中国工商银行（加拿大）
INDUSTRIAL AND COMMERCIAL BANK OF CHINA (CANADA)

INDUSTRIAL AND COMMERCIAL BANK OF CHINA (CANADA)

BASEL III PILLAR 3 DISCLOSURES

AS AT DECEMBER 31, 2020

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1. Scope of Application

This document addresses the Basel III Pillar 3 disclosure requirements for Industrial and Commercial Bank of China (Canada) (the "Bank").

The Bank is licensed to operate as a bank in Canada with full banking powers under the Bank Act as a foreign bank subsidiary. The Bank obtained its letters patent as a Canadian chartered bank under its former name, The Bank of East Asia (Canada), on May 16, 1991 and commenced operations on May 15, 1992. On June 4, 2009, The Bank of East Asia Limited, Hong Kong (the "shareholder bank" or "BEA") reached an agreement with the Industrial and Commercial Bank of China Limited (the "parent bank") regarding the acquisition by the parent bank of 70% of the issued and outstanding common shares of the Bank ("Acquisition"). The Acquisition was completed on January 28, 2010. After obtaining its letters patent to amend the incorporating instrument of the Bank from the Office of the Superintendent of Financial Institutions Canada (the "Superintendent" or "OSFI"), on July 2, 2010, the Bank officially changed its name from The Bank of East Asia (Canada) to Industrial and Commercial Bank of China (Canada).

By exercising the option entitled in the shareholders' agreement executed for the Acquisition, on August 26, 2011, the parent bank completed an acquisition of a further 10% of the issued and outstanding common shares of the Bank from BEA. Since then, the parent bank and BEA own 80% and 20% of the Bank, respectively. On March 4, 2019, the parent bank and BEA increased their injected capital by $40 million and $10 million, respectively. Upon completion of this capital injection, the parent bank's and BEA's ownership interest in the Bank remains at 80% and 20%, respectively.

The Bank's principal office is located at Bay Adelaide Centre, West Tower, Suite 3710, 333 Bay Street, Toronto, Ontario, Canada M5H 2R2.

The following disclosures have been prepared solely for explaining the basis on which the Bank has prepared and disclosed information about capital requirements， the management of certain risks， remuneration of senior management and Leverage Ratio (LR) and for no other purpose. They do not constitute any form of financial statements and must not be relied upon in making any investment or judgment on the Bank or its parent bank and shareholder bank.

2. Capital Management

Qualitative disclosures

Capital levels for Canadian banks are regulated pursuant to guidelines issued by OSFI, based on standards issued by the Bank for International Settlements. Regulatory capital is allocated to two tiers: Tier 1 (consisting of Common Equity Tier 1 capital and Additional Tier 1 Capital) and Tier 2. Tier 1 capital comprises the more permanent components of capital and the Bank's Tier 1 capital includes common shareholders' equity (common shares issued to the parent bank and shareholder bank) and retained earnings. The Bank’s Tier 2 capital includes subordinated debt less accumulated amortization; stage 1, stage 2 allowances under IFRS 9 limited to a maximum of 1.25% of credit risk-weighted assets. Total capital is defined as the total of Tier 1 and Tier 2 capital less deductions, as prescribed by OSFI.

The Bank actively manages its capital to maintain a strong capital base while providing strong returns to the shareholders and sustaining future development of the business. The Bank's capital management framework provides policies for defining, measuring, monitoring, managing and planning capital to ensure that the quantity and quality of the Bank's capital are adequate, at a minimum to comply with all applicable regulatory requirements. The Bank has developed and implemented its own Internal Capital Adequacy Assessment Process (“ICAAP”) as a risk governance process for the purpose of setting internal capital targets and strategies for achieving internal targets that are consistent with the Bank’s business plans, risk profile and operating environment. The Bank uses risk adjusted return on capital (RAROC) as performance measure to allocate capital across business streams.

Regulatory capital ratios are calculated by dividing Tier 1 and Total capital by risk-weighted assets. The calculation of risk-weighted assets is determined by OSFI's prescribed rules relating to on- and off-statement of financial position exposures as well as an amount for operational risk.

Under Basel III framework, the Bank adopts the Standardized Approach for credit risk and Basic Indicator Approach for operational risk to assess capital adequacy. For market risk, the Bank does not have trading portfolios to meet the qualifying criteria prescribed by OSFI for computing market risk capital requirements.

2. Capital Management (continued)

Quantitative disclosures

The following table presents the Bank's regulatory capital and capital ratios. Throughout the year and at year end, the Bank was in compliance with the capital targets established by OSFI.

	Basel III	
	2020	2019
Regulatory capital:		
Tier 1 capital:		
Share capital	$ 208,000	$ 208,000
Retained earnings	145,611	143,768
Accumulated other comprehensive income	–	–
ECL transitional adjustment (1)	7,163	–
Common Equity Tier 1 capital	360,774	351,768
Regulatory adjustments to CET1	(117)	(22)
Net Tier 1 capital	360,657	351,746
Tier 2 capital:		
Eligible stage 1 and stage 2 allowances	12,727	5,994
Net Tier 2 capital	12,727	5,994
Total capital	$ 373,384	$ 357,740
Risk-weighted assets:		
Credit risk	$ 2,210,546	$ 1,945,099
Operational risk	108,238	109,513
Total risk-adjusted assets	$ 2,318,784	$ 2,054,612
Capital ratios:		
Tier 1 capital	15.55%	17.12%
Total capital	16.10%	17.41%

(1) The ECL transitional adjustment was introduced by OSFI in Q2 2020. The adjustment is measured quarterly as the increase in Stage 1 and Stage 2 allowances relative to their baseline level as at December 31, 2019, tax effected and subject to a scaling factor of 70% in 2020, 50% in 2021, and 25% in 2022.

2. **Capital Management (continued)**

Regulatory capital requirements for credit risk on portfolios subject to the Standardized Approach are capital equivalent to the "credit risk-weighted assets times 8%". An analysis of the credit risk-weighted assets (after adjustments for credit risk mitigation and with specific risk-weighting factors applied) and capital requirement for credit risk of each portfolio calculated under the Standardized Approach is as follows:

	(In thousands of CAD dollars)	
	Risk-weighted assets	Capital requirement
Total corporate	$ 1,887,883	$ 151,031
Total retail residential mortgages	49,445	3,956
Total other retail	13,174	1,054
Bank	230,308	18,425
Sovereign	-	-
Statements of financial position assets not included in standardized or internal ratings-based approaches	29,736	2,379
Total for credit risk	$ 2,210,546	$ 176,845

The minimum capital required for operational risk is calculated under Basic Indicator Approach as at December 31, 2020 is as follows:

	(In thousands of CAD dollars)
Gross income as defined by OSFI over the previous three years:	
Year 1	$ 63,831
Year 2	59,907
Year 3	49,435
Average of gross income for Year 1-3	57,724
Capital charge (15% times average of gross income)	8,659
Risk-weighted assets for operational risk (12.5 times capital charge)	108,238

3. Risk Management Framework

The Bank has exposure to the following principal risks from its use of financial instruments: credit risk, liquidity risk, market risk and operational risk.

The Board of Directors (the "Board") has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board sets the Bank’s risk appetite. The management of the Bank has established the Asset and Liability Risk Management Committee ("ALRMC") and Credit Committee, which are authorized by the Board, to be responsible for developing and monitoring the Bank's risk management policies in their specified areas and recommending them to the Board.

The Bank's risk management policies are established to identify and analyze the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations. All of these policies are reviewed by the Audit Committee of the Board and approved by the Board.

The Audit Committee of the Board is responsible for monitoring compliance, with the Bank's risk management policies, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee is assisted in these functions by Internal Audit. Internal Audit is an independent function separated from any operational functions in the Bank and reports directly to the Audit Committee and Internal Audit Bureau of the parent bank. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The Audit Committee and the Board receive reports as required under the Bank's respective risk management policies. The Audit Committee reports regularly to the Board on its activities.

3. Risk Management Framework (continued)

(a) Credit Risk Management

Qualitative disclosures

Credit risk is the risk of financial loss to the Bank, if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Bank's loans and advances to customers and other banks and investment debt securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure, such as individual obligor default risk, country and sector risks.

The Bank has established the credit management policies and procedures that comply with the framework established by the parent bank and all of the standards, as determined by the governing regulatory bodies in Canada. The Board has delegated responsibility for the management of credit risk to the Credit Committee established by the management of the Bank. A separate Credit Risk Management Department, reporting to the Credit Committee and a Senior Executive Vice President is responsible for oversight of the Bank's credit risk, including:

- Formulating credit policies within the framework established by the parent bank and in consultation with the business units, covering collateral requirements, credit assessment, risk grading and reporting documentary and legal procedures and compliance with regulatory and statutory requirement.

- Establishing the authorization structure for the approval and renewal of credit facilities. Authorization limits are allocated to the Chief Executive Officer, the Senior Executive Vice President and business unit Lending Officers. Larger facilities require approval by the Executive Committee of the Board, as appropriate.

- Reviewing and assessing credit risk. The Credit Risk Management Department assesses all credit exposures in excess of the authorization limits allocated to the business unit Lending Officers prior to facilities, being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.

- Limiting concentrations of exposure to counterparties, industries and products.

- Developing and maintaining the Bank's borrower gradings in order to categorize exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The borrower grading system is used in determining where impairment provisions may be required against specific credit exposures. The current borrower grading framework consists of 21 grades with institutional/corporate borrowers and 12 grades with personal borrowers reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for approving borrower grades lies with the Chief Executive Officer, the Senior Executive Vice President or business unit Lending Officers, as appropriate. Borrower grades are subject to regular review.

3. Risk Management Framework (continued)

(a) Credit Risk Management (continued)

- Reviewing compliance of business units with agreed exposure limits, including those for selected industries and product types. Regular reports are prepared by the Credit Risk Management Department and provided to the Credit Committee and the Board on the credit quality of local portfolios and appropriate corrective action is taken.

Each business unit is required to implement the Bank's credit policies, with credit approval authorities delegated from the Board. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.

Regular audits of business units and the Credit Risk Management Department processes are undertaken by Internal Audit.

Definition of default:

The Bank considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Bank in full without recourse by the Bank to actions such as realizing security, the borrower is past due more than 90 days subject to applicable administration processes, it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations, or through consideration of other qualitative and quantitative factors, including breaches of covenants.

Identification and measurement of impairment:

The Bank recognizes allowances for credit losses on an ECL basis on financial instruments that are not measured at FVTPL, which includes amortized cost financial assets, debt securities classified as at FVOCI, financial guarantee contracts issued, and loan commitments issued.

The Bank measures loss allowance using a three-stage approach based on the extent of credit deterioration since origination:

- Stage 1 – Where there has not been a significant increase in credit risk since initial recognition of a financial instrument, an amount equal to 12 months expected credit loss is recorded. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.

3. Risk Management Framework (continued)

(a) Credit Risk Management (continued)

- Stage 2 – When a financial instrument experiences a significant increase in credit risk subsequent to origination but is not considered to be in default, it is included in Stage 2. This requires the computation of ECL based on the probability of default over the remaining estimated life of the financial instrument.

- Stage 3 – Financial instruments that are considered to be in default are included in this stage. The allowance for credit losses captures the lifetime ECL.

Significant increase in credit risk ("SICR")

The Bank determines whether the risk of default on a financial instrument has increased significantly since initial recognition at each reporting date. When determining whether credit risk has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information. The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative and qualitative factors, including a backstop based on delinquency (days past due).

Using its expert credit judgment and, where possible, relevant historical experience, the Bank may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis. For example, an exposure with its borrower's rating at AAA rating which was downgraded to BBB- or BB in reporting period, the Bank considers that credit risk has increased significantly.

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due or, for exposure pledged by high quality financial collateral or supported by high quality financial institutions / sovereign entities, more than 10 days past due. Days of past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

3. Risk Management Framework (continued)

(a) Credit Risk Management (continued)

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on consideration of a variety of external forecast information and resolution by the Bank Credit Committee, the Bank formulates a ‘base case’ view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Bank has exposure.

For the year ended December 31, 2020, as a result of the COVID-19 pandemic, the Bank has applied experienced credit judgement overlays to incorporate expected increased losses considering timing of government support programs and reflecting the uncertainty associated with the macroeconomic forecast over the expected life of the Bank’s loan portfolio.

Measurement of ECL:

ECL allowances recognized by the Bank are a probability-weighted estimate of expected credit losses. The allowances are measured as follows:

- *Financial assets that are not credit-impaired at the reporting date*: as the present value of all cash shortfalls; the difference between the cash flows due to the Bank in accordance with the contract and the cash flows that the Banks expects to receive;

- *Financial assets that are credit-impaired at the reporting date*: as the difference between the gross carrying amount and the present value of estimated future cash flows;

- *Undrawn loan commitments*: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and

- *Financial guarantee contracts*: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

The key inputs into the measurement of ECL include probability of default (PD), loss given default (LGD) and exposure at default (EAD). These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information.

3. Risk Management Framework (continued)

(a) Credit Risk Management (continued)

Loans with renegotiated terms:

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider. Once the loan is restructured, it is classified as impaired until there are continuously six months of satisfactory performance after restructuring. There were no loans with term renegotiated in 2020 or 2019.

Write-offs:

Loans and debt securities are written off (either partially or in full) where there is no realistic prospect of recovery. This is generally the case when the Bank determines that the borrower does not have assets or other sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Banks procedure for recovery of amounts due.

Offsetting:

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the recognized amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions.

Collateral Valuation and Management:

The Bank holds collateral against loans and advances to customers in the form of mortgage interests in real property, other registered security over assets, cash collateral and guarantees. The bank maintains an established policy with respect to the collateral, such as the source and suitability of the collateral. To mitigate the credit risk, the Bank assesses whether the assets of the borrower or guarantor are available to be taken as collateral and whether such collateral is suitable for the purpose.

Estimates of fair value of collateral are based on its value assessed at the time of borrowing, and generally are reviewed annually or when a loan is assessed as impaired. Collateral generally is not held in respect of loans and advances to banks. Collateral usually is not held against investment securities and no such collateral was held at December 31, 2020 or 2019.

3. Risk Management Framework (continued)

(a) Credit Risk Management (continued)

Main types of Guarantor:

The parent bank and shareholder bank have assumed the credit risk in respect of certain loans of the Bank. In the normal course of its business, the Bank enters into transactions with the parent/shareholder bank on terms similar to those offered to non-related parties.

Concentrations of risk:

Concentrations of credit risk exist when changes in geographic, economic or industry factors similarly affect groups of counterparties, whose aggregate credit exposure is material in relation to the Bank's total exposures. The Bank monitors concentrations of its portfolio of financial instruments along industry and product sectors.

The Bank monitors concentrations of credit risk by sector and by geographic location. The Bank adopts appropriate risk control measures, such as setting limits on exposures to different industries and portfolios. Measures are also implemented to control large exposures to individual customers or corporate groups by setting guidelines and limits for maximum credit exposures.

Quantitative disclosures

The following table sets out the information of impaired loans and past due loans but not impaired by major counterparty type and industry type as at December 31.

(In thousands of CAD dollars)

	2020			2019		
	Consumer loans	Business loans	Total	Consumer loans	Business loans	Total
Individual impaired:	$ 1	$ 11,076	$ 11,077	$ 221	–	$ 221
Allowance for ECL-stage 3	(1)	(5,759)	(5,760)	(2)	–	(2)
Net carrying amount	$ –	$ 5,317	$ 5,317	$ 219	–	$ 219
Past due but not impaired:						
1-30 days	$ 1	$ –	$ 1	$ 75	–	$ 75
30-60 days	11	–	11	8	–	8
60-90 days	–	–	–	1	–	1
Total[1]	$ 12	$ –	$ 12	$ 84	–	$ 84

[1]Past due loans are major personal loan. (2019: major in personal loan)

3. Risk Management Framework (continued)

(a) Credit Risk Management (continued)

The following table summarizes the credit risk gross exposure for each portfolio at the reporting date upon the default of an obligor and is calculated based on the definitions and related credit conversion factors provided under the Basel III framework consistent with OSFI reporting. This amount is before allowances and does not reflect the impact of credit mitigation.

	Drawn(3)	Undrawn commitments(4)	Over-the-counter derivatives(1)	Other off-balance sheet(2)	Total gross exposure(5)
Residential mortgage	$ 140,587	$ –	$ –	$ –	$ 140,587
Personal loans	13,538	–	–	75	13,613
Retail	154,125	–	–	75	154,200
Business:					
Agriculture	–	–	–	–	–
Capital goods and infrastructure	–	–	–	23	23
Communications	93,884	–	–	–	93,884
Energy	102,774	83,877	–	73,346	259,997
Financial service (non-bank)	135,172	73,913	–	–	209,085
Manufacturing	18,049	12,993	–	27	31,069
Metal and mining	15,826	92,532	–	9,499	117,857
Real estate	692,081	200,058	–	7,128	899,267
Resources and basic materials	–	–	–	1,000	1,000
Retail and wholesale	35,931	15,825	–	249	52,005
Technology	–	–	–	–	–
Transportation	163,350	464	–	90	163,904
Services	114,734	–	–	535	115,269
Other	94	–	–	–	94
Sovereign	97,017	–	–	–	97,017
Bank	850,180	–	20	–	850,200
Wholesale	2,319,092	479,662	20	91,897	2,890,671
Total exposure	$ 2,473,217	$ 479,662	$ 20	$ 91,972	$ 3,044,871

(1) Represents the credit equivalent amount.

(2) Includes credit equivalent amounts for financial guarantee, non-financial guarantee and letters of credit under trade finance.

(3) Includes loan to banks and customers before allowances, accrued interest, deposit with banks and investment securities.

(4) Undrawn commitments represent an estimated credit equivalent amounts after applying credit conversion factors to conditionally and unconditionally cancellable commitments.

(5) Gross credit risk exposure is before allowance for ECL.

3. Risk Management Framework (continued)

(a) Credit Risk Management (continued)

Concentration by location:

Based on the location of the Bank entity holding the asset, which has a high correlation with the location of the borrower, the majority of loans and advances are located in Canada. Based on the location of the issuer of the security, all investment securities are located in Canada and China.

The total exposure that is covered by eligible financial collateral and guarantees as at December 31, 2020 is shown below:

(In thousands of CAD dollars)

Gross exposure	Covered by: Eligible financial collateral	Guarantees
Corporate exposure		
Drawn	$ 35,929	$ 2,000
Undrawn Commitments	–	–
Other off-balance sheet	6,011	510
Retail		
Drawn:		
Residential Mortgage	4,629	–
HELOC	35	–
Retail Others	362	–
Other off-balance sheet	75	–
Total	$ 47,041	$ 2,510

3. Risk Management Framework (continued)

(a) Credit Risk Management (continued)

The following table analyzes the Bank's loan portfolio by the contractual repricing or maturity dates, whichever is earlier. This analysis excludes the allowance for credit losses.

(In thousands of CAD dollars)

	Floating	Within 3 months	3 months to 1 year	1 to 5 years	2020 Total	2019 Total
Canada	$ 593,413	$ 310,792	$ 121,208	$ 285,423	$ 1,310,836	$ 1,205,063
Average effective yield	3.58%	2.65%	4.05%	2.29%	3.14%	4.52%
Foreign countries	27,389	–	25,007	129,794	182,190	132,375
Average effective yield	3.50%	–	0.91%	1.52%	1.73%	3.37%
Total	$ 620,802	$ 310,792	$ 146,215	$ 415,217	$ 1,493,026	$ 1,337,438
Average effective yield	3.58%	2.65%	3.54%	2.05%	2.99%	4.42%

Average effective yields are based on book values and contractual interest rates adjusted for the amortization of any deferred income.

3. Risk Management Framework (continued)

(a) Credit Risk Management (continued)

An analysis of impaired loans and advances to customers and the related allowance for impairment as at December 31 is as follows:

	2020				2019			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers at amortized cost								
Pass – low-fair risk	$ 1,386,620	$ –	$ –	$ 1,386,620	$ 1,319,136	$ 13,471	$ –	$ 1,332,607
Special Mention – watch list	–	95,329	–	95,329	–	4,610	–	4,610
Impaired (sub-standard)	–	–	–	–	–	–	219	219
Impaired (doubtful)	–	–	11,077	11,077	–	–	2	2
Impaired (loss)	–	–	–	–	–	–	–	–
	1,386,620	95,329	11,077	1,493,026	1,319,136	18,081	221	1,337,438
Loss allowance	(9,149)	(7,968)	(5,760)	(22,877)	(3,795)	(152)	(2)	(3,949)
Carrying amount	$ 1,377,471	$ 87,361	$ 5,317	$ 1,470,149	$ 1,315,341	$ 17,929	$ 219	$1,333,489

3. Risk Management Framework (continued)

(a) Credit Risk Management (continued)

Allowance for credit losses:

The following table shows reconciliation from the opening to the closing balance of the loss allowance for loans and advances to customers at amortized cost.

	2020				2019			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers at amortized cost								
Balance at January 1	$ 3,795	$ 152	$ 2	$ 3,949	$ 3,544	$ 520	$ –	$ 4,064
Transfer to 12-month ECL	1	(1)	–	–	291	(291)	–	–
Transfer to lifetime ECL not credit-impaired	(1,021)	1,021	–	–	(35)	35	–	–
Transfer to lifetime ECL credit-impaired	(130)	–	130	–	(1)	–	1	–
Net remeasurement of loss allowance	747	6,873	5,629	13,249	(1,072)	(333)	3	(1,402)
New financial assets originated or purchased	3,117	–	1	3,118	739	–	–	739
Financial assets that have been derecognized	(213)	(120)	–	(333)	431	222	–	653
Write-offs	–	–	(2)	(2)	–	–	(2)	(2)
Recoveries of amounts previously written-off	–	–	–	–	–	–	–	–
Changes in model/risk parameters	2,928	43	–	2,971	(15)	(1)	–	(16)
Foreign exchange and other movements	(75)	–	–	(75)	(87)	–	–	(87)
Balance at December 31	$ 9,149	$ 7,968	$ 5,760	$ 22,877	$ 3,795	$ 152	$ 2	$ 3,949

3. Risk Management Framework (continued)

(a) Credit Risk Management (continued)

An analysis of the Bank's derivative portfolio and related credit exposure as at December 31 is as follows:

(In thousands of CAD dollars)

	2020				2019			
	Notional amount	Current replacement cost	Credit equivalent amount	Risk-weighted balance	Notional amount	Current replacement cost	Credit equivalent amount	Risk-weighted balance
Foreign exchange contracts	$1,769	–	$20	$10	$163,623	$1,171	$3,343	$683

In the ordinary course of business, the Bank enters into foreign exchange contracts to manage its exposure to currency risk as part of the Bank's asset and liability management program. All foreign exchange contracts mature in less than one year. Notional amount represents the contractual amounts to which a rate or price is applied to calculate the cash flows to be exchanged.

3. Risk Management Framework (continued)

(b) Liquidity Risk Management

Qualitative disclosures

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Bank's approach to manage liquidity risk is to ensure, as far as possible, that it always has sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. The liquidity risk management process ensures that the Bank is able to honour all of its financial commitments as they fall due.

The Bank closely monitors its daily cash flow of assets and liabilities. The Treasury Department receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business.

The Liquidity Risk Management Policy is subject to review by ALRMC and approval by the Board. The daily liquidity position is monitored and the regular stress testing is conducted under a variety of scenarios covering severe market conditions. Daily reporting that covers the liquidity position of the Bank is reviewed by the Treasury Department and Risk Management Department. Exception reports, if any, are submitted to management immediately and remedial action is taken, if required, in the shortest possible time. A summary report, including any exceptions and remedial action taken, is submitted to ALRMC and the Board. ALRMC meets regularly to oversee compliance with the liquidity requirements.

The Bank relies on deposits from customers and banks as its primary sources of funding. These deposits from banks and a large proportion of the deposits from customers have short maturities of not exceeding one year. The short-term nature of these deposits increases the Bank's liquidity risk, but their renewal rate has maintained at a very stable and high level. The Bank actively manages this risk through maintaining competitive pricing and constant monitoring of market trends.

The key measure used by the Bank for managing liquidity risk is the LCR, which is the ratio of total high-quality liquid assets ("HQLA") to total net stressed cash outflows over the next 30 calendar days. The Bank’s HQLA consists of cash and cash equivalents, highly rated securities issued or guaranteed by governments and central banks and high quality non financial corporate debt. Net cash outflows are considered as cash outflows from deposits, unsecured wholesale funding, commitments and other contingent funding obligations, net of cash inflows from fully performing loans and placement with banks over a 30-day horizon.

3. **Risk Management Framework (continued)**

(b) Liquidity Risk Management (continued)

Quantitative disclosures

In this respect, the Bank endeavours to maintain the LCR at 100% or above at all times. Details of the LCR of the Bank at December 31 are as follows:

	(In thousands of CAD dollars)	
	2020	2019
Liquidity coverage ratio	277.04%	223.27%

3. **Risk Management Framework (continued)**

(b) **Liquidity Risk Management (continued)**

Maturity analysis for financial liabilities:

	Carrying amount	inflow (outflow)	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years
2020						
Non-derivative liabilities:						
Deposits from banks	$ 841,896	$ (842,672)	$ (719,063)	$ (123,609)	$ –	$ –
Deposits from customers	1,248,221	(1,255,783)	(495,481)	(222,644)	(423,757)	(113,901)
Issued financial guarantee contracts	–	–	–	–	–	–
	$ 2,090,117	$ (2,098,455)	$ (1,214,544)	$ (346,253)	$ (423,757)	$ (113,901)
Derivative liabilities:						
Held for risk management purposes	$ –	$ –	$ –	$ –	$ –	$ –
Outflow	–	(1,769)	(1,769)	–	–	–
Inflow	–	1,769	1,769	–	–	–
	$ –	$ –	$ –	$ –	$ –	$ –
2019						
Non-derivative liabilities:						
Deposits from banks	$ 510,765	$ (511,036)	$ (495,399)	$ (15,637)	$ –	$ –
Deposits from customers	1,072,654	(1,081,225)	(464,706)	(146,663)	(391,599)	(78,257)
Issued financial guarantee contracts	–	–	–	–	–	–
	$ 1,583,419	$ (1,592,261)	$ (960,105)	$ (162,300)	$ (391,599)	$ (78,257)
Derivative liabilities:						
Held for risk management purposes	$ 679	$ –	$ –	$ –	$ –	$ –
Outflow	–	(163,623)	(163,623)	–	–	–
Inflow	–	163,623	163,623	–	–	–
	$ 679	$ –	$ –	$ –	$ –	$ –

The Bank does not have financial liabilities with contractual maturity longer than five years.

3. Risk Management Framework (continued)

(b) Liquidity Risk Management (continued)

The previous table shows the undiscounted cash flows of the Bank's non-derivative financial liabilities, including issued financial guarantee contracts, and unrecognized loan commitments on the basis of their earliest possible contractual maturity. For these non-derivative and derivative financial liabilities, the analysis shows their remaining contractual maturities. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called. The Bank's expected cash flows on these instruments vary significantly from this analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance and unrecognized loan commitments are not all expected to be drawn down immediately.

The gross nominal inflow (outflow) disclosed in the previous table represents the contractual undiscounted cash flows relating to derivative financial liabilities held for risk management purposes. The disclosure shows a net amount for derivatives that are net settled, but a gross inflow and outflow amount for derivatives that have simultaneous gross settlement, e.g., forward exchange contracts.

To manage the liquidity risk arising from financial liabilities, the Bank holds a portfolio of liquid assets, comprising cash and cash equivalents and investment grade investment securities for which there is an active and liquid market. These assets can be readily sold to meet liquidity requirements which are also indicated by LCR. Hence, the Bank believes that it is not necessary to disclose a maturity analysis in respect of these assets to enable users to evaluate the nature and extent of liquidity risk.

3. Risk Management Framework (continued)

(c) Market Risk Management

Qualitative disclosures

Market risk is the risk that changes in market indices, such as interest rate, foreign exchange rates and credit spreads will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

ALRMC is responsible for the oversight of the Bank's market risk to ensure that overall and individual market risks are within the Bank's risk tolerance. The Market Risk Management Policy is subject to review by ALRMC and approval by the Board.

The market risks the Bank is exposed to include interest rate risk and foreign exchange risk.

Exposure to interest rate risk - non-trading portfolios

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments due to changes in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. The Bank establishes the interest rate gap limits that are sufficient to support the normal operational requirements. ALRMC is the monitoring body for compliance with these limits and is assisted by the Risk Management Department in its day-to-day monitoring activities. A daily report of the asset and liability positions against the respective gap limits is reviewed by the Treasury Department and Risk Management Department and periodically an interest rate gap report is submitted to the Board.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to the interest rate movements. The Bank performs a sensitivity analysis on a monthly basis to assess the effect of a hypothetical interest rate movement across the yield curves on both sides of the statement of financial position. Sensitivity limits are set to control the Bank's interest rate risk exposure from both earnings and economic value perspectives. The results of the interest rate sensitivity analysis are reported to ALRMC and the Board on a regular basis.

3. Risk Management Framework (continued)

(c) Market Risk Management (continued)

Exposure to foreign exchange risk - non-trading portfolios

Foreign exchange risk is the risk of loss due to adverse movements and volatilities in spot and forward currency rates. The Bank has exposure to foreign exchange risk on its foreign currency-denominated asset and liability positions. The Bank enters into spot and forward foreign exchange contracts on behalf of its customers and for its own account to manage its own currency exposures arising from the assets and liabilities denominated in foreign currencies. The Bank seeks to match closely its foreign currency-denominated assets with corresponding liabilities in the same currencies.

All foreign currency positions are managed within the limit approved by the Board. ALRMC is the monitoring body for compliance with the limit and is assisted by the independent Risk Management Department in its day-to-day monitoring activities. The foreign currency positions is periodically reviewed by Treasury Department and the Risk Management Department, and submitted to ALRMC.

Overall foreign currency positions are managed by the Treasury Department, which will use derivative instruments to hedge the exposure to foreign exchange risk, when necessary.

3. **Risk Management Framework (continued)**

(c) **Market Risk Management (continued)**

Quantitative disclosures

An analysis of the potential impact of an immediate and sustained 100-basis-point parallel increase or decrease in all yield curves worldwide on net interest income after tax and economic value of the Bank's portfolio, assuming no asymmetrical movement in yield curves and a constant financial position, is as follows:

	2020		2019	
	100-basis-point parallel increase in rates	100-basis-point parallel decrease in rates	100-basis-point parallel increase in rates	100-basis-point parallel decrease in rates
Increase (decrease) in net interest income after tax	$ 4,652	$ (4,652)	$ 2,279	$ (2,279)
Increase (decrease) in economic value	7,087	(7,087)	11,077	(11,077)

This sensitivity analysis, which is based on a static interest rate risk profile of assets and liabilities at a specific time, is used for risk management purposes only. No loan prepayment is assumed and deposits without fixed maturity dates are assumed to be repriced on next day. Actual changes in the Bank's net interest income and economic value, resulting from the changes in interest rates may differ from the results of this sensitivity analysis.

Tthe Treasury Department uses investment securities, deposits with banks, deposits from banks and derivative instruments to manage the overall interest risk positions arising from the Bank's activities.

As at the reporting date, significant net currency exposures of the Bank are as follows:

	2020	2019
Foreign currency transactions:		
Net foreign currency exposure, long (short):		
US$	$ 4,226	$ 1,232
Chinese Yuan	(176)	212
HK$	221	249

3. Risk Management Framework (continued)

(d) Operational Risk Management

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations. The Bank's objective of operational risk management is to identify, assess and monitor operational risk and, in particular, to comply with the relevant regulatory requirements. The Bank manages and mitigates the potential operational risk through a comprehensive supervision framework based on three lines of defense principle and adequate internal controls, which include segregation of duties and appropriate delegation of authority. Business departments/branches, acting as the first line of defense, are responsible for the operational risk management within its own business line and unit; compliance, risk management department and other specialized functional departments, acting as the second line of defense, are responsible for integrating or leading specific operational risk management. The Bank ensures that proper and prudent controls are in place in its information and technology system. During the course of the audit, Internal Audit, acting as the third line of defense, reviews the adequacy and execution of the Bank's policies and operational procedures. Internal Audit Reports, which set out any significant findings and implications accompanied with the recommendations of improvements on policies and operational procedures, in terms of internal controls, are issued to management and presented to the Audit Committee.

The Board reviews and approves the policies for operational risk management. ALRMC is responsible for oversight operational risk management and is assisted by the Risk Management Department in establishing and implementing operational risk management framework. An operational loss data report is regularly submitted to the Board.

4. Remuneration Policy

The Bank did not extend credit facilities to key management personnel, including directors, and their immediate relatives and companies controlled by or affiliated with them during the year.

Apart from directors' fees, the Bank does not provide any other benefits to independent directors.

Key management personnel include the senior management, which is composed of the President and Chief Executive Officer, two Senior Executive Vice Presidents, one Executive Vice President, and Chief Compliance Officer of the Bank. Key management personnel also includes eight Directors of the Bank. The President and Chief Executive Officer is also the executive director of the Bank

Remuneration, both fixed and variable, of the President and Chief Executive Officer, Senior Executive Vice Presidents and Executive Vice President is determined and overseen by the parent bank in accordance with its group remuneration policy.

Remuneration of the other senior management members is determined by the President and Chief Executive Officer and overseen by the Human Resources Department of the Bank. Along with all the other staff of the Bank, they are subject to a standardized performance appraisal system to determine their year-end bonus.

There was no change to the remuneration policy, as well as process during the year.

The only variable remuneration given to senior management personnel is year-end bonus, which is based on the established performance appraisal system. No variable remuneration is given to Directors,

Breakdown of the amount of remuneration awards for the year as at December 31 is as follows:

	(In thousands of CAD dollars)	
	2020	2019
Cash-based and unrestricted:		
Fixed remuneration	$ 1,237	$ 1,277
Variable remuneration	757	1,258
	$ 1,994	$ 2,535

5. Leverage Ratio

In connection with the 2014 Basel Committee on Banking Supervision Basel III Leverage Ratio Framework and Disclosure Requirement (the BCBS LR Framework), OSFI requires non-D-SIBs including this Bank to fully implement the disclosures starting January 1, 2015. The Bank's leverage ratio is disclosed as below.

Industrial and Commercial Bank of China (Canada)		
Basel III Leverage Ratio Disclosure		
as at December 31, 2020		
(Amounts in thousands of Canadian Dollars, except percentage)		
	Item	**Leverage Ratio Framework**
On-balance sheet exposures		
1	On-balance sheet items (excluding derivatives, SFTs and grandfathered securitization exposures but including collateral)	2,472,161
2	Gross-up for derivatives collateral provided where deducted from balance sheet assets pursuant to the operative accounting framework (IFRS)	0
3	(Deductions of receivable assets for cash variation margin provided in derivatives transactions)	
4	(Asset amounts deducted in determining Tier 1 capital)	(117)
5	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 to 4)**	**2,472,044**
Derivative exposures		
6	Replacement cost associated with all derivative transactions	0
7	Add-on amounts for potential future exposure associated with all derivative transactions	20
8	(Exempted central counterparty-leg of client cleared trade exposures)	0
9	Adjusted effective notional amount of written credit derivatives	0
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	0
11	**Total derivative exposures (sum of lines 6 to 10)**	**20**
Securities financing transaction exposures		
12	Gross SFT assets recognised for accounting purposes (with no recognition of netting), after adjusting for sale accounting transactions	0
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	0
14	Counterparty credit risk (CCR) exposure for SFTs	0
15	Agent transaction exposures	0
16	**Total securities financing transaction exposures (sum of lines 12 to 15)**	**0**
Other off-balance sheet exposures		
17	Off-balance sheet exposure at gross notional amount	1,130,477

18	(Adjustments for conversion to credit equivalent amounts)	(552,405)
19	**Off-balance sheet items (sum of lines 17 and 18)**	**578,072**
Capital and Total Exposures		
20	**Tier 1 capital**	**360,657**
21	**Total Exposures (sum of lines 5, 11, 16 and 19)**	**3,050,136**
Leverage Ratio		
22	**Basel III leverage ratio**	**11.82%**