Large Exposures Risk Concentration and Related Entities Policy

Credit Risk Policy | Global

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Document Control

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Contents

1. Purpose

This Policy sets out how the Company identifies, measures, limits, monitors and reports large exposures, risk concentrations and dealings with related parties. Its purpose is to prevent the failure of any single counterparty, group of connected counterparties or related party, or the crystallisation of any concentration of risk, from producing losses that would threaten the Company's capital adequacy, liquidity or ongoing viability.

The Policy gives effect to the Basel Committee on Banking Supervision's large exposures framework (LEX) and to the related-party transaction expectations of the BCBS Core Principles for Effective Banking Supervision. It establishes the prudential limits derived from those standards, the tighter internal limits and triggers set by the Board, the rules for aggregating exposures to connected counterparties, the requirement that all related-party dealings occur at arm's length, and the escalation path that applies when any limit is approached or breached. Where the Company's prudential regulator imposes different or additional limits, those requirements are recorded as local-law parameters within this Policy and prevail where stricter.

This Policy has been approved by the Board Risk Committee on the recommendation of the Chief Risk Officer, who owns the Policy. It forms part of the Company's risk management framework and must be read together with the Risk Appetite Statement, the Credit Risk Management Policy and the Capital Management Policy.

2. Scope

This Policy applies to the Company and to every entity it controls, and binds all directors, officers, employees, contractors and secondees whose activities create, approve, measure, monitor or report credit or counterparty exposures. It applies at the level of the consolidated banking group and, where required by the Company's prudential regulator, at the level of the solo regulated entity.

The Policy covers all claims, commitments and contingent liabilities arising from on- and off-balance sheet transactions in both the banking book and the trading book, across all products, business lines and booking locations, in the Company's base currency and in foreign currency on a base-currency-equivalent basis. It covers exposures to single counterparties, groups of connected counterparties, industry sectors, geographic regions, asset classes, related parties, related individuals and step-in risk entities.

Exposures exempt from the large exposure limits under the Basel LEX framework (set out under Exempted exposures in the Identification of Large Exposures section) remain within the scope of this Policy for identification, monitoring and reporting purposes: exemption from a limit is never exemption from oversight.

Jurisdictional application. This document states international best practice, anchored to the Basel Framework and related international standards. The Company must map the requirements of this Policy to the law and regulatory requirements of each jurisdiction in which it operates, and where local law or the Company's prudential regulator imposes a stricter or additional requirement, that requirement prevails over this Policy.

3. Definitions

Term	Definition
Exposure	The aggregate of all claims, commitments and contingent liabilities of the Company to a counterparty arising from on- and off-balance sheet transactions in both the banking book and the trading book, measured in accordance with this Policy and the Basel large exposures framework, including the base-currency equivalent of foreign currency positions.
Large Exposure	An aggregate exposure to a counterparty, or to a group of connected counterparties, that equals or exceeds 10 per cent of the Company's Tier 1 Capital, measured in accordance with the Basel Framework large exposures standard (LEX).
Tier 1 Capital	The sum of Common Equity Tier 1 Capital and Additional Tier 1 Capital, measured in accordance with the Basel III definition of capital as implemented by the Company's prudential regulator. Tier 1 Capital is the eligible capital base for all limits in this Policy.
Concentration Risk	The risk that the Company's aggregate exposure to, or dependence upon, a single counterparty, group of connected counterparties, industry sector, geographic region, funding source, asset class or service provider is large enough that failure of that single point could cause disproportionate loss or threaten earnings, capital or viability.
Group of Connected Counterparties	Two or more counterparties linked by a control relationship, by economic interdependence, or by other connections such that they constitute a single risk, and which must therefore be treated as a single counterparty for large exposure purposes.
Control Relationship	A relationship in which one entity directly or indirectly controls another, including through ownership of more than 50 per cent of voting rights, voting agreements, or significant influence over the

	appointment or conduct of the other entity's board or senior management.
Economic Interdependence	A relationship in which the financial difficulty of one counterparty would be likely to cause funding or repayment difficulty for another, for example through revenue dependence, guarantees, a common repayment source or a common funding provider that cannot readily be replaced.
Related Party	A person or entity connected to the Company through control, joint control, significant influence or common control, including its subsidiaries and affiliates, other entities within its corporate group, substantial shareholders, its directors and senior managers, their close family members, and any party treated as related under applicable law or accounting standards (IAS 24).
Related Individual	A member of the Board or senior management of the Company, or any other individual likely to exercise direct or indirect control or significant influence over the Company, its senior management or its Board, together with that individual's close family members and entities they control.
Related Regulated Bank	A bank or deposit-taking institution, supervised by a prudential regulator applying standards broadly consistent with the Basel Framework, that is a related party of the Company.
Step-in Risk Entity	An entity to which the Company is likely to provide financial support in stress, beyond any legal or contractual obligation to do so, such that failure of the entity could materially affect the Company's capital or liquidity, as contemplated by the BCBS guidelines on the identification and management of step-in risk.
Credit Risk Mitigation (CRM)	Techniques eligible under the Basel Framework that reduce the credit risk of an exposure, including eligible financial collateral, guarantees, credit derivatives and netting, which reduce the exposure value to the original counterparty and create a corresponding exposure to the protection or collateral provider.
Qualifying Central Counterparty (QCCP)	A central counterparty that is licensed to operate as such (or exempted from

	licensing) and is permitted by the relevant regulator to operate for the products it offers, in a jurisdiction whose CCP regulation is consistent with the CPMI-IOSCO Principles for Financial Market Infrastructures; exposures to a QCCP arising from clearing activities are exempt from the large exposure limits.
Significant Shareholder	A person or entity holding, directly or indirectly, [10] per cent or more of the voting rights or capital of the Company, or such lower threshold as applies under the law of the Company's operating jurisdiction(s).
Government-Related Entity	A public sector entity, state-owned enterprise or entity controlled directly or indirectly by any level of government or by a central bank.
G-SIB	A bank designated as a global systemically important bank by the Financial Stability Board on the basis of the BCBS assessment methodology.
Look-Through Approach	The method by which the Company assigns its exposure to a structured vehicle, fund or securitisation to the identifiable underlying counterparties of the vehicle, rather than to the vehicle itself.
Arm's-Length Basis	Terms and conditions, including pricing, security and covenants, that the Company would reasonably agree with an unrelated counterparty of equivalent credit standing in a comparable transaction.

4. Regulatory Framework

The key legislation, regulations and standards relevant to this document include (as amended from time to time):

Instrument / Standard	Relevance
Basel Framework — Large Exposures standard (LEX), BCBS Supervisory Framework for Measuring and Controlling Large Exposures (2014)	Primary standard: defines large exposures, sets the 25 per cent of Tier 1 Capital general limit and the tighter G-SIB limit, and prescribes connected counterparty identification, measurement rules, exemptions and supervisory reporting.
BCBS Core Principles for Effective Banking Supervision (2024 revision) — Principles	Principle 19 requires banks to manage concentration risk within prudent limits;

End of preview

This is a preview extract. The complete document continues beyond the pages shown here.

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Bracketed prompts such as [30 days] mark the points where your own thresholds, committee names and local regulatory references are inserted.