104,399
South America	-	-	-	-	-	-	-	-	-
Caribbean	-	-	-	-	-	-	-	-	-
Europe	-	-	93	93	-	547	5,091	5,638	5,731
Australia	-	-	-	-	-	-	-	-	-
Others	-	-	18,860	18,860	-	-	-	-	18,860
Total	1,040,828	806,917	1,045,306	2,893,051	-	638	419,008	419,646	3,312,697

Industrial and Commercial Bank of China Limited - Abu Dhabi Branch
Pillar III Disclosures for the year ended 31th December 2019

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
Mining and quarrying	36,725	-	-	36,725	-	-	-	-	36,725
Manufacturing	358,683	-	-	358,683	-	-	50	50	358,733
Electricity, gas & airconditioning supply	26,956	60,186	-	87,142	-	-	50	50	87,192
Construction & real estate	29,380	-	-	29,380	-	-	307,784	307,784	337,164
Wholesale and retail trade	53,528	-	-	53,528	-	-	286	286	53,814
Transportation and storage	177,306	42,916	-	220,222	-	-	-	-	220,222
Information and communications	26,350	-	-	26,350	-	-	-	-	26,350
Financial and Insurance activities	331,900	385,414	886,594	1,603,908	-	638	110,813	111,451	1,715,359
Professional, scientific & technical activities	-	-	-	-	-	-	25	25	25
Supranationals	-	5,292	-	5,292	-	-	-	-	5,292
Government	-	313,109	131,294	444,403	-	-	-	-	444,403
All others	-	-	27,418	27,418	-	-	-	-	27,418
Total	1,040,828	806,917	1,045,306	2,893,051	-	638	419,008	419,646	3,312,697

Industrial and Commercial Bank of China Limited - Abu Dhabi Branch
Pillar III Disclosures for the year ended 31th December 2019

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	267,392	-	591,599	858,991	-	54	111,528	111,582	970,573
3 months to one year	64,271	77,194	310,517	451,982	-	91	182,162	182,253	634,235
One to five years	519,430	693,121	-	1,212,551	-	493	125,268	125,761	1,338,312
Over five years	189,735	36,602	143,190	369,527	-	-	50	50	369,577
Total	1,040,828	806,917	1,045,306	2,893,051	-	638	419,008	419,646	3,312,697

Industrial and Commercial Bank of China Limited - Abu Dhabi Branch
Pillar III Disclosures for the year ended 31st December 2019

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 2018 and the year ended 31 December 2019, thus the provisions for impaired loans have been kept as zero for both years.

Industrial and Commercial Bank of China Limited - Abu Dhabi Branch
Pillar III Disclosures for the year ended 31th December 2019

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	
Claims on sovereigns	440,708	-	440,708	-	440,708	-
Claims on non-central government public sector entities (PSEs)	29,380	-	29,380	-	29,380	-
Claims on multilateral development banks	5,292	-	5,292	-	5,292	1,058
Claims on banks	1,447,091	116,918	1,564,009	195,577	1,759,586	649,271
Claims on securities firms	-	-	-	-	-	-
Claims on corporates and government related enterprises (GRE)	943,788	308,196	1,251,984	-196,674	1,055,310	997,893
Claims included in the regulatory retail portfolio	-	-	-	-	-	-
Claims secured by residential property	-	-	-	-	-	-
Claims secured by commercial real estate	-	-	-	-	-	-
Past due loans	-	-	-	-	-	-
High risk categories	-	-	-	-	-	-
Other assets	21,324	-	21,324	-	21,324	21,314
Claims on securitised assets	-	-	-	-	-	-
Credit derivatives (Banks selling protection)	-	-	-	-	-	-
Total Claims	2,887,583	425,114	3,312,697	-1,097	3,311,600	1,669,536

Industrial and Commercial Bank of China Limited - Abu Dhabi Branch
Pillar III Disclosures for the year ended 31st December 2019

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.

Industrial and Commercial Bank of China Limited - Abu Dhabi Branch
Pillar III Disclosures for the year ended 31th December 2019

(AED 000's)

b) Quantitative Asset Class	Gross Credit Exposures				
	Rated	Unrated	Total	Post CRM	RWA Post CRM
Claims on Sovereigns	440,708	-	440,708	440,708	-
Claims on Public Sector Entities	29,380	-	29,380	29,380	-
Claims on Multilateral Development Banks	5,292	-	5,292	5,292	1,058
Claims on securities firms	-	-	-	-	-
Claims on Banks	1,421,892	142,117	1,564,009	1,759,586	649,271
Claims on Corporates and Government Related Entities	115,273	1,136,711	1,251,984	1,055,310	997,893
Regulatory & other retail exposure	-	-	-	-	-
Residential retail exposure	-	-	-	-	-
Commercial Real Estate	-	-	-	-	-
Other assets	-	21,324	21,324	21,324	21,314
Claims on Securitised Assets	-	-	-	-	-
Credit Derivatives (Banks selling protection)	-	-	-	-	-
Total	2,012,545	1,300,152	3,312,697	3,311,600	1,669,536

Industrial and Commercial Bank of China Limited - Abu Dhabi Branch
Pillar III Disclosures for the year ended 31th December 2019

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	3,312,697	1,734,153
Less:	Exposure covered by on-balance sheet netting	-	-
Less:	Exposures covered by Eligible Financial Collateral	1,097	878
Less:	Exposures covered by Guarantees	-	63,739
Less:	Exposures covered by Credit Derivatives	-	-
	Net Exposures after Credit Risk Mitigation	3,311,600	1,669,536

Industrial and Commercial Bank of China Limited - Abu Dhabi Branch
Pillar III Disclosures for the year ended 31st December 2019

6. Market Risk - Capital Requirements under Standardized Approach

(AED 000's)

Market Risk	Risk Weighted Assets
Interest rate risk	-
Equity position risk	-
Foreign exchange risk	35,318
Commodity risk	-
Total	35,318

Industrial and Commercial Bank of China Limited - Abu Dhabi Branch

Pillar III Disclosures for the year ended 31st December 2019

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 the Asset and Liability Management Committee of the Branch.

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	884.38
- 200 basis point	-884.38

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.