ICBC Standard Bank

Consolidated Annual Report

for the year ended 31 December 2018

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ICBC Standard Bank Plc

www.icbcstandard.com

OVERVIEW

ICBC Standard Bank is a London-based banking specialist focused on the provision of Commodities, Financial Markets and Investment Banking solutions to clients in emerging and frontier markets.

VISION, VALUES AND STRATEGIC PRIORITIES

Our vision

Together, by serving our clients with integrity and excellence, we are building a global leader in Commodities and Financial Markets.

Underpinned by our values

- Client Centricity 客户至上
- Integrity 诚信为本
- Excellence 追求卓越
- Openness 公开透明
- Stakeholder Delivery 回馈各界

AT A G

Our strategic priorities

Maximise group franchise value through integration

Focus our efforts where we are differentiated

Simplify to enable growth

OWNERSHIP STRUCTURE

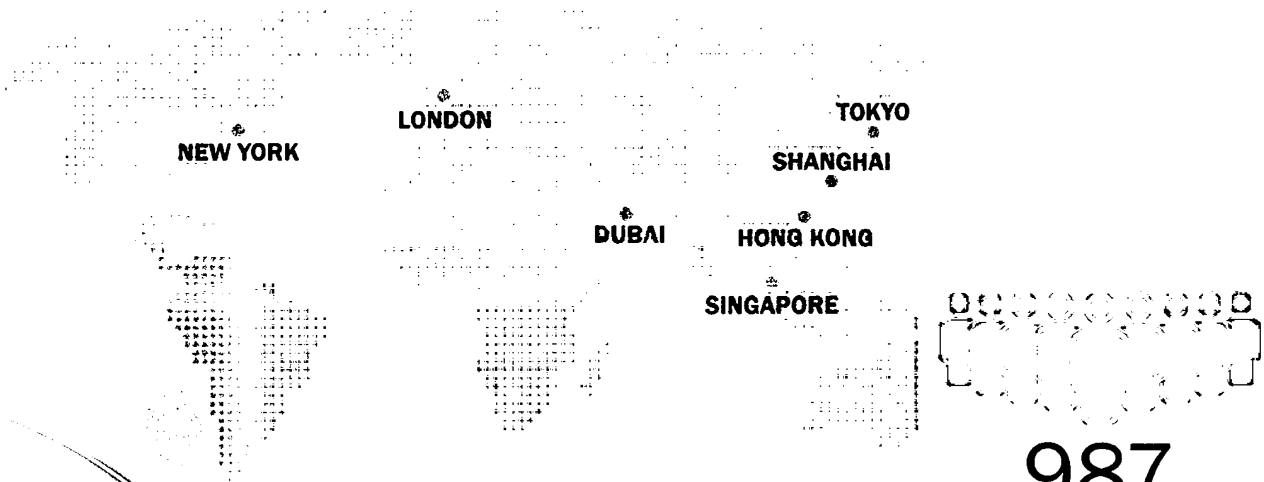
ICBC —20%→ Standard Bank

ICBC: World's largest bank by deposits, assets and Tier 1 capital. Rated A1/A

Standard Bank: Pre-eminent Africa-focused financial services group

60% → ICBC Standard Bank Plc ← 40%

OFFICES AND NUMBER OF EMPLOYEES



987
employees for the year

LANCE

CREDIT RATING - ICBC STANDARD BANK

	Short Term	Long Term	Outlook
Fitch	F2	BBB+	Stable
Moody's	P3	Baa3	Stable

GROUP PERFORMANCE 2018

Total Operating Income	**$384.0m**
Net Loss After Tax	**$(14.8)m**
Return on Equity	**(1.2)%**
Balance Sheet Assets	**$24.6bn**
Total Risk Weighted Assets	**$6.5bn**
Tier 1 Capital Adequacy Ratio	**18.5%**

Contents

Annual report

Strategic report

The directors present their strategic report for the year ended 31 December 2018 for ICBC Standard Bank Plc ('the company') and its subsidiaries (together 'the group').

Introduction

The group is a leading financial markets and commodities bank that leverages its unique Chinese and African parentage to serve the growing needs of the primary base of Chinese clients, while also acting as a distribution platform for risk across Africa and other geographies.

The group specialises in global markets traded products including commodities, fixed income, currencies and equities, with a focus on emerging market jurisdictions. These span Asia, Africa, Central and Eastern Europe, the Middle East and Latin America. The group also offers a developing range of Investment Banking products and services.

The group employs 987 people and is headquartered in London, with additional operations in Dubai, Hong Kong, Singapore, New York and Tokyo. The group also maintains a commodities trading presence in Shanghai through its subsidiary, ICBC Standard Resources (China) Limited.

The company is authorised and regulated by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA).

The group has access to major international financial exchanges through its membership of London Metals Exchange, London Stock Exchange and Tokyo Commodities Exchange, and was the first UK bank to obtain clearing membership on Moscow Exchange's Foreign Exchange Market. The company also owns two seats on the New York Mercantile Exchange (Comex division) and a seat on the Shanghai Gold Exchange International Board.

Business model

Global Markets

The Global Markets business offers a full spectrum of traded financial market and commodity assets and risk management products. The business originates exposures directly from clients and its market-making activities, which are subsequently risk managed and traded with other market participants, asset managers and clients through the group's distribution network.

The group's unique parentage of ICBC and SBG has expanded the strategic opportunity of the Global Markets business to serve the increasing demand for commodities, hedging and capital market products from Chinese clients.

The Global Markets business consists of Commodities, and Fixed Income, Currencies and Equities (FICE) business units.

1 Commodities

The Commodities business provides global trading, sales and structuring expertise through its Base Metals, Precious Metals and Energy teams. The division's expertise extends to the management and financing of physical commodity inventories across these asset classes.

2 FICE

FICE offers a comprehensive set of foreign exchange, money markets, interest rate, credit and equity products, ranging from simple risk management products to more complex structured transactions. The business unit is focused on emerging and frontier markets clients and covers all major African, Central and Eastern European, Middle Eastern, Asian and Latin American currencies and markets.

Investment Banking

The Investment Banking business continues to develop its offering after being established more recently, in 2017. It comprises the Client Coverage (International and China), Debt and Equity Capital Markets, and Advisory teams. The business offers a complimentary product and service offering for the group's existing client base and generates valuable cross-sell opportunities.

Ownership structure

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

ICBC Group profile

ICBC was established on 1 January 1984. On 28 October 2005, ICBC was restructured to a joint-stock limited company. On 27 October 2006, ICBC was listed on both the Shanghai and Hong Kong stock exchanges and has developed into one of the largest listed banks in the world, possessing a significant customer base, a diversified business structure, strong innovation capabilities and market competitiveness. ICBC has a presence on six continents and its overseas network spans 45 countries and regions.

ICBC provides a comprehensive suite of financial products and services to over six million corporate customers and over 500 million personal customers through its various distribution channels. These consist of domestic institutions, overseas institutions and correspondent banks worldwide, as well as the e-banking network comprising a range of internet and telephone banking services and self-service banking centres.

Standard Bank Group profile

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

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

Strategic priorities

The group's strategic vision is to build a global leader in commodities and financial markets by serving clients with integrity and excellence. The group's strategic priorities are set out below.

1 Maximise group franchise value through integration

Maximising the group franchise strength

As the largest bank in the world (by total assets) and majority shareholder of the group, integration with ICBC is fundamental to delivering the group's vision. ICBC's franchise strength provides a unique and compelling competitive advantage for the group, attracting a quality client base and generating commercial opportunities within emerging markets.

2 Focus the group's efforts where it is differentiated

Develop into a core Commodities hub for ICBC

The Commodities business strategy is centred on leveraging the ICBC network and client base to pursue sustainable growth within Base Metals, Precious Metals and Energy commodities. The business will continue to provide derivative, physical and funding services to complement ICBC's existing product suite and client offering.

Leverage FICE capabilities in EM

The FICE business fulfils the role of a foreign exchange and interest rate hub for ICBC, targeting corporates, sovereigns and financial institutions, while also leveraging SBG franchise opportunities. It has a major focus on emerging and frontier market currency, rates and credit products which it distributes to its investor client base. The business has also invested in the origination and structuring teams who work closely with ICBC branches.

Develop Investment Banking capability

The Investment Banking function serves predominantly as a strategic link between the group and ICBC. Debt Capital Markets growth is centred on further collaboration with key ICBC branches, positioning the group to partner on ICBC-introduced deals. The Advisory and Coverage teams continue to leverage established ICBC client relationships and business opportunities.

3 Simplify to enable growth

Simplification of the group's operating model, in an increasingly complex regulatory landscape, is vital in order to mitigate group risks and contain cost growth. Improving operating efficiency through IT simplification continues to be a particular focus. Ongoing alignment of the group's business model with ICBC over the medium term is an important step to help to gain full efficiency benefits and achieve operating scale.

Performance overview

US$14.8 million

Net loss after tax

Volatile market conditions across the group's core focus area of emerging markets (EM), in the second half, weighed on the performance for 2018 with a net loss after tax of US$14.8 million.

Market conditions

A strong start to 2018 was short-lived with volatility from Q2 onwards due to sanctions and tariffs out of the US, along with weaker performance in key EM countries

Favourable market conditions witnessed early in 2018 were largely due to improved global growth expectations, particularly for the USA and Euro area. These were reflected in upward revisions to the IMF's 2018 global growth forecast to 3.9%. The resulting period of price stabilisation and market calm was short-lived, however, as concerns around a potential US-China trade war came to the fore towards the end of quarter 1.

Quarter 2 saw a marked divergence in performance between developed and EM assets. Politics, as much as economics, drove price volatility across asset classes and conditions in Turkey and Argentina were particularly volatile. For the most part, deterioration in asset prices appeared not to be driven by a slowdown in actual growth, but rather by a combination of weakening expectations and financial stress induced by the rise in US rates and a strengthening dollar. In addition, base metal markets were impacted by the US Treasury's announcement in April of sanctions against Rusal, leading to almost unprecedented levels of aluminium price volatility.

Early in quarter 3, the US imposed tariffs on an initial US$34 billion of imports from China, to which China responded with tariffs on an equivalent value of imports from the US. Against this backdrop, investors continued to cut their exposure to EM assets. Crude oil prices, which rallied on signs of still robust consumer demand and concerns about the effects of a reintroduction of US sanctions on Iran, added to the existing challenges faced by EM oil importers. September also saw the Federal Open Markets Committee (FOMC) enact a further 25bp increase in the Federal Funds Rate, at the same time as the US extended tariffs on Chinese imports.

The IMF cut both the 2018 and 2019 global growth forecasts by 0.2% in quarter 4, with the majority of revisions concentrated in EM. These downgrades arguably brought the IMF into line with what EM assets had already priced over the course of the previous quarter. Developed market equities, however, had been somewhat immune until the beginning of October, when the MSCI World index suffered a 6% fall in the space of 5 trading days.

The December G20 meeting provided some brief market relief, as the increase of US import tariffs on Chinese goods was delayed to allow for a resumption of negotiations. Slowing Chinese growth and a flattening US yield curve increased concerns about the potential for a global recession. These macro concerns weighed on the majority of asset prices, with the S&P 500 falling 15% over quarter 4 and increasing volatility into year end.

Financial performance

As a result of the volatile EM market conditions witnessed during 2018, total group operating income of US$384.0 million came in below expectations, but marginally higher than prior year. The result was largely attributable to weaker performance in the FICE business, where a large portion of business revenues are derived from EM countries. In contrast, underlying Commodities performance was stable against prior year despite sanctions from the US against Russia impacting the base metals markets during the year.

Underlying cost growth continued to be closely managed after a reduction in the previous year, with operating costs for the year at US$379.1 million. Group return on equity was a negative 1.2%, down from 2.4% in 2017.

Credit rating

Credit rating unchanged at Baa3 (Moody's) and BBB+ (Fitch)

The group's credit rating is premised on support from ICBC as parent, as well as consideration of the group's capital and liquidity position, corporate strategy and future profitability. Moody's and Fitch Ratings' long-term credit ratings for the group as at 31 December 2018 were Baa3 and BBB+ respectively, with stable outlooks.

Key performance indicators

Group performance for 2018 was mixed. Total operating income increased marginally year on year. Solid progress was made toward the group's culture agenda and enhanced risk and control measures that saw the group successfully meet key regulatory deliverables.

The group measures performance using both financial and non-financial indicators. Selected metrics are detailed below.

Key performance indicators (KPIs)

Financial KPIs	2018	2017
Total operating income	US$384.0 million	US$382.4 million
Net (loss)/profit after tax	US$(14.8) million	US$29.7 million
Total assets	US$24.6 billion	US$23.9 billion
Return on equity	(1.2)%	2.4%
Total capital adequacy ratio	22.2%	20.0%

Non-financial performance	
Risk & control	The group met all regulatory requirements during the year, with major MiFID II deliverables achieved in line with the January 2018 implementation deadline and work for IOSCO progressing well. Work continues on change programmes for other market initiatives including EMIR collateral requirements, IBOR reform and the Securities Financing and Transactions Regulation. Contingency planning for Brexit progressed and meetings were held with local EU regulators aimed at securing access to key markets following Brexit. The group continued to review and invest in infrastructure, resulting in a more reliable and resilient technology platform by year end. There were no major technology outages in 2018 and a number of legacy applications/infrastructure items were successfully decommissioned.
Culture	The culture committee delivered a number of initiatives during 2018 in line with the group's agreed culture agenda. These included a new leadership development program with Henley business school, the launch of the group's Equity, Diversity and Inclusion (E, D & I) vision

	statement, and the use of employee focus groups to define how to 'live' the groups values. The group-wide employee engagement score declined in 2018 however with greater participation. In response, management have implemented a variety of engagement activities to address key areas of concern. These included group strategy cascade information sessions, team breakfasts, town halls and mental health awareness training.
Integration	The group successfully transitioned its existing sanction screening program and payments platform to ICBC platforms during 2018. This was a key step toward operational integration and demonstrates the benefits for the group in working closely with ICBC on both the client business and back of house operations and technology front. Leveraging ICBC operational capabilities in this way remains critical to the long term success of the group and its clients, and the management team is dedicated to pursuing this goal in a meaningful way. From a business perspective, the DCM team successfully executed in excess of 80 deals in 2018, of which over 90% were in partnership with other ICBC entities. This relationship continues to grow stronger each year and delivers tangible benefits for both the group and its majority shareholder.

Business performance

The group's results for the year are shown in the consolidated income statement on page 39 and key performance indicators are discussed within this report.

US$384.0 million

Total operating income

US$379.1 million

Operating costs

US$14.8 million

Net loss after tax

(1.2)%

Return on equity

Total operating income was in line with prior year, ending the year at US$384.0 million. The result was below expectations with unfavourable market conditions affecting performance in both Commodities and FICE business lines. Operating costs in 2018 increased by 2% compared with the prior year to US$379.1 million. The main drivers of the increase were investment in refinery intermediation capabilities and costs associated with the recovery of group-owned metal held in Penglai, China. The underlying cost growth, excluding these items, was favourable compared with prior year, delivering the fourth year of underlying cost reductions despite investment in regulatory change programmes, enhanced controls, system upgrades and revenue generating resources over the same period.

Overall, the group delivered a net loss after tax of US$(14.8) million. The operating income benefitted from a US$37.9 million gain in relation to the successful recovery of group-owned metal which had been held in Penglai, China, as part of a fraud investigation ongoing since 2015.

The reported loss for 2018 represented a negative return on equity of 1.2%, compared to 2.4% in the prior year.

Total assets at 31 December 2018 were US$24.6 billion, representing an increase of 3% on prior year. The increase was primarily attributable to higher precious metals and oil inventory holdings.

The increase in the group's capital adequacy ratio reflects reduced RWA deployment that occurred as a consequence of the weak investor sentiment towards EM assets during the year.

Commodities

Revenues of the Commodities business were US$141.4 million (2017: US$98.5 million). The result includes a US$37.9 million gain from the successful recovery of the group's aluminium in Penglai, China. The business delivered an improved performance in Base Metals, and the Energy business line executed a significant transaction with a US refinery, which supported revenue growth. This was partially offset by lower revenues from the Precious Metals desk, which was adversely impacted by a client default during the year.

To complement the well-established metals franchise, the business will continue to focus on expanding its oil trading capabilities in the near term to leverage the investment made during 2018.

FICE

Total operating income of the FICE business was US$232.1 million in 2018 (2017: US$274.7 million). The Emerging Markets business was adversely impacted by the prevailing market conditions, while the Structured Credit and Collateralised Lending franchise delivered a modest year-on-year improvement.

Client revenues grew in the year.

In addition to its market leading global investor franchise, the FICE business continued to invest in three key areas:

- China sales franchise focussing on ICBC and its clients;
- Corporate, financial institutions and sovereign franchise leveraging the emerging markets and African expertise; and
- A structured solutions sales team specialising in bespoke financing and liability management solutions for clients.

A number of significant transactions were executed with ICBC clients in 2018, including large financing and risk management deals.

The FICE strategy is underpinned by continued investment in the global investor franchise as well as origination and structuring capabilities to enhance the client offering.

Investment Banking

Further progress was made towards building the Investment Banking franchise which achieved total fee revenue of US$10.5 million.

Debt Capital Markets revenue grew against prior year, with an increased number of joint lead roles with top tier corporates. In excess of 80 deals were executed with over 90% of these in partnership with other ICBC entities, demonstrating the benefits of business cooperation within the ICBC Group. This positive momentum continued into 2019 as the group, in cooperation with ICBC New York branch, became the first Chinese Bank to act as joint book-runner on a Euro bond distribution for a major US corporate.

The Coverage business maintained its focus on building a core client base and generating cross-product referrals from target clients. The number of Coverage employees based in London reduced during the year with investment redirected to a China-based team focused on supporting the ICBC franchise.

Capital resources

At the end of the reporting period, the group's equity capital resources totalled US$1,257.8 million (2017: US$1,282.3 million) and total capital resources qualifying for prudential purposes amounted to US$1,446.1 million (2017: US$1,575.4 million).

The group is strongly capitalised, with a total capital adequacy ratio at 31 December 2018 of 22.2% (2017: 20.0%), a tier 1 capital ratio of 18.5% (2017: 15.6%) and risk weighted assets of US$6,500.2 million (2017: US$7,887.7 million).

Leverage

The group's leverage ratio, which measures tier 1 capital to a defined measure of on-balance sheet assets and off-balance sheet items, was 5.0% at 31 December 2018 (2017: 4.9%). The group is not expected to be subject to binding leverage ratio regulatory requirements until 2021, but remains above the scheduled minimum requirement of 3%.

Liquidity

The group maintained a strong liquidity profile throughout the year and at year end. Under the group's internal stress testing scenarios, the group maintained a survival horizon in excess of the internally established limit, and under the regulatory liquidity coverage ratio (LCR) the group maintained liquidity in excess of the regulatory requirement.

Management forecasts the group's funding and liquidity requirements in the funding plan as part of the annual budgeting cycle. The group's stress testing results, regulatory ratios and funding composition are reviewed regularly and these ongoing reviews are used to manage the group's funding and liquidity requirements.

New accounting standards

IFRS 9 *Financial Instruments* was adopted by the group from 1 January 2018. This introduced an expected credit loss (ECL) impairment requirement, providing timelier recognition of credit losses. Implementation of IFRS 9 required the development of models for estimating credit losses, incorporating multiple scenarios and forward looking macro-economic information. The new standard also introduced a principles based approach for classification and measurement of financial assets, based on the underlying business model and their contractual cash flow characteristics. The implementation of IFRS 9 had no material effect on the group's financial statements.

The group applied the transitional arrangements included in the Capital Requirements Regulation in relation to the adoption of the ECL approach introduced by IFRS 9 for measuring impairment on financial instruments. These provide for a five year transition period during which specified percentages of new ECL provisions arising due to adoption of IFRS 9 are added back to tier 1 capital. However, the adoption of IFRS 9 did not have a material impact on the group's capital resources or on the regulatory transitional arrangements.

IFRS 15 *Revenue from Contracts with Customers* was also adopted by the group from 1 January 2018. This introduced a principles based approach for recognising revenue and applies a five step approach to determine the amount and timing of revenue recognition. The implementation of IFRS 15 had no material effect on the group's financial statements.

Further information on the implementation of IFRS 9 is provided in note 38 to this report.

Risk management

An established framework of responsibility and accountability to manage and mitigate risk, from the Board through to employees

Managing risk effectively is fundamental to the execution of the group's strategy and long term operational success. The group seeks to achieve a measured balance between risk and reward across all business activity, achieving growth goals while protecting the group's reputation and business franchise from harm.

Overall responsibility for risk management rests with the Board of Directors (the Board) which approves the group's risk appetite statement. Day-to-day responsibility is delegated to the governance committee and its sub-committees which review, inter alia, summaries of market, liquidity, credit, operational, country, model and regulatory risks. Importantly, accountability for risk management resides at all levels across the group, as set out by the group's three lines of defence model. The first line includes business unit management where the assessment, evaluation and measurement of risk are integrated into day-to-day business activities. The second line is represented by the group's Risk management and Compliance functions which is independent of line management within the business units. The third line consists of internal audit which provides an independent assessment of the adequacy and effectiveness of the group's overall system of internal control and risk governance structures.

A series of frameworks, policies, procedures, limits and other controls are in place at the group and functional level to manage each major risk type. These set out minimum requirements for the control and management of risk in all businesses and promote consistency of risk management methods. Further information is set out in note 37 of this report.

Principal risks

The principal risks to which the group is exposed and seeks to mitigate are outlined below. This is not an exhaustive statement of all potential risks facing the group, rather includes those which management believes may have a significant impact on its business performance and future prospects.

The final political outcome of Brexit is currently not certain. The group has identified key jurisdictions within the EU where it will seek to maintain targeted access in the event of a no-deal Brexit. Where possible, regulatory access is being sought by the group via relevant applications or waivers provided by individual EU27 National Competent Authorities.

The group has assessed the impact of Brexit occurring without regulatory access being in place and will remain compliant with prudential capital and liquidity requirements. The group's business model places limited reliance on European counterparties for funding requirements or business origination. The group will continue to follow progress closely, and respond accordingly, as further details of exit terms emerge.

Principal Risks

Risk Type		Mitigating Actions
Liquidity & Funding Risk	Liquidity risk is the risk that a firm, although solvent, does not have available sufficient financial resources to enable it to meet its obligations as they fall due. Funding risk is the risk that a firm does not have stable sources of funding in the medium and long term to enable it to meet its financial obligations, such as payments or collateral calls, as they fall due, either at all or only at excessive cost.	The group's liquidity risk management framework links its business plan and objectives, funding plan and liquidity risk management and monitoring. The core objectives of the framework are: • To ensure that the group has adequate liquidity resources for both regulatory and internal purposes on a daily and forward-looking basis, both under normal and stressed conditions; • To ensure policies, governance and escalation mechanisms exist, and maintain the risk and control structure; and • To maintain an appropriate funding profile, with early warning indicators in place to alert management to potential liquidity and funding deterioration. The net stable funding ratio (NSFR) will require the group to optimise its balance sheet composition, increasing available stable funding by lengthening deposit tenors and acquiring deposits with greater available stable funding weightings. The ratio is not expected to come into effect earlier than 2021; however, this is continues to be monitored while the industry awaits confirmation of the final regulation and deadline for implementation. Throughout 2018 the group maintained a liquidity coverage ratio (LCR) ratio in excess of the minimum PRA regulatory requirement of 100%. At 31 December 2018, the group's LCR was 224% (2017: 230%).
Market Risk	The risk of a change in market value, earnings (actual or effective) or future cash-flows of a portfolio of financial instruments (including commodities), caused by moves in market variables such as equity, bond and commodity prices, currency exchange rates and interest rates, credit spreads, recovery rates, correlations and implied volatilities in all of these variables.	The group seeks to manage market risk by: • Measuring market risk under both normal market conditions (value at risk at 95% confidence 1 day holding period) and stressed market conditions. • Supplementing the measurement of market risk with the monitoring of material risk factor sensitivities such as delta, gamma, vega, theta and other high order derivative risks where appropriate. • Where breaches in limits and triggers occur, actions are taken to move exposures back in line with approved risk appetite, with such breaches being reported to management and the appropriate governance committee. For 2018, no major market risk limit breaches were noted. Minor breaches were limited and appropriately managed through relevant levels of governance.
Operational Risk	The risk of loss suffered as a result of inadequacy of, or a failure in, internal processes, people and systems or from external events. It incorporates losses arising from insurance risk and losses related to physical commodities. Operational risk sub-types include: • Business disruption and system failures, including cyber incidents • Damage to physical assets • Execution, delivery and process management • Internal and external fraud • Clients, products and business practices • Employment practices and workplace safety • Access and security controls to key ICBCS systems	The group manages these risks by: • Adopting operational risk practices that assist business and IT line management in understanding their inherent risk and reducing their risk profile while seeking to maximise their operational performance and efficiency. • Monitoring and challenging the management of the business and IT operational risk profile. • Analysing incident root causes, trends and emerging threats, advising on the remediation of potential control weaknesses and recommending best practice solutions . The group continued to review and enhance its infrastructure during 2018 to ensure that both technology stability remains robust and that any system outages can be contained and managed without disrupting business materially.

Credit Risk	Credit risk is the risk of loss arising out of failure of counterparties to meet their financial or contractual obligations when due. It is composed of counterparty risk and concentration risk. • Counterparty risk is the risk of loss to the group arising from a counterparty being unwilling or unable to meet its financial or contractual obligations when due. • Credit concentration risk is the risk of loss to the group arising from an excessive concentration of exposure, inter alia, to a single counterparty or counterparty segment, an industry, a country or geography.	The group manages credit risk by: • Maintaining a culture of responsible risk taking and an established risk policy and control framework. • Identifying, assessing and measuring credit risk clearly and accurately across the group. • Defining, implementing and re-evaluating risk appetite under actual and stress conditions. • Monitoring credit risk relative to limits. • Ensuring expert scrutiny and independent approval of credit risks and their mitigation. First line responsibility for credit risk management resides with the business lines, which are in turn supported by the risk function. The group continues to manage concentration risk through transaction structures that will normally provide for over-collateralisation of exposure. Additionally, various limit frameworks constrain and control absolute gross volumes of transactions or positions.
Country Risk	Cross-border country risk is the uncertainty that obligors (including the relevant sovereign, and including the obligations of the group's branches and subsidiaries in a country) may not be able to fulfil their obligations to the group outside the host country because of political or economic conditions in the host country. The definition includes group equity investments and physical inventories owned by the group in a host country.	Country risk may be fully or partially reduced or transferred to another country through a number of mitigants. Examples of how the group manages country risk include: • Political and commercial risk insurance; • Co-financing with multilateral institutions; and • Structures to mitigate transferability and convertibility risk such as collection, collateral and margining deposits outside the jurisdiction in question.
Regulatory and Legal Risk	The risk that the group may suffer legal or regulatory sanctions, material financial loss or adverse impact on its reputation as a result of a failure to fully comply with laws, regulations, rules, standards or codes of conduct applicable to its financial services activities.	The group seeks to manage these risks by: • Working closely with UK and local regulators in all relevant jurisdictions; • Responding to new and ongoing prudential requirements as outlined by the regulator; • Continued investment in training, systems and processes to meet legal and regulatory commitments; and • Having an established governance and control framework with responsibility for the approval of new products and transactions, maintaining a prudent capital position and monitoring key legal, regulatory and tax developments. The group's capital management function ensures that regulatory capital requirements are met at all times both under business as usual conditions and under stressed conditions. The function advises senior management on the quantum and form of capital required, and when the required capital should be raised in line with business requirements. Following full compliance with its terms, the Deferred Prosecution Agreement entered into between ICBC Standard Bank Plc and the Serious Fraud Office in 2015 ended on 30 November 2018. Certain other legal proceedings currently being pursued against the group are summarised in note 2.4. All new/changed regulatory requirements were met during the year. The group delivered key MiFID II requirements early in 2018 in line with the 3 January 2018 implementation deadline. The group is tracking and implementing change programmes for key market initiatives including, European Market Infrastructure Regulation's collateral requirements; IBOR reform; and the Securities Financing and Transactions Regulation (as appropriate).

Risk	Description	Management
Business Risk	Business risk is the catch-all for residual earnings variability i.e. possible earnings variability after taking into account the effects of market risk, credit risk, structural interest rate risk and operational risk. It covers risks such as a drop in earnings due to: • Price wars, margin reduction • Failed client strategies (failure to capture new clients) • Failed financing strategy (failure to deploy the balance sheet appropriately). • An unplanned spike in costs	Business risk is managed through: • Integration with ICBC systems and processes; a key driver of the group's future growth. • Improving profitability with a strong focus on cost control while investing to grow the franchise. • Managing regulatory change deliverables to strict budgets while not compromising on requirements. Competition remains high across the group's businesses, however the group continues to leverage the strength of its shareholders to grow the client franchise and drive profitability.
Conduct Risk	The risk that intentional or unintentional business practices and behaviours will lead to poor outcomes for clients, counterparties or the markets operated in. Conduct risk may arise for example, from selling products which may not meet client needs, entering into a finance arrangement that funds activity which does not align with our values or from exhibiting behaviours that may distort the market or not meet regulatory standards.	The group manages conduct risk through: • A conduct risk framework which sets the standard of behaviour expected of all staff. • Monitoring conduct risk metrics through a global dashboard at a dedicated governing committee and providing senior managers with metrics relevant for their function. • Taking appropriate and proportionate action when an issue or incident arises and learning from these incidents through root cause analysis. • Reviewing all significant new products and transactions, assessing the intended outcome and end to end life cycle of the product/transaction. Conduct risk remains a focus for all firms in the financial services industry and regulators have also expressed their commitment to scrutinise activities with regards to conduct risk and culture. Throughout 2018 the group has embedded the changes implemented in the prior year and assessed how non-financial misconduct is captured and managed within the organisation, ensuring that the group adopts the best market practices and operates in line with regulatory expectations.
People Risk	The risk that the group fails to maintain organisational skills, capability, resilience and capacity levels in response to internal and/or external change, adversely affecting the group's operations and its ability to deliver on its strategic aims.	The group manages people risk by: • Investing in training and development assessed on a needs basis. • Focused initiatives to attract and retain talent. • Reinforcing behaviours that drive the best outcomes for clients and employees. • Effective remuneration structures to support performance-based reward. The group has focused on Management Essentials training in 2018 in line with an emphasis on employee upskilling. A Henley Business School Programme has been implemented as a tool to develop leadership capability in the group.
Environmental Risk	Financial losses suffered due to environmental damage resulting directly from the group's activities, products and services.	The main driver of this risk is the group's physical commodities business. The group mitigates this risk by: • Legal review of the relevant environmental legislation. • Carrying out due diligence on vessels and storage facilities used, with specific criteria to be met before engaging providers. • Contractual protections on certain types of business (e.g. indemnities from the group's repo counterparties). • Insurance - as part of the insurance waterfall, ICBCS insurance would be the last in line to be exposed to any liability for environmental damage. • An emergency response plan is in place should any energy incident occur. As the group entered into a transaction during 2018 involving financing oil in territorial waters, extensive environmental risk modelling of potential liability was undertaken using a leading actuarial consulting firm. The analysis was incorporated into the extensive due diligence and governance process that preceded execution of the transaction.

Reputational Risk	The potential or actual damage to the group's image which may impair the profitability and/or sustainability of its business. Such damage may result from a breakdown of trust, confidence or business relationships on the part of customers, counterparties, shareholders, investors or regulators that can adversely affect the group's ability to maintain existing or generate new business relationships and continued access to sources of funding.	The group has an established governance framework covering the introduction of new products, clients and specific transactions. The framework is designed to assess the potential reputational risk that may be introduced to the group through the use of a product, transacting with a client or executing a specific transaction. If reputational risk is deemed to be outside of the group's tolerance as articulated through the group's risk appetite statement, action will be taken to mitigate the impact to the group. Such action may include: • Terminating a client relationship; or • Declining participation in a transaction. The group continued to manage reputational risk through its established governance model during 2018.
Financial Crime Risk	Financial Crime Risk consists of: • The risk that criminal parties will abuse the products and services of the group; • The risk that regulators/law enforcement authorities will apply civil sanctions, civil penalties, and/or criminal penalties against the group for failure to comply with anti-money laundering , counter terrorist financing, anti-bribery & corruption, tax evasion, fraud, slavery and sanctions laws, regulations, codes of conduct and regulatory/industry standards of good practice that are applicable to the group's activities; and The risk that through the markets and/or through media outlets, the good reputation of the group is harmed by unfavourable adverse media or market word-of-mouth, as a result of financial crime risk events, allegations, or the actions of regulators/law enforcement authorities.	The group has an established financial crime risk management framework. This framework consists of a suite of systems and controls which can be summarised under the following categories: • "Tone from the top", including Board mandated financial crime risk appetite statement; • Robust governance encompassing a three lines of defence operating model; • Policies, procedures and guidance; • Clear roles and responsibilities; • Management information and reporting; • Risk assessments, monitoring and assurance; • Suspicious activity monitoring and reporting; and • Training and communications.

Business environment

Corporate social responsibility

The way we do business; operating in ways that enhance society and minimise our impact on the environment

With business activities spanning global commodities markets, the group strives to create a corporate conscience that extends from social impact to environmental impact and beyond; balancing economic goals with the needs of society, our people and preservation of the environment.

The group defines corporate social responsibility (CSR) as *the way we do business; operating in ways that enhance society and minimise our impact on the environment*. The group's CSR approach encompasses 4 pillars: environment, society, our people and ethics. Within each of these sit a number of focus areas with dedicated employee representatives leading initiatives which help to meet the group's CSR goals.

The group's culture committee has responsibility for monitoring performance of the CSR model, reports to the Board culture working group and subsequently the Board itself. In this way, the group ensures Board directors can monitor progress against agreed CSR goals.

The group's CSR activities take a number of forms. Examples include:

Environment	• Within the group's risk framework, decision makers consider the impact, directly or indirectly, that a business decision may have on the environment at the time of execution and in the future. • The group seeks to create a sustainable working environment through its ways of working and by reducing the impact generated by its physical office buildings and associated footprint, for example reducing paper and printing, responsible waste management and recycling. • The group invests in long-lasting infrastructure and seeks to maintain third-party relationships, reducing waste associated with these changes wherever possible.
Society	• As a frontier bank, the group contributes as a partner to clients in frontier and emerging markets; providing the resources needed to grow and in turn create jobs and support economic development. • The group stimulates the economy as a purchaser of goods and services. Suppliers are subject to a strict vetting process and must conform to the group's conduct declaration to ensure the right kind of products and services are sourced. The group utilises its third party risk management framework (TPRM) to ensure all suppliers are screened and reviewed, and meet the highest ethical standards. • The group enables employees to support the local community with a dedicated charity partner, whose work is focused on the London community and area, as selected by employees through a nomination and

		voting process every three years.
Our People	•	The group makes an important contribution as a global employer which offers fair working conditions, career opportunities, varieties of business experience, apprenticeship training and on-the-job learning. For 2018, the group employed 987 employees worldwide.
	•	The group actively supports individual employees' charity fundraising efforts through a £ for £ matching scheme and matched over US$3,000 in personal employee donations in 2018.
	•	The group promotes a proactive approach to managing health and wellbeing, supporting employees through benefits including gym membership subsidies, buying and selling of annual leave, mental health awareness sessions, guest speakers and supporting various sporting charity events, for example JP Morgan charity run, Tough Mudder.
Ethics	•	The group is committed to combating slavery in its supply chain and suppliers are expected to have fully implemented policies and procedures which are designed to, and are reasonably expected to, prevent slavery, servitude, forced labour, human trafficking or similar practices from occurring within their business or supply chains.
	•	The group conducts its tax affairs in a manner that is consistent with its core values and has published its tax strategy on its website. The group delivers fully on its tax compliance, reporting and disclosure obligations, including cooperating fully with all anti-tax evasion and tax transparency initiatives, acting with the utmost integrity in tax planning matters, and maintaining transparent and honest relationships with tax authorities.

Sustainability

Committed to being a bank that makes a positive contribution to society, our people and the world we live in; now and for the future

As a responsible organisation whose business activity is focused on natural resources, the group is conscious of the need to balance the needs of the present with the responsibility to ensure society's needs are able to be met into the future.

The group supports sustainability in the following ways:

- Robust risk framework: Environmental risk that may arise from business activities, products and services is considered on a regular basis by a number of internal governance forums and Board sub-committees. These include the new products committee, counterparty risk management committee and the transaction acceptance committee, and they consider the impact the group may have, directly or indirectly, on the environment and communities through the business it conducts with third parties. Further information on environmental risk is available in the principal risks update on page 14 of this report.

- Creating a sustainable working environment: Carbon emissions, energy, waste, water and paper are the major environmental factors the group can influence. Reducing business travel through remote working and audio-conferencing technology is also a focus. Consideration is given to key elements of the design and maintenance of all offices, including use of LED lighting, low consumption office equipment, movement and light level sensors, and daylight harvesting techniques to reduce energy usage. Central recycling facilities are in place across all offices and centralised printing hub solutions reduce unintentional printing and paper waste.
- Physical office building footprint: As the largest office in terms of headcount and floor space, the group's head office in central London has the most significant environmental footprint. The building has an environmental BREEAM Rating of Excellent and an Energy Performance Certificate (EPC) Rating of B, placing it among the top performing UK buildings for sustainability and energy efficiency. Other initiatives, such as beehives and electric car chargers, are in place to help offset the environmental footprint of the group and its employees.
- Investment in long-lasting infrastructure and relationships: The procurement team seek to minimise the supply chain footprint of the group through sourcing locally where possible and developing long term relationships with quality suppliers who espouse similar sustainability goals. Further, the group invests in technology and systems that will endure over the long term rather than simply addressing short-term needs, wherever possible.

Employees

Upholding the group's values across all stages of the employee life cycle

The quality and expertise of the group's employees is critical to its success. The group values and promotes diversity, seeking to ensure that all individuals are treated fairly and with dignity and respect. The group's diverse employee base is critical to its success and in 2018 this was encapsulated by the launch of the group's vision for an inclusive bank; *be yourself, succeed together.*

Through the operation of the equal opportunities policy, the group seeks to ensure that all employees and potential employees are treated equally and assessed on their own individual abilities and merits. A recruitment and selection framework is in place that facilitates the selection of the right candidate for the right position, considering experience, expertise and background. Furthermore, remuneration structures are competitive and reward performance fairly and equitably. More information can be found in the remuneration policy statement on pages 25 to 29 of this report. The group also invests in employee training and development programs, delivers leadership coaching and implements succession planning for key roles.

The wellbeing of employees is a responsibility the group takes seriously with health and safety policies in place, specific to all operating regions. The group is committed to creating a safety culture throughout the organisation that recognises the importance and value of effective safety management.

Financial crime compliance

Embedding financial crime compliance activity throughout the organisation

The group is committed to operating professionally and with integrity to maintain the trust of all stakeholders. To meet these commitments, the group has a dedicated financial crime compliance function which operates to oversee matters relating to financial crime prevention. The team employs a risk-based approach to evaluate financial crime risk and to determine whether controls are operating effectively.

A high level of importance is assigned to the role that employees play in safeguarding the group's integrity, including the prevention of financial crime. As such, all employees are required to uphold the group's financial crime policies and procedures and undergo financial crime compliance training in various forms including face-to-face, induction training and e-learning offerings. Topics cover all areas of financial crime risk, including money laundering, terrorist financing, bribery, corruption, fraud, slavery, sanctions violations and the facilitation of tax evasion.

During 2018, the group worked to further enhance its financial crime prevention framework. A key improvement was the successful implementation of a SWIFT payments screening system (COMPASS, which utilises the market leading Fircosoft sanctions screening software) and business process in London. Previously, the group outsourced SWIFT payments screening to Standard Bank of South Africa which utilised another system, Safewatch.

Summary

Performance in 2018 was in line with the broader Global Markets industry performance. The challenging conditions that evolved across emerging markets during the year weighed on group performance, resulting in a full year profit result that fell short of expectations. Despite this, the group remains well positioned in the market with a product and service offering that both new and existing clients value, as demonstrated by increased client-based revenues during the year.

Investment made in 2018 to build out the Energy business is expected to drive growth in the Commodities business over coming years. The group's growing capabilities in energy are a key differentiator versus peers and are increasingly recognised by clients as market leading.

The FICE business will continue to focus on building recurring and stable revenue streams from its client base through high quality flow and financing business. This will, in turn, gradually reduce the relative contribution of less predictable revenue sources and accordingly improve the quality of earnings for the group over the medium term.

Integration with ICBC group will remain a driving force for action in 2019, with further opportunities to leverage operational and business capabilities being explored. The management team remain dedicated to pursuing integration and cooperation in a meaningful way as part of the ICBC group.

By order of the Board

W Wang

Chairman

21 February 2019

20 Gresham Street

London EC2V 7JE

Registered in England and Wales No. 2130447

Directors' report

The directors present their report and financial statements for the year ended 31 December 2018 for ICBC Standard Bank Plc ('the company') and its subsidiaries (together 'the group').

In accordance with Section 414A of the Companies Act 2006, the directors have presented a strategic report on pages 3 to 20 of this annual report. This contains a review of the group's businesses, a description of the principal risks and uncertainties facing the group and a description of its future outlook in accordance with section 414C of the Companies Act 2006.

Going concern basis

The financial statements are prepared on a going concern basis, as the directors are satisfied that the company and group have the resources to continue in business for the foreseeable future. In making this assessment, the directors have considered a wide range of information relating to present and future conditions, including the potential impact of Brexit. Further information relevant to the assessment is provided in the following sections of the financial statements:

- principal activities, strategic direction and challenges and uncertainties are described in the strategic report;
- a financial summary, including a review of the income statement and balance sheet, is provided in the strategic report; and
- objectives, policies and processes for managing credit, liquidity and market risk, and the group's approach to capital management and allocation, are described in note 37.

Industrial and Commercial Bank of China Limited (ICBC) has a controlling interest of 60% in the company with the balance of 40% owned by Standard Bank Group (SBG) via its wholly owned subsidiary, Standard Bank London Holdings Limited.

The group maintains a strong capital and liquidity position. In addition, ICBC has issued a statement of support in favour of the company, which remains in force until ICBC ceases to be the controlling shareholder of the group:

> *We confirm ICBC Standard Bank Plc (ICBCS) is viewed as a long-term investment and is an integral part of our overall operational strategy. Our goal is to develop ICBCS into a major link in our international network, and therefore, we undertake to support its development and growth. ICBC hereby confirms that it intends to financially support ICBCS in ensuring that it meets all of its financial obligations as they fall due, including the maintenance of a minimum capital adequacy level in ICBCS. Specifically, ICBC intends to provide funding and capital support to ICBCS and commits its intention to subscribe for certain 'qualifying instruments' as and when ICBC receives written notice from ICBCS that ICBCS' capital and reserve funds amount to (or will foreseeably in the near term amount to) less than the minimum required amount of capital and reserve funds as determined in accordance with the rules and regulations of the Prudential Regulation Authority (or its successor).*

Having considered the factors set out above, the company and group continue to adopt the going concern basis in preparing the annual financial statements.

Dividends

The directors do not recommend the payment of a dividend.

Internal control and financial reporting

The directors who held office at the date of approval of this report confirm that, as far as they are each aware, there is no relevant audit information of which the group's auditors are unaware, and that each director has taken all steps that they ought to have taken as directors to make them aware of any relevant audit information and to establish that the group's auditors are aware of that information.

The directors are responsible for internal control in the group and for reviewing its effectiveness. Procedures have been designed for safeguarding assets against unauthorised use or disposition; for maintaining proper accounting records; and for the reliability of financial information used within the business or for publication. Such procedures are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement, errors, losses or fraud.

The procedures that the directors have established are designed to provide effective internal control within the group.

Such procedures for the ongoing identification, evaluation and management of the significant risks faced by the group have been in place throughout the year and up to 21 February 2019, the date of approval of the consolidated annual report for the year ended 31 December 2018.

The directors and senior management of the group have adopted policies which set out the Board's attitude to risk and internal control. Key risks identified by the directors are formally reviewed and assessed at least once a year by the Board, in addition to which key business risks are identified, evaluated and managed by operating management on an ongoing basis by means of procedures such as physical controls, credit and other authorisation limits and segregation of duties.

The Board also receives regular reports on any risk matters that need to be brought to its attention. Significant risks identified in connection with the development of new activities are subject to consideration by the Board.

There are well established budgeting procedures in place and reports are presented regularly to the Board detailing the results of each principal business unit, variances against budget and prior year, and other performance data.

The effectiveness of the internal control system is reviewed regularly by the Board and the Board audit committee, which also receives reports of reviews undertaken by the internal audit function as well as reports from the external auditors which include observations on internal control matters that they have identified. Certain aspects of the system of internal control are also subject to regulatory supervision, the results of which are monitored closely by the Board.

Committees

The Board delegates certain functions and responsibilities to the following committees.

Governance committee

This committee is responsible for the day-to-day management of the group. Subject to the overall authority of the Board, the committee meets regularly to develop business strategy, initiate and review strategic initiatives, review and approve annual business plans, monitor financial performance against budget, monitor risk and all matters related to regulatory responsibilities and review the activities of its sub-committees.

Membership: The committee comprises executive directors and certain senior executives, currently, M van der Spuy (chair and chief executive), B Jin (alternate chair and president), N Auret, M Basten, I Dalglish, R Fielder, P Hacker, G Haller, P Hurley, H Luo, A Maartens, A Sticpewich, S Wang and V Yu.

Y Hu served on this committee during the period until resigning as a director of the company.

The major sub-committees supporting the governance committee in fulfilling its responsibilities are the capital management committee, risk management committee, regulatory compliance committee, counterparty risk management committee, new products and significant transactions approval committee, transaction acceptance committee, integration and change committee, culture committee, outsourced services committee and other regional management committees.

Board audit committee

This independent non-executive board committee monitors the processes for identifying, evaluating and managing risks and controls. In particular, this includes the quality, integrity and reliability of financial and accounting control systems. The committee's other responsibilities are to review the scope of work of external and internal audit, to receive regular reports from internal audit and the external auditors, KPMG LLP, and to review the financial statements focusing in particular on accounting policies, and areas of management judgement and estimates. The committee meets quarterly.

The audit committee analysed and discussed the results of the inspection of KPMG's 2017 audit by the FRC's Audit Quality Review team. The discussions gave no cause for concern regarding the FRC's observations.

Membership: J E Eden (chair), A W Simmonds and R U Weerasekera.

E J Giera served on this committee during the period until resigning as a director of the company.

Board risk management committee

This non-executive board committee provides an independent review and challenge to the group's risk and compliance policies and the composition of the risk portfolio, its concentrations and the risk-taking decisions of the group, covering all aspects of risk – market, credit, country, liquidity, operational, business and reputational. The committee is also responsible for providing independent and objective oversight of compliance across the group. The committee complements the audit committee which also studies, inter alia, risk controls and their operation, but from a different perspective. The committee meets quarterly.

Membership: A W Simmonds (chair), J E Eden, A Hall, B J Kruger, L Wang, W Wang and R U Weerasekera.

E J Giera served on this committee during the period until resigning as a director of the company.

Board remuneration committee

This non-executive board committee approves remuneration policy and long-term incentive schemes for staff, sets the remuneration of executive directors and other senior executives, and approves guidelines for the group's annual salary and incentive reviews. The committee also acts in an advisory capacity to review and provide feedback to shareholders on proposed candidates for director appointments, including consideration of knowledge, skills and experience.

Membership: R U Weerasekera (chair), J E Eden, R Han, B J Kruger, L Wang and W Wang.

Board integration committee

This board committee was constituted in order to promote the strategic integration of the group within the ICBC Group, and cooperation with SBG.

Membership: W Wang (chair), R Han, B Jin, B J Kruger, A W Simmonds, M M van der Spuy, H Wang and S Wang.

Y Hu and E J Giera served on this committee during the period until resigning as directors of the company.

Transactions with directors and related parties

There are no loans, arrangements or agreements that require disclosure under the Companies Act 2006 or International Accounting Standard 24 *Related Party Disclosures*, regarding transactions with related parties, other than those shown in the notes to the financial statements.

Directors' liability insurance and indemnities

The group maintained directors' and officers' liability insurance during the twelve months ended 31 December 2018. The company has entered into qualifying third party indemnity arrangements for the benefit of all its directors in a form and scope which comply with the requirements of the Companies Act 2006 and which were in force throughout the year and remain in force.

Employees

It is the group's policy to ensure that all employees and job applicants are given equal opportunities and that they do not face discrimination on the grounds of ethnic origin, colour, nationality, marital, same sex partnership or family status, religion, sex, age, sexual orientation, gender reassignment or disability. Should an employee become disabled during his or her career with the group, reasonable adjustments will be made where needed.

Employee involvement in the group's business is encouraged and information is disseminated through communication meetings and internal staff publications. A Board culture working group (comprising executive and non-executive Directors) has met throughout 2018 and has focused on employee matters such as reviewing the results and management's response to the 2018 employee engagement survey, seeking direct non-executive interaction with employees, and providing oversight of various cultural initiatives as part of its wider culture agenda.

The group recognises its responsibilities to provide a safe working environment for all its staff and measures are in place to ensure that the Health and Safety at Work regulations are observed.

Directors and directors' interests

The directors who held office during the course of 2018 or who hold office as at the date of this report are as follows:

Current directors:

J E Eden	(Independent non-executive director)
A Hall	(Non-executive director)
R Han	(Non-executive director)
B Jin	(Appointed as President and executive director on 5 October 2018)
B J Kruger	(Non-executive director)
A W Simmonds	(Independent non-executive director)
M M van der Spuy	(Chief executive and executive director)

H Wang	(Non-executive director)
L Wang	(Non-executive director)
S Wang	(Executive director)
W Wang	(Non-executive director and Chairman)
R U Weerasekera	(Independent non-executive director and Senior Independent Director)
Former directors:	
E J Giera	(Resigned as an independent non-executive director on 31 December 2018)
Y Hu	(Resigned as President and executive director on 5 October 2018)

None of the directors held any beneficial interest in the ordinary share capital of the company during the year or at 31 December 2018.

Auditor

KPMG LLP has indicated its willingness to continue as auditor of the group. Accordingly, a resolution is to be proposed at the next annual general meeting for the re-appointment of KPMG LLP as auditor of the group.

By order of the Board

R Otterson

R Otterson

Secretary

21 February 2019

20 Gresham Street

London EC2V 7JE

Registered in England and Wales No. 2130447

Remuneration policy statement

1. Introduction

This statement is intended to provide stakeholders with an understanding of the group's remuneration philosophy and practices as at February 2019.

At the heart of the group's strategy is the value placed on the group's people as a primary differentiator. Highly skilled and experienced people, both business generators and enablers, are essential in delivering sustainable growth for shareholders within prudent risk boundaries.

A strategic focus is, therefore, to continually build the depth, breadth and calibre of human capital required to deliver group strategy. Effective leadership and reward of the group's human capital is considered a core competency.

The primary objective of the remuneration strategy is to implement designs and practices that only reward value delivered on a pay for performance basis within the context of control management and sustainability, adjusted appropriately for risk assumed.

A second objective of the remuneration strategy is to be competitive in remuneration in the global marketplace for skills. The group seeks to reward all its people in a manner that is fair, both to the individual and to shareholders, while avoiding a bonus-centric culture that distorts motivations and may encourage excessive risk-taking.

Promoting effective teamwork is a third vital component of remuneration strategy. Remuneration scheme designs and performance evaluation processes must motivate strong and sustained performance within teams.

Within this wider strategic context, the group's Board remuneration committee (Remco) seeks to design and implement structures and practices that are specifically tailored to the group's business strategy.

Remco continues to work with local regulators to ensure that the group's remuneration philosophy and practices meet the developing requirements, maintain market competitiveness and are consistent with, and promote, effective risk management.

2. Principles that underpin our remuneration strategy

The key principles that underpin the group's remuneration strategy and determine individual reward are as follows:

- The group rewards sustainable, long-term business results.
- Remuneration structures encourage a focus on achieving agreed deliverables and behaviours, rather than hours worked.
- Individual rewards are determined according to group, business unit and individual performance.
- The principles of individual reward differentiation are transparent, and are based on quantitative and behavioural performance as well as retention.
- The reward focus is on total reward, being fixed and variable remuneration. The group seeks to be competitive in both elements, but annual incentives are not a function of a guaranteed package.
- The group creates an appropriate balance between the fixed pay and variable elements of total reward. A deferral policy affects annual incentives above pre-determined levels.
- Vesting conditions attached to deferred awards and long-term incentives make provision for malus (forfeiture) of unvested awards.
- Awards are subject to clawback where required under FCA and PRA regulations.
- The group determines all elements of pay based on an understanding of market remuneration levels and internal relative remuneration.
- Individual performance appraisals identify talent at all levels in the organisation, enabling fair and competitive remuneration.
- The group does not discriminate between employees based on diversity or any protected characteristic.

- The group rewards experience and performance relative to others doing similar work and performance against the market.
- Remuneration designs comply with all legal and regulatory requirements.
- Ongoing oversight to eliminate any potential for irresponsible risk taking by individuals and to ensure risk adjustment forms an intrinsic part of remuneration design.

Remco is committed to appropriate disclosure of reward principles and structures to all relevant stakeholders, including employees and shareholders. This is aimed at enabling stakeholders to make a reasonable assessment of reward strategy, structures and associated governance processes.

3. Remuneration strategy

As an integral part of growing and fortifying the group's human capital, Remco regularly reviews the group's remuneration policies, structures and practices, to ensure the principles behind the reward strategy and the elements of the strategy itself, are effective.

The group's remuneration strategy includes the following:

- Reward strategies and remuneration down to an individual level must enable the group, in a highly competitive environment, to attract, motivate and retain high-calibre people at all levels of the organisation.
- Remuneration designs must motivate strong and sustained performance in teams, but also promote risk management in line with the group's stated strategy and risk tolerance.
- The balance between fixed and variable pay is appropriately structured according to seniority and roles, with particular care being given to risk and control areas. The intention is to provide both total compensation, and its composition, at market-competitive levels, drawing on relevant information from various sources, including external advisers.
- Remco annually approves the group's bonus pools and oversees the principles applied in allocating these pools to business units and individual employees. These pools are shaped by a combination of group and business unit profitability and multi-year financial metrics, taking account of capital utilised, risks assumed and an evaluation of the business area's future development and growth prospects.
- Individual performance is measured according to an appropriate range of absolute and relative criteria, including the person's quantitative delivery against specific metrics, qualitative individual behaviour and competitive performance. This measurement is integral to the group's remuneration practices and underpins strong differentiation in individual pay.
- A portion of discretionary annual incentive awards, typically above a certain threshold, is deferred into a vehicle with multi-year vesting, and malus (forfeiture) provisions. Clawback also applies to awards where required under FCA and PRA regulations.
- A significant portion of senior management reward is awarded in deferred instruments.
- No remuneration schemes are linked by formula to revenue generation.
- No multi-year guaranteed minimum bonus arrangements are permitted.
- Transparency on remuneration designs and processes is maintained with employees and increasingly with shareholders.
- Wherever available and relevant, market information is used to inform remuneration decisions.
- Stakeholders must be enabled to make a reasonable assessment of reward practices, and members of Remco have unrestricted access to information that informs their independent judgements on the possible effects that remuneration may have on compliance with risk, regulatory and behavioural controls across the group.
- The group aims to pay a comparable rate of pay against the local market for both fixed and variable compensation, but needs to ensure positioning against local markets is fair across geographies.

This strategy forms the basis for reward processes within the group and all reward designs and practices are consistent with this strategy.

4. Discretionary incentive deferral

The group operates a deferred discretionary incentive arrangement, the purpose of which is to strengthen the retention effect of incentive remuneration and also to enable the ICBCS Group to comply with regulatory requirements, including those in relation to deferrals and in relation to malus and clawback (see below).

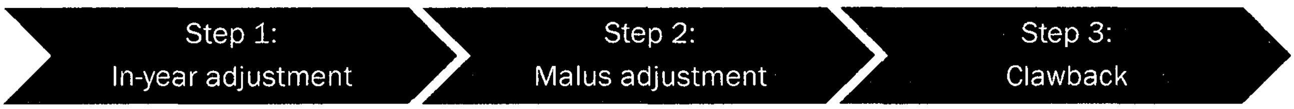
Employees identified as material risk takers (MRTs) as categorised under the qualitative and quantitative criteria of the UK FCA/PRA remuneration regulations, are subject to deferral conditions for any discretionary incentive awarded. Variable remuneration as a ratio of fixed is limited to 200% (control functions capped at 1:1) and the percentage deferred is 40% or 60%, depending upon the level of incentive they receive, with a vesting period of 3, 5 or 7 years. 50% of both deferred and non-deferred variable remuneration is awarded in share linked instruments and subject to a 6/12 month retention period.

For non-MRTs, a proportion of the incentive may be deferred (delivered as deferred cash and share linked instruments, in a 50:50 ratio, with a vesting period of 3 years, increasing on a marginal basis from 30% at US$150,000 to 45% deferral for the highest awards.

5. Adjustment of awards, including malus and clawback

Discretionary incentive awards will be considered for risk and performance adjustment in the case of an adjustment event (see section 7 below). This could include malus during the vesting period of any deferred portion of an award and, for MRTs, clawback after vesting of any portion of an award (see below). Where appropriate (and subject to US tax laws, where applicable), payment or vesting of an award (or any part of an award) may also be delayed for so long as Remco considers necessary or desirable, for example, if Remco considers that malus and/or clawback may apply but a decision has not yet been reached.

After identification of an adjustment event, Remco will identify any impacted individuals before considering the size of any potential adjustment on an individual basis and which awards (if any) should be impacted based on the type of award and the date of the award.



All variable remuneration, whether vested (for MRTs) or unvested, may, at Remco's discretion, be subject to risk and performance adjustment. In general, where possible, the order in which variable remuneration for individuals shall be considered for adjustment is as follows:

Step 1. Current year variable remuneration – where the adjustment event occurs prior to the payment of an award from the current performance year, where appropriate, any such award may be adjusted. This is sometimes referred to as in-year adjustment and shall normally be considered first when an adjustment is deemed appropriate by Remco.

An in-year adjustment relates to the reduction or cancellation of a discretionary incentive award associated with the current performance year.

Step 2. Deferred unvested variable remuneration (malus) – where the adjustment event occurs or comes to light in a performance period and the deferred portion of one or more previous awards are not yet vested, risk and performance adjustment by way of malus provisions (i.e. cancellation/reduction of unvested deferred variable pay awards) may be applied by Remco. A malus adjustment shall normally be considered second when an adjustment is deemed appropriate by Remco.

A malus adjustment will normally only be considered by the group for events that are material enough that a reduction of any in-year bonus to zero (US$ nil) is deemed insufficient by Remco. The following is a non-exhaustive list of situations which could potentially lead to malus adjustment:

- Adjustment event (e.g. material conduct breach, financial crime or compliance breach) relates to prior years
- Where individuals are responsible/accountable/associated with significant current year revenue losses suffered including an estimate of any reputational losses
- Adjustment event relates to former employees with unvested stock, Remco will continue to monitor the evolving regulatory landscape as it pertains to remuneration and will respond constructively as appropriate.

Step 3. Vested or paid variable remuneration (clawback) – where an adjustment event occurs or comes to light in a performance period and the deferred portion of one or more previous awards has already vested or been paid (including in the case of a former employee who has no unvested stock), risk and performance adjustment by way of clawback provisions may be applied for MRTs. Under clawback, the group will consider recouping /reclaiming paid awards during the clawback period as set out in section 6 below. Clawback shall normally be considered last when an adjustment is deemed necessary by Remco and/or where the adjustment event is deemed by Remco to have severely impacted its stability.

Clawback will normally only be considered for events that are material enough such that a reduction of any in-year bonus to zero (US$ nil) and the cancellation of any/all unvested deferred remuneration (malus) is deemed insufficient by Remco, or for former employees with no unvested stock.

When clawback applies, an impacted individual will be required to repay to his/her employer or former employer the applicable amount (as determined by Remco) and/or, where applicable/permitted, the employer may deduct amounts from salary or other payments due.

6. Consequences of malus and clawback

If malus applies to an award, Remco will decide whether:

- the award will lapse wholly or in part (at a time and to an extent it determines);
- vesting or the end of any retention period will be delayed until any action or investigation is completed; and/or
- additional conditions determined by Remco will be imposed on the vesting or exercise of the award.

If clawback applies to an award, the impacted individual must pay to, or to the order of, the employer an amount to be determined by Remco, not exceeding the amount of any payout received by the individual in respect of the award.

In addition, Remco may decide that any award which might have been granted, vested or paid to the impacted individual will be reduced, not awarded or not vest.

The clawback period for an award will normally end seven years from the date of grant of the award. However, the group may extend the clawback period to up to 10 years from the date of grant by giving notice to the impacted individual no more than seven years after the date of the award where:

- the individual performs a PRA senior management function (as those terms are defined for the purposes of the PRA Rulebook); and
- the group has commenced an investigation into matters which it considers could potentially lead to the application of clawback were it not for the expiry of the clawback period; or
- the group has been notified by a regulatory authority (including an overseas regulatory authority) that an investigation has been commenced into matters which Remco considers could potentially lead to the application of clawback were it not for the expiry of the clawback period.

7. Adjustment events

Below is a non-exhaustive list of adjustment events relevant to consideration for potential adjustment of individual discretionary incentive awards (whether in-year adjustment, malus and/or clawback).

7.1 Fit and proper / Conduct

- a breach of the applicable code of conduct (COCON) rules as defined by the FCA or failure to meet appropriate standards of fitness or propriety;
- inappropriate conduct which results in significant losses, fines or penalties to the group or a business line of the group;
- any act of misconduct, fraud or gross negligence or any other act that would justify, or would have been justified had the individual still been employed, summary termination of their employment (which may include but is not limited to breaches of financial crime or anti-bribery and corruption policies, other compliance policies, and/ or the APER principles); or
- a significant or repeated breach of the group's values.

7.2 Control breaches

- significant or repeated control breaches (including limit breaches, repeat unsatisfactory audits and materially significant unsatisfactory audits) or breaches of the group's policies and procedures (for example, IT security).

7.3 Risk management

- a significant failure of risk management with respect to risk management standards, policies and procedures of the group or a business line of the group; or
- significant losses suffered from risks including credit and country risk, equity risk, market risk, trading related risk and operational risks and an estimate of any reputational losses.

7.4 Financial performance

- a material downturn in financial performance of the firm or a business unit; or
- material misstatement of the group's or a business line of the group's financial results.

7.5 Any other circumstances required by local regulatory obligations to which the group or any business line of the group is subject.

8. Review

Remco will continue to monitor the evolving regulatory landscape as it pertains to remuneration and will respond constructively as appropriate.

Statement of directors' responsibilities

The directors are responsible for preparing the strategic report, directors' report and the group and company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and company financial statements for each financial year. Under that law, the directors are required to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and applicable law, and have elected to prepare the company financial statements on the same basis.

Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of their profit or loss for that period. In preparing each of the group and company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the group and company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the group or company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions, and disclose with reasonable accuracy at any time the financial position of the company and the group, and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and the group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a strategic report and directors' report that complies with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the strategic report and directors' report include a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

R. Otterson

R Otterson
Secretary
21 February 2019

20 Gresham Street
London EC2V 7JE

Registered in England and Wales No. 2130447

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Independent auditor's report

to the members of ICBC Standard Bank Plc

1. Our opinion is unmodified

We have audited the financial statements of ICBC Standard Bank Plc ("the Company") for the year ended 31 December 2018 which comprise the consolidated balance sheet, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in shareholders' equity, the consolidated statement of cash flows, the company balance sheet, the company statement of changes in shareholders' equity, the company statement of cash flows, and the related notes, including the accounting policies in note 1.

In our opinion:

— the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2018 and of the Group's loss for the year then ended;

— the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);

— the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and

— the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the shareholders on 30 January 1992. The period of total uninterrupted engagement is for the 27 financial years ended 31 December 2018. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview		
Materiality: Group financial statements as a whole	$5.6m (2017: $6.5m) 1.0% (2017: 1.3%) of total revenues	
Coverage	99% (2017: 99%) of Group total revenues	
Key audit matters		**vs 2017**
Recurring risks applying to both the Group and parent company	Valuation of level 3 financial instruments	◄►
	IT – privileged access	◄►
	Recognition of day 1 profit and loss	▲
	Litigations and claims	▼
Event driven	**New:** Brexit	

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
The impact of uncertainties due to the UK exiting the European Union on our audit *Refer to page 7 and 11(Strategic Report), and page 46, 110 (financial disclosures)*	***Unprecedented levels of uncertainty:*** All audits assess and challenge the reasonableness of estimates, in particular as described in the valuation of level 3 financial instruments below, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Group's future prospects and performance. Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: — **Our Brexit knowledge:** We considered the directors' assessment of Brexit-related sources of risk for the Group's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks; — **Sensitivity analysis:** When addressing the valuation of level 3 financial instruments and other areas that depend on forecasts, we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty; — **Assessing transparency:** As well as assessing individual disclosures as part of our procedures on the valuation of level 3 financial instruments we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks. **Our results** — As reported under the valuation of level 3 financial instruments (below), we found the resulting estimates and related disclosures relating to the valuation of level 3 financial instruments and disclosures in relation to uncertainty due to Brexit to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

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	The risk	Our response
Valuation of level 3 financial instruments Financial assets – 2018: $248.0 million; 2017: $236.1 million Financial liabilities – 2018: $485.1 million; 2017: $409.3 million *Refer to page 49 – 60 and 70 (accounting policy) and pages 87 - 91 (financial disclosures)*	**Subjective estimate:** Financial assets and financial liabilities categorised as level 3 are those where significant unobservable inputs have been used in the valuation techniques to measure fair value. There is a significant risk associated with level 3 financial instruments due to the use of valuation techniques which often involve the exercise of judgement and the use of assumptions and estimates in management's determination of proxy methodologies used in the valuation.	Our procedures included: — **Controls operation:** We tested the Group's controls over pricing of level 3 financial instruments including price verification controls by the Group's independent function over the appropriateness of pricing sources and estimates, the validation of models by the Group's independent function and the controls over valuation adjustments including own and counterparty creditworthiness and funding costs; — **Methodology choice:** We involved our valuation specialists to assess the reasonableness of valuation methodologies and assumptions, and appropriateness of models used in calculating the fair value of a sample of level 3 financial instruments; — **Independent calculations:** Using our valuation specialists we independently priced a sample of level 3 financial instruments and assessed whether proxy inputs used by the Group were reasonable. **Our results** — We considered the judgements in proxy methodologies used in the valuation of level 3 financial instruments to be acceptable (2017: acceptable).
IT - Privileged access	**Inappropriate access:** Privileged access users are those with administrative rights to applications. The Group's key financial reporting processes are dependent on the effectiveness of controls around privileged user access protecting the Group's information systems. Weaknesses in these access controls could result in the financial and reporting records being materially misstated. There is a significant risk over privileged access to production, privileged users roles and responsibilities, utility tools and the monitoring of privileged user activities.	Our procedures included: — **Controls operation:** We tested the design and operating effectiveness of privileged access controls over relevant applications and systems. This included controls administered via the Group's IT security tools for: creation, modification, removal and recertification of privileged access rights; including the logging and monitoring of privileged user access. We also tested the design of controls over the governance and monitoring of privileged user activities; — **Evaluation of privileged rights:** We evaluated the rationale of user accounts with privileged access rights and considered the impact of such instances on in-scope applications. **Our results** — We found the privileged access of users for applications related to key financial reporting processes to be acceptable (2017: acceptable).

	The risk	Our response
Revenue recognition on significant transactions that result in material day 1 revenue *Refer to page 64 - 65 (accounting policy)*	**Inappropriate revenue recognition:** Day 1 profit and loss is recognised on the initial acquisition or origination of a financial asset or financial liability using observable pricing and closeout adjustments. Structured trades may require more judgement particularly when more complex valuation inputs are used. The risk is that the recognition of day 1 profit or loss arising from such trades is inappropriately recognised.	Our procedures included: — **Controls operation:** We tested the design and operating effectiveness of controls over: - Identification of trades with significant Day 1 profit or loss; and - The Group's review of trades with significant profit or loss (or structure) for compliance with the requirements of the standard including consideration of inputs (observability), appropriateness of model, and valuation adjustments, as applicable; — **Challenge of specific transactions:** For a selection of transactions with a significant profit or loss, we assessed whether the revenue treatment adopted by the Group is in line with the relevant accounting standard, including testing for observability of the key inputs and that any day 1 gain or loss (net of valuation adjustments) is recognised in the correct period. **Our results** — The results of our testing were satisfactory and we considered the amount of revenue recognised to be acceptable (2017: acceptable).
Litigations and claims ($0 million; 2017: $0 million) *Refer to page 62 (accounting policy) and pages 71 and 93 (financial disclosures).*	**Insufficient disclosure and provisioning levels for litigations and claims:** The level of provisioning recognised for litigations and claims is considered to be a significant risk due to the high degree of management judgement. The Group continues to be exposed to a number of ongoing cases including those disclosed on page 71 and 93. There is a risk of inadequate disclosure in the financial statements and the application of accounting standards to determine the amount, if any, to be provided as a liability, is inherently subjective.	Our procedures included: — **Assessing provisions:** We assessed whether a present obligation exists and there is a potential obligation of an outflow of economic resources when considering the level of provisioning; — **Enquiry of external legal counsel:** For significant litigation and regulatory matters we challenged management's assessment of provisioning by independently enquiring with the external legal counsel on the judgement around the existence of an obligation and the probability of an outflow of economic resources; — **Assessing transparency:** We inspected the disclosures in the financial statements to determine whether each significant litigation and regulatory matter which had judgement over the possibility of an outflow of economic resources, included a description of the nature of each case and where practicable, an indication of the uncertainties relating to the amount or timing of any outflow. **Our results** — The results of our testing were satisfactory and we considered the disclosures made and provisions held to be acceptable (2017: acceptable).

3. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at $5.6m (2017: $6.5m), determined with reference to a benchmark of total revenue (of which it represents 1.0% (2017: 1.3%)). We consider total revenue to be the most appropriate benchmark as it provides a more stable measure year on year than Group profit before tax.

Materiality for the parent company financial statements as a whole was set at $5.6m (2017: $6.5m), determined with reference to a benchmark of total revenue, of which it represents 1.0% (2017: 1.3%).

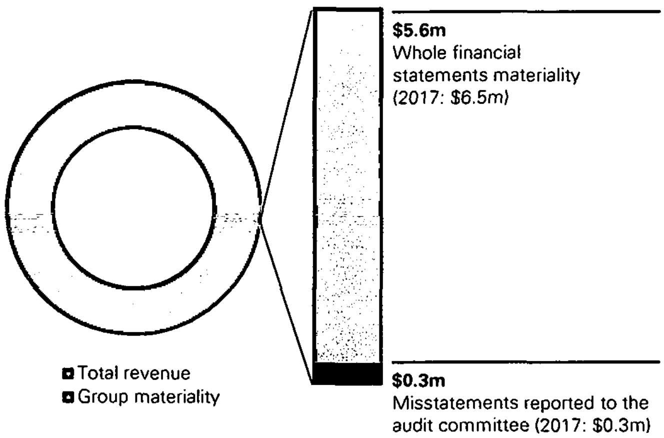
We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding $0.3m, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 7 (2017: 7) reporting components, we subjected 1 (2017: 1) to full scope audit for Group purposes. The 1 component within our scope (the parent entity) accounts for 99% of the Group's total revenue. The work on the parent company was performed by the Group audit team.

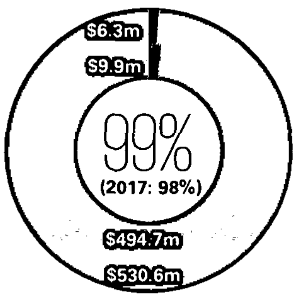
For the residual components, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these components. We also visited 2 component locations (Singapore and New York).

Total revenue
$536.9m (2017: $504.6m)

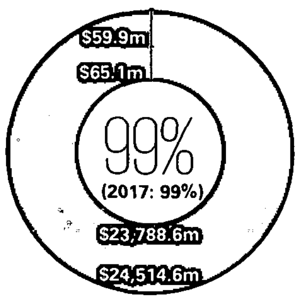
Group Materiality
$5.6m (2017: $6.5m)



Group revenue



Group total assets



Full scope for Group audit purposes 2018
Residual components – other procedures 2018
Full scope for Group audit purposes 2017
Residual components – other procedures 2017

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4. **We have nothing to report on going concern**

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group or the company will continue in operation.

In our evaluation of the directors' conclusions, we considered the inherent risks to the Group's and Company's business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources over this period were:

— Ability to meet budgeted revenue forecasts, including possible loss of some revenue in a no deal Brexit scenario; and

— The impact of any continued losses

As these were the risks that could potentially cast significant doubt on the Group's and the Company's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the directors consider they would take to improve the position should these risks materialise.

Based on this work, we are required to report to you if we have anything material to add or draw attention to in relation to the directors' statement in Note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and the Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements;

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

5. **We have nothing to report on the other information in the Annual Report**

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6. **We have nothing to report on the other matters on which we are required to report by exception**

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Group financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

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7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 30, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group's licence to operate. We identified the following areas as those most likely to have such an effect: regulatory capital and liquidity, financial crime and certain aspects of company legislation recognising the financial and regulated nature of the Group's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and inspection of regulatory and legal correspondence, if any. These limited procedures did not identify actual or suspected non-compliance.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Suvro Dutta

Suvro Dutta (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square
Canary Wharf
London
E14 5GL

21 February 2019

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Consolidated balance sheet

at 31 December 2018

	Note	2018 $m	2017 $m
Assets			
Cash and balances with central banks	3	**1,920.9**	2,989.5
Due from banks and other financial institutions	4	**1,579.5**	2,059.5
Financial assets held for trading	5	**1,582.4**	2,579.5
Non-trading financial assets at fair value through profit or loss	6	**1,340.7**	1,335.9
Derivative financial assets	7	**4,019.8**	4,299.5
Reverse repurchase agreements	8	**4,060.9**	4,705.5
Loans and advances to customers	9	**737.3**	606.9
Financial investments	10	**1,952.3**	962.0
Property and equipment	11	**20.2**	18.9
Current tax assets		**0.3**	0.4
Deferred tax assets	12	**0.3**	1.1
Other assets	13	**7,359.9**	4,295.0
Total assets		**24,574.5**	23,853.7
Liabilities and equity			
Liabilities		**23,316.7**	22,571.4
Financial liabilities held for trading	15	**855.6**	1,544.2
Non-trading financial liabilities at fair value through profit or loss	16	**1,257.7**	1,337.6
Derivative financial liabilities	7	**4,134.7**	4,652.6
Due to banks and other financial institutions	17	**9,271.2**	10,120.3
Repurchase agreements	18	**1,114.7**	1,794.2
Certificates of deposit	19	**-**	16.7
Due to customers	20	**469.7**	600.8
Current tax liabilities		**0.8**	0.7
Subordinated debt	21	**659.8**	668.4
Other liabilities	22	**5,552.5**	1,835.9
Equity			
Equity attributable to ordinary shareholders		**1,257.8**	1,282.3
Share capital	28	**1,083.5**	1,083.5
Ordinary share premium		**996.0**	996.0
Reserves		**(821.7)**	(797.2)
Total liabilities and equity		**24,574.5**	23,853.7

The accounting policies and notes on pages 46 to 139 should be read as part of the financial statements.

Approved by the Board of Directors and signed on its behalf on 21 February 2019.

M van der Spuy, Chief Executive

W Wang, Chairman

Consolidated income statement

for the year ended 31 December 2018

	Note	2018 $m	2017 $m
Net interest income		**70.9**	80.7
Interest income	30.1	**249.9**	191.3
Interest expense	30.2	**(179.0)**	(110.6)
Non-interest revenue	30.3	**313.1**	301.7
Net fees and commission		**44.1**	31.1
Fees and commission income		**55.9**	42.7
Fees and commission expenses		**(11.8)**	(11.6)
Trading revenue		**216.2**	248.8
Net gain on non-trading financial assets and liabilities at fair value through profit or loss		**14.9**	21.8
Gain on commodity reverse repurchase agreements	30.4	**37.9**	-
Total operating income		**384.0**	382.4
Credit impairment (charges) / recoveries	30.5	**(0.7)**	8.4
Income after impairments		**383.3**	390.8
Operating expenses		**(379.1)**	(371.3)
Staff costs	30.6	**(243.5)**	(262.2)
Other operating expenses	30.7	**(130.4)**	(103.2)
Indirect taxation	30.8	**(5.2)**	(5.9)
Profit before taxation		**4.2**	19.5
Income tax (charge) / credit	31	**(19.0)**	10.2
(Loss) / profit attributable to equity shareholders		**(14.8)**	29.7

The accounting policies and notes on pages 46 to 139 should be read as part of the financial statements.

Consolidated statement of comprehensive income

for the year ended 31 December 2018

	2018	2017
	$m	$m
(Loss) / profit attributable to equity shareholders	**(14.8)**	29.7
Items that may be reclassified subsequenty to profit or loss[1]		
Foreign currency translation reserve	**(3.9)**	4.7
Net investment hedge reserve	**-**	(1.7)
Cash flow hedging reserve	**(4.9)**	25.1
Effective portion of changes in fair value	**(8.6)**	14.6
Net amount transferred to profit or loss	**3.7**	10.5
Changes in fair value of available-for-sale assets	**N/A**	2.6
Changes in fair value of debt instruments measured at FVOCI	**(0.9)**	N/A
Total comprehensive (loss) / profit attributable to equity shareholders	**(24.5)**	60.4

[1]Amounts are presented net after tax.

Consolidated statement of changes in shareholders' equity

for the year ended 31 December 2018

	Ordinary share capital and share premium $m	Cash flow hedging reserve $m	FVOCI reserve[3] $m	Foreign currency translation reserve $m	Net investment hedge reserve $m	Retained earnings[4] $m	Total equity $m
Balance at 1 January 2017	1,814.5	(22.0)	1.0	(2.1)	-	(834.5)	956.9
Total comprehensive profit / (loss) for the year	-	25.1	2.6	4.7	(1.7)	29.7	60.4
Issue of share capital and share premium[1]	265.0	-	-	-	-	-	265.0
Balance at 31 December 2017	**2,079.5**	**3.1**	**3.6**	**2.6**	**(1.7)**	**(804.8)**	**1,282.3**
Balance at 1 January 2018	**2,079.5**	**3.1**	**3.6**	**2.6**	**(1.7)**	**(804.8)**	**1,282.3**
Changes on initial application of IFRS 9[2]	-	-	**(2.0)**	-	-	**2.0**	-
Restated balance at 1 January 2018	**2,079.5**	**3.1**	**1.6**	**2.6**	**(1.7)**	**(802.8)**	**1,282.3**
Total comprehensive loss for the year	-	**(4.9)**	**(0.9)**	**(3.9)**	-	**(14.8)**	**(24.5)**
Balance at 31 December 2018	**2,079.5**	**(1.8)**	**0.7**	**(1.3)**	**(1.7)**	**(817.6)**	**1,257.8**

[1]On 13 January 2017, the company issued an additional twenty five ordinary shares of US$1 each to ICBC (15 shares) and Standard Bank London Holdings Limited (10 shares), at a share premium of US$10.6 million per share.

[2]See note 38 for further details of the transition adjustments on adoption of IFRS 9.

[3]Prior year balances represent the IAS 39 available-for-sale fair value reserve.

[4]Retained earnings include the equity contribution under indemnity claim. This has been reflected as a capital contribution as it is a result of a transaction with SBG (shareholder with significant influence). The claim reimbursed the group for costs incurred on a historic transaction - see note 29.3.

Consolidated statement of cash flows
for the year ended 31 December 2018

	Note	2018 $m	2017 $m
Cash flows (used in) / from operating activities			
Profit before taxation		**4.2**	19.5
Adjusted for:			
Net interest income[1]		**(70.9)**	(80.7)
Amortisation of intangible assets		**4.1**	0.7
Depreciation of property and equipment		**4.6**	5.1
Non-cash flow movements on subordinated debt		**(8.6)**	(11.1)
Cash-settled share-based payments		**8.6**	8.0
Net credit impairment charges / (releases)		**0.7**	(8.4)
Provisions for leave pay		**0.1**	0.3
		(57.2)	(66.6)
Changes in operating funds		**(872.3)**	1,100.0
Increase in income-earning assets	32.1	**(1,901.8)**	(2,498.7)
Decrease in deposits and other liabilities	32.2	**1,029.5**	3,598.7
Interest received		**243.6**	183.2
Interest paid		**(176.1)**	(100.2)
Corporation and withholding tax paid	32.3	**(20.2)**	(8.6)
Cash flows (used in) / from operating activities		**(882.2)**	1,107.8
Cash flows used in investing activities			
Capital expenditure on intangible assets		**(13.0)**	(14.2)
Capital expenditure on property and equipment		**(5.9)**	(1.4)
Cash flows used in investing activities		**(18.9)**	(15.6)
Cash flows from financing activities			
Proceeds from issue of ordinary share capital to shareholders		-	265.0
Issue of subordinated debt		-	150.0
Subordinated floating rate notes		-	150.0
Step-up perpetual subordinated notes		-	-
Cash flows from financing activities		-	415.0
Net (decrease) / increase in cash and cash equivalents		**(901.1)**	1,507.2
Effects of exchange rate changes on cash and cash equivalents		**0.9**	51.0
Cash and cash equivalents at beginning of the year	32.4	**3,692.8**	2,134.6
Cash and cash equivalents at end of the year	32.4	**2,792.6**	3,692.8

[1]Includes interest paid on subordinated debt instruments.

Company balance sheet
at 31 December 2018

	Note	2018 $m	2017 $m
Assets			
Cash and balances with central banks	3	**1,920.9**	2,989.5
Due from banks and other financial institutions	4	**1,496.2**	1,974.2
Financial assets held for trading	5	**1,582.4**	2,579.5
Non-trading financial assets at fair value through profit or loss	6	**1,340.7**	1,335.9
Derivative financial assets	7	**4,019.8**	4,299.5
Reverse repurchase agreements	8	**4,060.9**	4,705.5
Loans and advances to customers	9	**737.3**	606.9
Financial investments	10	**1,952.3**	962.0
Property and equipment	11	**14.9**	12.2
Other assets	13	**7,359.7**	4,293.9
Investment in group companies	14	**29.5**	29.5
Total assets		**24,514.6**	23,788.6
Liabilities and equity			
Liabilities		**23,311.0**	22,564.6
Financial liabilities held for trading	15	**855.6**	1,544.2
Non-trading financial liabilities at fair value through profit or loss	16	**1,257.7**	1,337.6
Derivative financial liabilities	7	**4,134.7**	4,652.6
Due to banks and other financial institutions	17	**9,271.2**	10,120.3
Repurchase agreements	18	**1,114.7**	1,794.2
Certificates of deposit	19	**-**	16.7
Due to customers	20	**469.7**	600.8
Current tax liabilities		**0.8**	0.7
Subordinated debt	21	**659.8**	668.4
Other liabilities	22	**5,546.8**	1,829.1
Equity			
Equity attributable to ordinary shareholders		**1,203.6**	1,224.0
Share capital	28	**1,083.5**	1,083.5
Ordinary share premium		**996.0**	996.0
Reserves[1]		**(875.9)**	(855.5)
Total liabilities and equity		**24,514.6**	23,788.6

[1]See note 30.11.

The accounting policies and notes on pages 46 to 139 should be read as part of the financial statements.

Approved by the Board of Directors and signed on its behalf on 21 February 2019.

M van der Spuy, Chief Executive

W Wang, Chairman

Company statement of changes in shareholders' equity

for the year ended 31 December 2018

	Ordinary share capital and share premium $m	Cash flow hedging reserve $m	FVOCI reserve[3] $m	Retained earnings[4] $m	Total equity $m
Balance at 1 January 2017	1,814.5	(22.0)	1.0	(889.9)	903.6
Total comprehensive profit for the year	-	25.1	2.6	27.7	55.4
Shares issued including share premium[1]	265.0	-	-	-	265.0
Balance at 31 December 2017	**2,079.5**	**3.1**	**3.6**	**(862.2)**	**1,224.0**
Balance at 1 January 2018	**2,079.5**	**3.1**	**3.6**	**(862.2)**	**1,224.0**
Changes on initial application of IFRS 9[2]	-		**(2.0)**	**2.0**	-
Restated balance at 1 January 2018	**2,079.5**	**3.1**	**1.6**	**(860.2)**	**1,224.0**
Total comprehensive loss for the year	-	**(4.9)**	**(0.9)**	**(14.6)**	**(20.4)**
Balance at 31 December 2018	**2,079.5**	**(1.8)**	**0.7**	**(874.8)**	**1,203.6**

[1]On 13 January 2017, the company issued an additional twenty five ordinary shares of US$1 each to ICBC (15 shares) and Standard Bank London Holdings Limited (10 shares), at a share premium of US$10.6 million per share.

[2]See note 38 for further details of the transition adjustments on adoption of IFRS 9.

[3]Prior year balances represent the IAS 39 available-for-sale fair value reserve.

[4]Retained earnings include the equity contribution under indemnity claim. The indemnity claim has been reflected as a capital contribution as this is a result of a transaction with SBG (shareholder with significant influence). This claim reimbursed the company for costs incurred on a historic transaction - see note 29.3.

Company statement of cash flows

for the year ended 31 December 2018

	Note	2018 $m	2017 $m
Cash flows (used in) / from operating activities			
Profit before taxation		**3.4**	17.0
Adjusted for:			
Net interest income[1]		**(69.8)**	(79.7)
Amortisation of intangible assets		**4.1**	0.7
Depreciation of property and equipment		**3.1**	3.7
Non-cash flow movements on subordinated debt		**(8.6)**	(11.1)
Cash-settled share-based payments		**8.6**	8.0
Net credit impairment charges / (releases)		**0.7**	(8.4)
Provisions for leave pay		**0.1**	0.3
		(58.4)	(69.5)
Changes in operating funds		**(869.0)**	1,107.7
Increase in income-earning assets	32.1	**(1,901.6)**	(2,495.5)
Decrease in deposits and other liabilities	32.2	**1,032.6**	3,603.2
Interest received		**242.5**	182.2
Interest paid		**(176.1)**	(100.1)
Corporation and withholding tax paid	32.3	**(20.1)**	(8.6)
Cash flows (used in) / from operating activities		**(881.1)**	1,111.7
Cash flows used in investing activities			
Capital expenditure on intangible assets		**(13.0)**	(14.2)
Capital expenditure on property and equipment		**(5.8)**	(1.3)
Cash flows used in investing activities		**(18.8)**	(15.5)
Cash flows from financing activities			
Proceeds from issue of ordinary share capital to shareholders		-	265.0
Issue of subordinated debt		-	150.0
Subordinated floating rate notes		-	150.0
Step-up perpetual subordinated notes		-	-
Cash flows from financing activities		-	415.0
Net (decrease) / increase in cash and cash equivalents		**(899.9)**	1,511.2
Effects of exchange rate changes on cash and cash equivalents		**2.8**	47.1
Cash and cash equivalents at beginning of the year	32.4	**3,627.6**	2,069.3
Cash and cash equivalents at end of the year	32.4	**2,730.5**	3,627.6

[1]Includes interest paid on subordinated debt instruments.

Significant accounting policies

The principal accounting policies applied in the presentation of the annual financial statements are set out below.

1. Basis of preparation

Both the company financial statements and the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU). In publishing the company financial statements here together with the ICBC Standard Bank Plc consolidated (group) financial statements, the company has taken advantage of the exemption in Section 408 of the Companies Act 2006 not to present its separate income statement and related notes that form part of these financial statements.

The annual financial statements have been prepared on the historical cost basis except for the following material items in the balance sheet:

- financial assets and liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income, non-financial assets and liabilities held for trading, and liabilities for cash-settled share-based payment arrangements that are measured at fair value.

The following principal accounting policy elections have been made, with reference to the detailed accounting policies shown in brackets:

- purchases and sales of financial assets under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned are recognised and derecognised using trade date accounting (accounting policy 5).
- commodities acquired principally for the purpose of selling in the near future or generating a profit from fluctuation in price or broker-traders' margin are measured at fair value less costs to sell (accounting policy 6)
- intangible assets and property and equipment are accounted for at cost less accumulated amortisation and impairment (accounting policies 7 and 8).

Industrial and Commercial Bank of China Limited (ICBC) owns a controlling interest of 60% in the company with the balance of 40% owned by Standard Bank Group via its wholly owned subsidiary, Standard Bank London Holdings Limited.

The group maintains a capital and liquidity position in excess of prudential requirements. ICBC issued the following statement of support which remains in force until ICBC ceases to be the controlling shareholder of the group:

> *We confirm ICBC Standard Bank Plc (ICBCS) is viewed as a long-term investment and is an integral part of our overall operational strategy. Our goal is to develop ICBCS into a major link in our international network, and therefore, we undertake to support its development and growth. ICBC hereby confirms that it intends to financially support ICBCS in ensuring that it meets all of its financial obligations as they fall due, including the maintenance of a minimum capital adequacy level in ICBCS. Specifically, ICBC intends to provide funding and capital support to ICBCS and commits its intention to subscribe for certain 'qualifying instruments' as and when ICBC receives written notice from ICBCS that its capital and reserve funds amount to (or will foreseeably in the near term amount to) less than the minimum required amount of capital and reserve funds as determined in accordance with the rules and regulations of the Prudential Regulation Authority (or its successor).*

Having considered the factors set out above, including the impact of Brexit, the company and the group continue to adopt the going concern basis in preparing the annual financial statements.

Changes in accounting policies

Except as noted below, the accounting policies adopted are consistent with those of the previous year.

IFRS 9 Financial Instruments

The group adopted IFRS 9, *Financial Instruments* (IFRS 9), with effect from 1 January 2018. This includes adoption of *Prepayment Features with Negative Compensation (Amendments to IFRS 9)*, which is effective for annual periods commencing on or after 1 January 2019, with early adoption permitted IFRS 9 was applied retrospectively by adjusting the opening balance sheet at the date of initial application. Comparative periods have not been restated. Consequently, for notes disclosures, the consequential amendments to IFRS 7 *Financial Instruments: Disclosures*, have also only been applied to the current reporting period. The comparative period notes disclosures repeat those disclosures made in the prior year.

The disclosures in note 38 summarise the impact of the adoption of IFRS 9 on the group's financial statements. The transition to IFRS 9 had no material impact on the consolidated financial statements of the group. The accounting policies that have been applied by the group as a result of adopting IFRS 9 are further detailed in accounting policy note 5.

IFRS 15 Revenue from contracts with customers

The group adopted IFRS 15, *Revenue from contracts with customers* (IFRS 15), with effect from 1 January 2018. No transition adjustments were required on adoption of IFRS 15 and the transition to IFRS 15 had no material impact on the consolidated financial statements of the group.

2. Basis of consolidation

The group consolidates the annual financial statements of investees which it controls. The group controls an investee when it has:

- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power to affect the amount of the returns from its involvement with the investee.

The annual financial statements of the investee are consolidated from the date on which the group acquires control up to the date that control ceases. Control is assessed on a continuous basis.

Intragroup transactions and balances, and any unrealised gains and losses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated on consolidation. Unrealised losses are eliminated in the same manner as unrealised gains, but only to the extent that there is no evidence of impairment.

The proportion of comprehensive income and changes in equity allocated to the group and non-controlling interests are determined on the basis of the group's present ownership interest in the subsidiary.

The accounting policies of subsidiaries that are consolidated by the group conform to these policies.

Investments in subsidiaries are accounted for at cost less accumulated impairment losses (where applicable) in the separate financial statements. The carrying amounts of these investments are reviewed annually and impaired when necessary. Investments in consolidated structured entities are accounted for at fair value in the separate financial statements.

3. Foreign currency translations

Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates (functional currency). The consolidated and separate financial statements are presented in US dollars which is the group's presentation currency and company's functional currency, and all amounts are stated in millions of dollars (US$ million), unless otherwise indicated.

Group entities

The results and financial position of all foreign operations that have a functional currency different from the group's presentation currency are translated into the group's presentation currency as follows:

- assets and liabilities are translated at the closing rate on the reporting date;
- income and expenses are translated at average exchange rates for the month, to the extent that such average rates approximate actual rates; and

All resulting foreign exchange differences are accounted for directly in a separate component of other comprehensive income (OCI), being the foreign currency translation reserve.

When a foreign operation is disposed of such that control is lost, the cumulative amount in the foreign currency translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, then the relevant portion of the cumulative amount is attributed to non-controlling interests.

Transactions and balances

Foreign currency transactions are translated into the respective functional currencies of group entities at exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are recognised in profit or loss (except when recognised in OCI as a qualifying cash flow hedge).

Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated into the appropriate functional currency using the exchange rate at the transaction date, and those measured at fair value are translated at the exchange rate at the date the fair value was determined. Exchange rate differences on non-monetary items are accounted for based on the classification of the underlying items.

The group hedges the foreign exchange exposure on a portion of its budgeted sterling denominated expense base and applies cash flow hedge accounting to those highly probable forecast expenses. A portion of the gains/losses recognised on the hedging derivatives is recycled from OCI to profit or loss in the period in which the related costs are recognised in the profit and loss account. The hedging instruments are executed over a period of time at a range of different exchange rates and the unhedged portion of the budgeted sterling expense base is translated at spot exchange rates in accordance with the policy set out above. In order to provide consistency, the sterling based expenses in the individual line items are translated at a composite exchange rate, based on the average foreign exchange rate the group expects to achieve on its hedging instruments and the spot rates applied to the unhedged element of the sterling based expenses. Any differences between the costs translated at the composite rate and the amounts that would be recorded if the sterling based costs were translated at the actual exchange rates achieved, are recognised in other expenses in the profit and loss account.

Foreign exchange gains and losses on debt securities classified as fair value through OCI, and debt and equity securities classified as fair value through profit or loss are reported in profit or loss. Previously, under IAS 39, foreign exchange gains and losses on equity securities classified as available-for-sale financial assets were recognised in the available-for-sale reserve in OCI, whereas the foreign exchange gains and losses on debt securities classified as available-for-sale, and debt and equity securities classified as at fair value through profit or loss, were reported in profit or loss.

4. Cash and cash equivalents

Cash and cash equivalents disclosed in the statement of cash flows consist of unrestricted cash balances with central banks, together with other highly liquid short-term placements with deposit-taking institutions available on demand. These balances are subject to insignificant changes in fair value and are reported at amortised cost.

5. Financial Instruments

Initial recognition and measurement

Financial instruments include all financial assets and financial liabilities. These instruments are typically held for liquidity, investment, trading or hedging purposes. All financial instruments are initially recognised at fair value plus or minus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability, except those carried at fair value through profit or loss where transaction costs are recognised immediately in profit or loss.

Financial instruments are recognised on the date the group commits to purchase/sell the instruments (i.e. trade date accounting), except for loans and advances, deposits, debt securities issued and subordinated liabilities, which are recognised when cash is advanced to the borrower (i.e. settlement date accounting).

Subsequent measurement

Subsequent to initial measurement, financial instruments are measured either at fair value or amortised cost using the effective interest method, depending on their classifications as follows:

Financial assets

Policy applicable from 1 January 2018

IFRS 9 has three classification categories for financial assets as follows;

1. Amortised cost;
2. Fair value through other comprehensive income (FVOCI); and
3. Fair value through profit or loss (FVPL).

The classification is based on the business model under which the financial asset is managed and the terms of its contractual cash flows, in particular, whether they represent solely payments of principal and interest (SPPI).

Business model assessment

The group assesses the objective of a business model in which an asset is held at a portfolio level as that best reflects the way the business is managed and information is provided to management. In determining the business model, all relevant evidence that is available at the date of the assessment is used including:

i. How the performance of the portfolio is evaluated and reported to the group's key management personnel;

ii. Risks that affect the performance of the business model (and the financial assets held within it) and, in particular, how those risks are managed;

iii. How managers of the business are compensated (for example, whether compensation is based on the fair value of the assets managed or the contractual cash flows collected);

iv. The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets; and

v. The frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity.

SPPI assessment

In assessing whether the contractual cash flows are solely payments of principal and interest, the group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the group considers:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- Features that modify consideration of the time value of money, e.g. periodic resets of interest rates.

The group has applied the following policies for the classification categories under IFRS 9:

Amortised cost

A financial asset is measured at amortised cost if both of the following conditions are met:

1. The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
2. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Fair value through other comprehensive income

A financial asset will be measured at FVOCI if both of the following conditions are met:

1. The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
2. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- Interest income using the effective interest method;
- Expected credit losses and reversals; and
- Foreign exchange gains/losses.

When debt securities measured at FVOCI are derecognised, the cumulative gain or loss previously recognised in OCI is reclassified to current period profit or loss.

For equity securities, the group can irrevocably elect to present subsequent changes in fair value in OCI. Gains or losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

Fair value through profit or loss

All financial assets that are not measured at amortised cost or FVOCI are measured at FVPL.

The group may also irrevocably elect to designate a financial asset as measured at FVPL on initial recognition if doing so eliminates or significantly reduces an accounting mismatch, which would otherwise arise.

Financial assets at FVPL comprise:

- Items held for trading;
- Items that are managed and whose performance is evaluated on a fair value basis;
- Derivative instruments;
- Items specifically designated as FVPL on initial recognition; and

- Debt instruments with contractual terms that do not represent solely payments of principal and interest.

Financial assets and liabilities held for trading are those assets and liabilities that the group acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are always categorised as held for trading.

Financial assets with embedded derivatives are classified in their entirety, without separating any derivative element.

Equity securities are measured at FVPL unless the group irrevocably elects to present subsequent changes in fair value in other comprehensive income.

Where a financial asset is measured at fair value, a credit valuation adjustment is included to reflect the credit worthiness of the counterparty, representing the movement in fair value attributable to changes in the counterparty's credit risk.

Policy applicable before 1 January 2018

IAS 39 had four classification categories for financial assets as follows:

1. Loans and receivables;
2. Held to maturity;
3. Available-for-sale (AFS); and
4. Fair value through profit or loss (FVPL), which was further sub-divided into: (i) held for trading; and (ii) designated as at FVPL.

The group classified its financial assets into these categories as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified by the group as at fair value through profit or loss or available-for-sale.

Loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Origination costs and origination fees received that are integral to the effective interest rate are capitalised to the value of the loan and amortised through interest income as part of the effective interest rate. The majority of the group's loans and advances were included in the loans and receivables category prior to 1 January 2018.

Held to maturity financial assets

Held to maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the intention and ability to hold to maturity. The group did not hold any financial assets that were classified as held to maturity in 2017.

Available-for-sale

Financial assets classified by the group as available-for-sale were generally strategic capital investments held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, or non-derivative financial assets that were not classified within another category of financial assets.

Available-for-sale financial assets were subsequently measured at fair value. Unrealised gains or losses were recognised directly in the available-for-sale reserve in other comprehensive income (OCI) until the financial asset was derecognised or impaired. When available-for-sale financial assets were disposed of, the cumulative fair value adjustments in OCI were transferred to profit or loss.

Interest income, calculated using the effective interest method, was recognised in profit or loss. Dividends received on available-for-sale instruments were recognised in profit or loss when the group's right to receive payment had been established.

Fair value through profit or loss - Held-for-trading

Held for trading assets and liabilities included those financial assets and liabilities acquired or incurred principally for the purpose of selling or repurchasing in the near term and those forming part of a portfolio of identified financial instruments that were managed together and for which there was evidence of a recent actual pattern of short-term profit-taking. Derivatives are always categorised as held for trading.

Subsequent to initial recognition, the financial instruments' fair values were remeasured at each reporting date. All gains and losses arising from changes in fair value, together with interest and dividends, were recognised in profit or loss as trading revenue within non-interest revenue with the exception of derivatives that were designated and effective as hedging instruments in cash flow hedge relationships (refer to derivative financial instruments and hedge accounting below).

Fair value through profit or loss - Financial assets designated at fair value through profit or loss

The group designated certain financial assets, other than those classified as held-for-trading, as at fair value through profit or loss when:

- this designation eliminated or significantly reduced an accounting mismatch that would otherwise arise. Under this criterion, the main classes of financial instruments designated by the group were loans and advances, and unlisted equities. The designation significantly reduced measurement inconsistencies that would have otherwise arisen where, for example, the related derivatives were treated as held-for-trading and the underlying financial instruments were carried at amortised cost;
- groups of financial assets, financial liabilities or both are managed, and their performance is evaluated, on a fair value basis in accordance with a documented risk management or investment strategy, and information about them is reported to the group's key management personnel on a fair-value basis. Under this criterion, certain private equity investments, acquired non-performing loan portfolios and other investment portfolios were designated at fair value through profit or loss; or
- financial instruments contain one or more embedded derivatives that significantly modify the instruments' cash flows.

The fair value designation was made on initial recognition and was irrevocable. Subsequent to initial recognition, the fair values were remeasured at each reporting date. Gains and losses arising from changes in fair value, together with interest and dividends, were recognised in profit or loss within non-interest revenue as net gain / loss on financial assets and liabilities at fair value through profit or loss.

Financial liabilities

The group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVPL.

Financial liabilities that are neither held-for-trading nor designated at fair value through profit or loss are measured at amortised cost using the effective interest method.

A financial liability may be designated at fair value through profit or loss if:

i. It eliminates or significantly reduces an accounting mismatch;

ii. A host contract contains one or more embedded derivatives; or

iii. If a group of financial liabilities or financial assets and liabilities is managed and their performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

From 1 January 2018, where a financial liability is designated at fair value through profit or loss, the movement in fair value attributable to changes in the group's own credit quality is presented separately in OCI with no subsequent reclassification to the income statement, unless the treatment of the effects of changes in the liability's credit risk would create or enlarge an accounting mismatch in profit or loss, in which case all gains or losses on the liability (including the effects of changes in the credit risk of that liability) are recorded in profit or loss.

Reclassification of financial instruments

Policy applicable from 1 January 2018

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the group changes its business model for managing those financial assets.

Financial liabilities are not reclassified subsequent to their initial recognition.

Policy applicable before 1 January 2018

Under IAS 39, the group may reclassify non-derivative financial assets out of the held-for-trading category if the asset was no longer held for the purpose of selling it in the near term. Financial assets that would not otherwise have met the definition of loans and receivables were permitted to be reclassified out of the held-for-trading category only in rare circumstances. The group may reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if, at the date of reclassification, the group had the intention and ability to hold those financial assets for the foreseeable future or until maturity.

Derivatives or any financial asset designated at fair value through profit or loss could not be reclassified out of their respective categories.

Reclassifications were made at fair value as of the reclassification date. Effective interest rates for financial assets reclassified to loans and receivables were determined at the reclassification date.

On reclassification of a trading asset, all embedded derivatives were reassessed and, if necessary, accounted for separately.

Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). The fair value of financial instruments is generally measured on the basis of the individual financial instrument.

The fair value of a financial instrument on initial recognition is generally its transaction price, that is, the fair value of the consideration paid or received. However, sometimes, the fair value will be based on other observable current market transactions in the same instrument, without modification or repackaging, or on valuation techniques such as discounted cash flow models or option pricing models whose variables include only data from observable markets.

When such valuation models, with only observable market data as inputs, or comparison with other observable *current market transactions in the same instrument indicate that the fair value differs from the transaction price,* this initial difference, commonly referred to as day one profit or loss, is recognised in profit or loss immediately.

If significant unobservable market data is used as inputs to the valuation models or where the fair value of the financial instrument is not evidenced by comparison with other observable current market transactions in the same instrument, the resulting difference between the transaction price and the model value is deferred.

The timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement, depending on the nature of the instrument and availability of market observable inputs.

Subsequent to initial recognition, the fair values of financial assets and liabilities are based on quoted market prices or dealer price quotations for financial instruments traded in active markets and where those quoted prices represent fair value at the measurement date. If the market for a financial asset is not active or the instrument is unlisted, the fair value is determined using other applicable valuation techniques. These include the use of recent arm's-length transactions, discounted cash flow analyses, option pricing models and other valuation techniques commonly used by market participants.

Where discounted cash flow analyses are used, estimated future cash flows are based on management's best estimates and a market related discount rate at the reporting date for a financial asset or liability with similar terms and conditions.

Prior to 1 January 2018, where the fair value of investments in unquoted equity instruments and derivatives that were linked to and must be settled by delivery of such unquoted equity instruments were unable to be reliably determined, those instruments were measured at cost less impairment losses. Impairment losses on these financial assets were not reversed. Under IFRS 9, the fair value of investments in unquoted equity instruments and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at fair value.

Impairment of financial assets

Policy applicable from 1 January 2018

At each reporting date, the group recognises an allowance for expected credit losses (ECL) for the following financial instruments:

- All financial assets measured at amortised cost;
- Debt instruments measured at FVOCI;
- Certain loan commitments issued; and
- Certain financial guarantee contracts issued.

ECLs are an unbiased probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial instrument determined by evaluating a range of possible outcomes and future economic conditions. Cash shortfalls represent the difference between the cash flows due to the group in accordance with the contractual terms of an instrument and the cash flows it expects to receive, including the recoverable amount of any collateral and other credit enhancements that may result from foreclosure less costs of obtaining and selling the collateral, whether or not foreclosure is probable.

At initial recognition, an impairment allowance (or provision in the case of loan commitments and financial guarantees) is required for the portion of the lifetime ECL (see below) resulting from default events that are possible within the next 12 months (12 month ECL).

The group subsequently applies a three-stage approach to measuring ECLs based on the change in credit risk since initial recognition, as follows:

- Stage 1: For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon purchase or origination, the 12 month ECL is recognised. For instruments in stage 1, interest revenue is calculated by applying the effective interest rate to the gross carrying amount of the instrument.
- Stage 2: For exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, an allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument (lifetime ECL). For instruments in stage 2, interest revenue continues to be calculated by applying the effective interest rate to the gross carrying amount of the instrument.
- Stage 3: For exposures where there is objective evidence of impairment, which are considered to be in default or otherwise credit impaired, an allowance (or provision) for lifetime ECL is also required. However, for instruments in stage 3, interest revenue is calculated by applying the effective interest rate to the amortised cost (net of the allowance or provision) rather than the gross carrying amount of the instrument.

At each reporting date, the group assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the expected life of the instrument between the reporting date and the date of initial recognition. The assessment of whether an instrument is in stage 1 or stage 2 considers the relative change in the probability of default occurring over the expected life of the instrument, not the change in the amount of expected credit losses.

An instrument is in stage 3 if it exhibits objective evidence of credit impairment, which includes:

- Known cash flow difficulties experienced by the borrower;
- A breach of contract such as default or delinquency in interest and/or principal payments;
- Breaches of loan covenants;
- It becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- The group, for economic or legal reasons relating to the borrower's financial difficulty, grants the borrower a concession that it would not otherwise consider.

The assessment of credit risk and estimation of ECLs will be based on a probability weighted base case and two alternative plausible scenarios provided by an external economic forecasting service provider. It also takes into account the time value of money.

Exposures that have not deteriorated significantly since origination or which are less than 30 days past due, are considered to have a low credit risk. The loss allowance for these instruments is based on 12 month ECL.

An exposure will migrate through the ECL stages as asset quality deteriorates. If, in a subsequent period, asset quality improves and also reverses any previously assessed significant increase in credit risk since origination, then the loss allowance reverts from lifetime ECL to 12 month ECL.

The assessment of significant increases in credit risk is performed on either individual financial instruments or on a collective basis for a group or sub-group of financial instruments.

When an asset carried at amortised cost is identified as impaired, a credit loss for the present value of all cash shortfalls discounted at the financial asset's original effective interest rate is recognised. The carrying amount of the asset in the statement of financial position is reduced by the amount of the loss and the loss is recognised as a credit impairment charge in profit or loss.

In the case of debt instruments measured at FVOCI, the group recognises the impairment charge in profit or loss, with the corresponding loss allowance recognised in other comprehensive income. There is no reduction in the carrying amount of the asset in the statement of financial position because these assets are carried at their fair value.

For undrawn loan commitments, the group recognises a provision in the statement of financial position for the present value of the difference between the contractual cash flows due to the group if the commitment is drawn down and the cash flows that the group expects to receive if the commitment is drawn down. The loss is recognised as an impairment charge in profit or loss. The group's estimate of ECL on loan commitments is consistent with its expectations of drawdowns on that loan commitment, i.e. it considers the expected portion of the loan commitment that will be drawn down within 12 months of the reporting date when estimating 12-month ECL, and the expected portion of the loan commitment that will be drawn down over the expected life of the loan commitment when estimating lifetime ECL.

For financial guarantee contracts issued, the group is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed. Accordingly, the group recognises a provision in the statement of financial position for the present value of the expected payments required to reimburse the holder for a credit loss that it incurs less any amounts that the group expects to recover from the holder, the debtor or any other party. The loss is recognised in profit or loss.

When an asset is uncollectible, it is written off against the related provision. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off reduce the amount of the expense in the income statement.

Where the group holds a financial guarantee or similar contract, it assesses whether it is an integral element of a financial asset that is accounted for as a component of that instrument or is a contract that is accounted for separately. Factors that the group considers when making this assessment include whether:

- The guarantee is implicitly part of the contractual terms of the debt instrument
- The guarantee is entered into at the same time as and in contemplation of the debt instrument
- The guarantee is given by the parent of the borrower or another company within the borrower's group

If the guarantee is determined to be an integral element of the financial asset, the group considers the effect of the protection when measuring ECL and any premium payable is treated as a transaction cost of acquiring the financial asset. If the guarantee is not determined to be an integral element of the financial asset, the group recognises an asset representing any prepayment of premium for the guarantee and a right to compensation for credit losses.

Policy applicable before 1 January 2018

Assets carried at amortised cost

The group assessed at each reporting date whether there was objective evidence that a loan or group of loans was impaired. A loan or group of loans was impaired if objective evidence indicated that a loss event had occurred after initial recognition which had a negative effect on the estimated future cash flows of the loan or group of loans that could be estimated reliably.

Criteria that were used by the group in determining whether there was objective evidence of impairment included:

- *known cash flow difficulties experienced by the borrower;*
- a breach of contract, such as default or delinquency in interest and/or principal payments;
- breaches of loan covenants or conditions;
- it becoming probable that the borrower would enter bankruptcy or other financial reorganisation; and
- where the group, for economic or legal reasons relating to the borrower's financial difficulty, granted the borrower a concession that the group would not otherwise consider.

The group first assessed whether there was objective evidence of impairment individually for loans that were individually significant, and collectively for loans that were not individually significant. Non-performing loans included those loans for which the group had identified objective evidence of impairment as well as those loans for which instalments were due and unpaid for 90 days or more. The impairment of non-performing loans took into account past loss experience adjusted for changes in economic conditions and the nature and level of risk exposure since the recording of the historic losses.

When a loan carried at amortised cost had been identified as specifically impaired, the carrying amount of the loan was reduced to an amount equal to the present value of its estimated future cash flows, including the recoverable amount of any collateral, discounted at the financial asset's original effective interest rate. The carrying amount of the loan was reduced through the use of a specific credit impairment account and the loss was recognised as a credit impairment charge in profit or loss.

The calculation of the present value of the estimated future cash flows of collateralised financial assets recognised on an amortised cost basis included cash flows that may result from foreclosure less costs of obtaining and selling the collateral, whether or not foreclosure was probable.

If the group determined that no objective evidence of impairment existed for an individually assessed loan, whether significant or not, it included the loan in a group of loans with similar credit risk characteristics and collectively assessed that group for impairment. Loans that were individually assessed for impairment and for which an impairment loss was recognised were not included in a collective assessment for impairment.

Impairment of groups of loans that were assessed collectively was recognised where there was objective evidence that a loss event had occurred after the initial recognition of the group of loans but before the reporting date. In order to provide for latent losses in a group of loans that had not been identified as specifically impaired, a credit impairment for incurred but not reported losses was recognised based on historic loss patterns and estimated emergence periods, being the time period between the loss trigger event and the date on which the group identified the losses. Groups of loans were also assessed as impaired when adverse economic conditions developed after initial recognition which may impact future cash flows. The carrying amount of groups of loans was reduced through the use of a portfolio credit impairment account and the loss was recognised as a credit impairment charge in profit or loss.

Increases in loan impairments and any subsequent reversals thereof, or recoveries of amounts previously impaired (including loans that have been written off), were reflected within credit impairment charges in profit or loss. Previously impaired loans were written off once all reasonable attempts at collection had been made and there was no realistic prospect of recovering outstanding amounts.

Subsequent to impairment, the effects of discounting unwound over time as interest income.

Available-for-sale financial assets

Available-for-sale financial assets were impaired if there was objective evidence of impairment, resulting from one or more loss events that occurred after initial recognition but before the reporting date, that had a negative impact on the future cash flows of the asset. In addition, an available-for-sale equity instrument was considered to be impaired if a significant or prolonged decline in the fair value of the instrument below its cost had occurred. If an impairment loss had been incurred, the cumulative loss, measured as the difference between the acquisition price (net of any principal repayment and amortisation) and the current fair value, less any previously recognised impairment losses on that financial asset, was reclassified from OCI to profit or loss.

If, in a subsequent period, the amount relating to an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss was reversed through profit or loss for available-for-sale debt instruments. Any reversal of an impairment loss in respect of an available-for-sale equity instrument is recognised directly in OCI.

Offsetting

Financial assets and liabilities are offset and the net amount presented in the balance sheet when the group currently has a legally enforceable right to set-off the recognised amounts and there is an intention either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

Derivative financial instruments and hedge accounting

A derivative is a financial instrument whose value changes in response to an underlying variable, requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors, and is settled at a future date. Derivatives are initially recognised at fair value on the date on which they are entered into and are subsequently remeasured at fair value as described under the fair value policy above.

All derivative instruments are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative, subject to offsetting principles as described under the heading 'Offsetting'.

The method of recognising fair value gains and losses depends on whether or not the derivatives are designated as hedging instruments, and if so, the nature of the hedge relationship.

Derivatives that qualify for hedge accounting

The group designates certain derivatives as hedging instruments in respect of foreign currency risk, interest rate risk and equity price risk.

When derivatives are designated in a hedge relationship, the group designates them as:

- hedges of the fair value of recognised financial assets or liabilities or unrecognised firm commitments (fair value hedges);
- hedges of variability in cash flows attributable to a recognised asset or liability or a highly probable forecast transaction (cash flow hedges); or
- hedges of the foreign currency exposure to changes in the group's share in the net assets of a foreign operation (net investment hedges).

At the inception of the hedge relationship, the group documents the relationship between hedged items and hedging instruments, as well as its risk management objectives and strategy for undertaking various hedging relationships. The group also documents its assessment, both at the inception of the hedge and on an ongoing basis, of whether the hedging instruments are effective in offsetting the exposure to changes in the fair value or cash flows of the hedged items attributable to the hedged risk.

Fair value hedges

Where a hedging relationship is designated as a fair value hedge, the hedged item is adjusted for the change in fair value in respect of the risk being hedged. Gains or losses on the remeasurement of both the derivative and the hedged item are recognised in profit or loss. Fair value changes relating to gains or losses on the hedging instrument that provide an effective offset to the hedged item are allocated to the same line item in profit or loss as the related hedged item. Any hedge ineffectiveness is recognised in profit or loss as trading revenue.

If the derivative expires, or is sold, terminated or exercised, or the hedging relationship no longer meets the criteria for fair value hedge accounting, then hedge accounting is discontinued. The adjustment to the carrying amount of a hedged item measured at amortised cost, for which the effective interest method is used, is amortised to profit or loss as part of the hedged item's recalculated effective interest rate over the period to maturity.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in OCI in the cash flow hedging reserve. The ineffective part of any changes in fair value is recognised immediately in profit or loss as trading revenue.

Amounts previously recognised in OCI and accumulated in equity are reclassified to profit or loss in the periods in which the hedged item affects profit or loss, in the same line item as the recognised hedged item.

If the derivative expires, or is sold, terminated or exercised, or the hedging relationship no longer meets the criteria for cash flow hedge accounting, then hedge accounting is discontinued. The cumulative gains or losses recognised in OCI and accumulated in equity remain in equity until the forecast transaction affects profit or loss. If the forecast transaction is no longer expected to occur, the cumulative gains and losses accumulated in equity are immediately reclassified to profit or loss, classified as trading revenue.

Net investment hedges

Hedges of net investments in foreign operations are accounted for in a similar way to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in OCI. Gains or losses relating to the ineffective portion of the hedge are recognised immediately in profit or loss. Gains and losses previously recognised in OCI are reclassified to profit or loss on disposal of the foreign operation.

Derivatives that do not qualify for hedge accounting

All gains and losses from changes in the fair values of derivatives that do not qualify for hedge accounting are recognised immediately in profit or loss as trading revenue.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the group (issuer) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are initially recognised at fair value, which is generally equal to the premium received, and then amortised over the life of the financial guarantee. Subsequent to initial recognition, the financial guarantee liability is measured at the higher of the present value of any expected payment, when a payment under the guarantee has become probable, and the unamortised premium.

Derecognition of financial instruments

Financial assets are derecognised when the contractual rights to receive cash flows from those assets has expired, or when the group has transferred its contractual rights to receive cash flows from the assets and either: (i) substantially all the risks and rewards of ownership have been transferred; or (ii) the group has neither retained nor transferred substantially all the risks and rewards of ownership, but has transferred control. Any interest in transferred financial assets that is created or retained by the group is recognised as a separate asset or liability.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of: (i) the consideration received (including any new asset obtained less any new liability assumed); and (ii) any cumulative gain or loss that has been recognised in OCI, is recognised in profit or loss.

The group enters into transactions whereby it transfers assets recognised on its balance sheet, but retains either all or a portion of the risks and rewards of those assets. If all or substantially all of the risks and rewards are retained, the transferred assets are not derecognised. Transfers of assets with the retention of all or substantially all of the risks and rewards include securities lending and sale and repurchase transactions.

When assets are sold to a third party with a concurrent total return swap on those assets, the transaction is accounted for as a secured financing transaction, similar to the sale and repurchase transactions above.

In transactions where the group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if control over that asset is transferred. Any rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers where control over the asset is retained, the group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial liabilities are derecognised when they are extinguished, that is, when the obligation is discharged, cancelled or expires.

Where an existing financial asset or liability is replaced by another with the same counterparty on substantially different terms, or the terms of an existing financial asset or liability are substantially modified, such an exchange or modification is treated as a derecognition of the original asset or liability and the recognition of a new asset or liability, with the difference in the respective carrying amounts being recognised in profit or loss. Any fees received as part of the modification that are considered in determining the fair value of the new asset or that represent reimbursement of eligible transaction costs are included in the initial measurement of the new asset or liability. Other fees, including any unamortised fees or costs on the original asset or liability, are recognised in profit or loss as part of the gain or loss on derecognition.

In all other instances, the group recalculates the gross carrying amount of the financial asset or liability using the original effective interest rate and recognises the resulting adjustment as a modification gain or loss in profit or loss. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset or liability and are amortised over the remaining term of the modified financial instrument.

Sale and repurchase and securities lending agreements

Securities sold subject to a commitment to repurchase at a fixed price or the purchase price plus a lender's rate of return (repurchase agreements) are not derecognised from the balance sheet and a liability is recorded in respect of the consideration received. The securities are disclosed as encumbered when the transferee has the right by contract or custom to sell or repledge the collateral. The liability to the counterparty is included under repurchase agreements or trading liabilities, as appropriate.

Securities purchased under a commitment to resell at a fixed price or the purchase price plus a lender's rate of return (reverse repurchase agreements), are not recognised on the balance sheet. An asset is recorded in respect of the consideration paid, included under reverse repurchase agreements or trading assets, as appropriate.

Repurchase and reverse repurchase agreements are measured at amortised cost or at fair value through profit or loss. For the former, the difference between the purchase and sales price is treated as interest, recognised in net interest income, and is amortised over the life of the agreement using the effective interest method.

Securities lent to counterparties are retained on the balance sheet and are classified and measured in accordance with the policy above. Securities borrowed are not recognised on the balance sheet unless sold to third parties. In these cases, the obligation to return the securities borrowed is recorded at fair value as a trading liability, with fair value changes recognised in profit or loss.

Income and expenses arising from the securities borrowing and lending business are recognised over the period of the transactions.

6. Commodities and related transactions

Commodities that are principally acquired by the group for the purpose of selling in the near future and generating a profit from fluctuations in price or broker-traders' margin, are measured at fair value less costs to sell and are reported as non-financial assets held for trading within other assets. All changes in fair value less costs to sell are recognised in trading revenue in the period of the change.

Commodities owned by the group may be held on an allocated or unallocated basis with third parties or within facilities leased by the group. Commodities held by the group on an allocated basis on behalf of customers are not recognised on the group's balance sheet.

Forward contracts to purchase or sell commodities that are either net settled or where physical delivery occurs and the commodities are held to settle another derivative contract, are recognised as derivative financial instruments and measured at fair value. All changes in fair value are recognised in profit or loss in trading revenue in the period of change.

Commodities purchased under agreements to resell, at either a fixed price or the purchase price plus a lender's rate of return that are in substance financing transactions are recorded as loans under reverse repurchase agreements or trading assets. For the former, the difference between the purchase and sales price is treated as interest and is amortised over the life of the transaction using the effective interest method. Transactions that form part of a trading activity and are managed on a fair value basis are held at fair value with changes in fair value recognised in profit or loss in trading revenue in the period of change.

Commodities lent to counterparties are retained on the balance sheet and are classified and measured in accordance with the policies set out above. Commodities borrowed are not recognised on the balance sheet unless sold to third parties, in which case, the obligation to return the commodity borrowed is recorded at fair value as non-financial liabilities due to customers within other liabilities. Income and expenses arising from the group's commodity borrowing and lending business are recognised over the period of the transactions.

The group also provides commodities financing by entering into prepayment agreements whereby purchases of commodities are prepaid at either a variable price or a fixed price. The former are recorded as loans and receivables, initially recognised at fair value, and subsequently measured at amortised cost using the effective interest method. The latter are hybrid contracts, also recorded as loans and receivables, initially recognised at fair value, and subsequently measured at fair value through profit or loss, with fair value changes recognised in trading revenue.

7. Intangible assets

Computer software

Costs associated with developing or maintaining computer software and the acquisition of software licences are generally recognised as an expense as incurred. However, direct computer software development costs that are clearly associated with an identifiable and unique system, which will be controlled by the group and have a probable future economic benefit beyond one year are recognised as intangible assets. Capitalisation is limited to development costs where the group is able to demonstrate its intention and ability to complete and use the software, the technical feasibility of the development, the availability of resources to complete the development, how the development will generate probable future economic benefits and the ability to reliably measure costs relating to the development. Development costs include employee costs for software development staff and an appropriate portion of relevant overheads.

Expenditure subsequently incurred on computer software is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. Costs relating to the ongoing maintenance of computer software are expensed immediately as incurred.

Direct computer software development costs recognised as intangible assets are amortised on a straight-line basis at rates appropriate to the expected useful lives of the assets (2 to 10 years) from the date the assets are available for use, and are carried at cost less accumulated amortisation and accumulated impairment losses. The carrying amount of capitalised computer software is reviewed annually and is written down when impaired. Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted, if necessary.

8. Property and equipment

Computer and office equipment, furniture, fittings and other tangible assets are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. Where significant parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Costs that are subsequently incurred are included in the asset's related carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits will flow to the group and the cost of the item can be measured reliably. Expenditure that does not meet these criteria is recognised in profit or loss as incurred. Depreciation, impairment losses and gains and losses on disposal of assets are included in profit or loss.

Property and equipment are depreciated to their estimated residual values on a straight-line basis over the estimated useful lives of the assets. The assets' residual values, useful lives and the depreciation method applied are reviewed, and adjusted if appropriate, at each financial year-end.

The estimated useful lives of tangible assets are typically as follows:

Computer equipment	2 to 5 years
Office equipment	5 to 7 years
Furniture and fittings	5 to 7 years

There has been no change to the estimated useful lives and depreciation methods from those applied in the previous financial year.

Items of property and equipment are derecognised on disposal or when no future economic benefits are expected from their use or disposal. The gain or loss on derecognition is recognised in profit or loss and is determined as the difference between the net disposal proceeds and the carrying amount of the item.

9. Impairment of non-financial assets

Intangible assets that have an indefinite useful life or that are not yet available for use are tested annually for impairment and additionally when an indicator of impairment exists. Intangible assets that are subject to amortisation and other non-financial assets are reviewed for impairment at each reporting date and tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised in profit or loss for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Fair value less costs to sell is determined by ascertaining the current market value of an asset and deducting any costs related to the realisation of the asset. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed through profit or loss only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

10. Leases

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. A lease of assets is either classified as a finance lease or operating lease.

Group as lessee

Leases where the group assumes substantially all the risks and rewards incidental to ownership of an asset are classified as finance leases. All other leases are classified as operating leases.

All leases held by the group are classified as operating leases. Assets held under operating leases are not recognised on the group's balance sheet. Payments made under operating leases, net of any incentives received from the lessor, are recognised in profit or loss on a straight-line basis over the term of the lease.

11. Provisions, contingent assets and contingent liabilities

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are determined by discounting the expected future cash flows required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability.

A provision for onerous contracts is recognised when the expected benefits to be derived by the group from a contract are lower than the unavoidable costs of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the group recognises any impairment loss on the assets associated with that contract.

Contingent liabilities include certain guarantees, other than financial guarantees, and letters of credit. Contingent liabilities are not recognised in the annual financial statements but are disclosed unless they are remote.

Contingent assets are not recognised in the annual financial statements but are disclosed when it is probable that economic benefits will flow to the group.

12. Tax

Direct taxation

Direct taxation includes current and deferred tax. Current and deferred tax are recognised in profit or loss except to the extent that they relate to items recognised directly in equity or in OCI, in which case they are recognised in the same statement in which the related item appears.

Current tax represents the expected tax payable on taxable profits for the year, calculated using tax rates enacted or substantively enacted at the reporting date, and any adjustments to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax is calculated using the tax rates expected to apply to the temporary differences when they reverse, based on laws that have been enacted or substantively enacted at the reporting date.

The amount of deferred tax recognised is based on the expected manner of realisation or settlement of the asset or liability and is not discounted. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent it is probable that future taxable profits will be available against which the unused tax losses and other deductible temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent it is no longer probable that the related tax benefit will be realised.

Current and deferred tax assets and liabilities are offset if there is a legally enforceable right to offset and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different taxable entities in the same tax reporting group, and they intend to settle on a net basis or the tax assets and liabilities will be realised and settled simultaneously.

The company is part of a tax group, which also includes companies from its shareholders' groups, for certain aspects of UK tax legislation. One of these relates to consortium relief whereby current tax losses arising in the company can be used to offset current tax liabilities arising in other companies in the same tax group. Payment for consortium relief may be made by the claimant companies to the company in an amount up to the tax value of the losses surrendered. The benefit to the company is included in profit or loss in the period in which the claim is made with a corresponding adjustment to the unrecognised deferred tax asset.

Indirect taxation

Indirect taxes, including non-recoverable value added tax (VAT) and other duties for banking activities, are recognised in profit or loss as they arise and disclosed separately in the income statement.

13. Employee benefits

Post-employment benefits – defined contribution plans

The group operates a number of defined contribution plans, with contributions based on a percentage of pensionable earnings funded by both employer companies and employees. The assets of these plans are generally held in separate trustee-administered funds.

Contributions to these plans are recognised as an expense in profit or loss in the periods during which services are rendered by employees.

Short-term benefits

Short-term employee benefits consist of salaries, accumulated leave payments, cash bonuses and any non-monetary benefits such as medical care contributions. Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus plans or accumulated leave if the group has a present legal or constructive obligation to pay these amounts as a result of past service provided by the employee and the obligation can be estimated reliably.

14. Long-term incentive schemes

The group operates both cash-settled and equity-settled share-based compensation plans. Despite ICBC's acquisition of a controlling interest in the group in 2015, IFRS 2, *Share-Based Payment*, is considered the most appropriate accounting policy for payments linked to the Standard Bank Group Limited (SBG) share price. Accordingly, compensation arrangements linked to the SBG share price continue to be presented as share-based payments in accordance with the requirements of this standard.

Quanto stock unit plan

The quanto stock unit plan awards quanto stock units denominated in US dollars and is a cash-settled, deferred incentive scheme. For those units in issue at 31 December 2015, the value is based on the SBG share price and moves in parallel to the change in price of SBG ordinary shares listed on the Johannesburg Stock Exchange. For awards made on or after 1 January 2016, the value of units is based on the ICBC ordinary share price as quoted on the Hong Kong Stock Exchange.

The awards, which are granted following Board remuneration committee approval subsequent to year end, vest over a three year period dependent on the employee remaining in service for the period and are recognised as an expense accrued from the award date over the vesting period. The amount of the accrued liability is re-measured at the end of each reporting period, taking into account assumptions about leavers. Changes in the liability are accounted for through profit or loss over the life of the quanto stock units. The changes in the liability arising from share price movements have been hedged, applying cash flow hedging principles.

SBG equity scheme

The SBG equity-settled share-based compensation plan awards options over the ordinary shares of SBG. The cost of the employee services received in respect of the share options granted, which is based on the fair value of the options at the grant date, is recognised as an expense in profit or loss over the vesting period. At the end of each reporting period, the estimate of the number of options expected to vest is reassessed and the cost of the awards is adjusted against profit or loss, with a corresponding increase in reserves. Non-market vesting conditions are not considered in the valuation but are included in the estimate of the number of options expected to vest.

15. Revenue and expenditure

Revenue described below represents the most appropriate equivalent of turnover for a bank and is derived substantially from the business of banking and related activities.

Net interest income

Interest income and expense are recognised in profit or loss on an accruals basis using the effective interest method for all interest-bearing financial instruments, except those classified at fair value through profit or loss. Under the effective interest method, interest is recognised at a rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. Direct incremental transaction costs incurred and origination fees received, including loan commitment fees, as a result of bringing margin-yielding assets or liabilities on to the balance sheet, are capitalised to the carrying amount of financial instruments that are not at fair value through profit or loss and amortised as interest income or expense over the life of the asset or liability as part of the effective interest rate.

Where the estimate of payments or receipts on financial assets or financial liabilities are subsequently revised, the carrying amount of the financial asset or financial liability is adjusted to reflect actual and revised estimated cash flows. The carrying amount is calculated by computing the present value of the estimated cash flows at the financial asset's or financial liability's original effective interest rate. Any adjustment to the carrying value is recognised in net interest income.

Non-interest revenue

Net fees, commission and revenue sharing arrangements

Fee and commission income, including transactional fees, account servicing fees, sales commissions and placement fees are recognised as the related services are performed. Loan commitment fees for loans that are not expected to be drawn down are recognised on a straight-line basis over the commitment period. Loan syndication fees, where the group does not participate in the syndication or participates at the same effective interest rate for comparable risk as other participants, are recognised as revenue when the syndication has been completed. Syndication fees that do not meet these criteria are capitalised as origination fees and amortised as interest income over the life of the loan as part of the effective interest rate.

A contract with a customer that results in a recognised financial instrument in the group's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, the group first applies IFRS 9 to separate and measure the part of the contract that is in the scope of that standard and then applies IFRS 15 to the residual.

The fair value of issued financial guarantee contracts on initial recognition is amortised as income over the term of the contract.

Fee and commission expenses included in net fee and commission income are mainly transaction and service fees relating to financial instruments, which are expensed as the services are received. Expenditure is recognised as fee and commission expenses where the expenditure is linked to the production of fee and commission income.

Trading revenue

Trading revenue comprises all gains and losses from changes in the fair value of financial assets and liabilities held for trading (including derivative assets and liabilities not designated as hedging instruments) and commodities within non-financial assets held for trading, together with related interest income and expense, dividends and foreign exchange differences.

Gains/losses from non-trading financial instruments at fair value

Gains/losses from non-trading financial instruments at fair value includes all gains and losses from changes in the fair value of non-trading financial instruments at fair value, including interest income and expense, dividends and foreign exchange differences in respect of those financial instruments, and gains and losses from changes in the fair value of derivatives managed in conjunction with those financial instruments.

Dividend income

Dividends are recognised in profit or loss when the right to receipt is established, it is probable that the economic benefits associated with the dividend will flow to the group and the amount of the dividend can be measured reliably. Scrip dividends are recognised as revenue where the dividend declaration provides for a cash alternative.

16. Segment reporting

An operating segment is a component of the group engaged in business activities, whose operating results are reviewed regularly by management in order to make decisions about resources to be allocated to the segment and assess its performance. The group's identification of segments and the measurement of segment results are based on the group's internal reporting to management. Transactions between segments are priced at market-related rates.

17. Fiduciary activities (client money and client assets)

The group engages in trust or other fiduciary activities that result in the holding or placing of assets on behalf of individuals, trusts, post-employment benefit plans and other institutions. These assets and the income arising directly thereon are excluded from these annual financial statements as they are not assets of the group. Fee income earned and fee expenses incurred by the group relating to its responsibilities from fiduciary activities are recognised in profit or loss.

18. New standards and interpretations not yet adopted

The following new or revised standards and amendments were not effective for the year ended 31 December 2018 and have not been applied in preparing these annual financial statements.

Pronouncement	Title	Effective date
IFRS 16	*Leases* This standard will replace the existing standard, IAS 17 *Leases* and its related interpretations, and sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, being the lessee (customer) and the lessor (supplier). The core principle of this standard is that the lessee and lessor should recognise all rights and obligations arising from leasing arrangements on balance sheet. For lessees, IFRS 16 eliminates the classification of leases as either operating or finance leases, as required by IAS 17, and introduces a single, on balance sheet lessee accounting model, where a right of use asset together with a liability for the future lease payments is recognised for all leases with a term of more than 12 months, unless the leased asset is of low value. The group will apply IFRS 16 from its mandatory adoption date of 1 January 2019, using the simplified transition approach, with right of use assets measured on transition at the amount of the lease liability (adjusted for any prepaid or accrued lease expenses). Prior year comparative information will not be restated. The group has assessed the impact of IFRS 16 on its annual financial statements. On initial application, the group will recognise new assets and liabilities for its operating leases of office premises in the various locations in which it operates and certain computer and other office equipment. Expenses related to these leases will change from a straight line operating lease expense to a depreciation charge for the right of use assets and interest expense on lease liabilities. At 1 January 2019, the group expects to recognise lease liabilities of US$73.6 million and right of use assets (adjusted for onerous lease provisions previously recognised under IAS 37 and certain lease incentives) of US$73.0 million. Net profit before tax for 2019 is expected to decrease by US$1.4 million as a result of adopting the new standard. The group's activities as a lessor are limited to the sub-leases on space in certain office premises, which is sub-let by the group to third party lessees. Under IFRS 16, these sub-leases will be treated as operating leases with the group continuing to recognise the right of use asset and recognising the sub-lease income (adjusted for any lease incentives granted to the lessee) on a straight line basis over the life of the lease. These sub-leases are not material to the group's activities and hence the group does not expect any significant impact on its annual financial statements. The group's existing operating lease commitments prior to adoption of IFRS 16 are set out in note 29.2.	Annual periods beginning on or after 1 January 2019

The IASB has issued a number of amendments to IFRSs and interpretations, which will be effective for annual periods beginning on 1 January 2019 or later. The group has not early adopted any of these amendments or interpretations and they are not expected to have a material effect on its financial statements or the separate financial statements of the company when adopted.

Notes to the annual financial statements

1 Segment reporting

The results comprise four reportable segments, namely Commodities, FICE, Investment Banking and Other. Information related to each reportable segment is set out below. Costs are allocated to business units based on relevant cost drivers. The information below is after eliminating transactions and balances between segments.

Operating segments	
Commodities	The Commodities business unit provides trading, sales and structuring expertise and has global presence across Base Metals, Precious Metals and Energy.
FICE	The FICE business unit provides a comprehensive range of foreign exchange, money markets, interest rate, credit and equity products. The segment is focused on emerging markets.
Investment Banking	The Investment Banking business comprises Client Coverage (International and China), Debt and Equity Capital Markets, and Advisory teams. The business provides a complimentary product and service offering for the group's existing client base and generates cross-sell opportunities.
Other	Includes central treasury balance sheet and significant items not allocated to business segments.

2018 Segment results	Commodities $m	FICE $m	IB $m	Other $m	Total $m
Net interest income	3.1	67.8	-	-	70.9
Net fees, commission and revenue sharing arrangements	11.9	21.7	10.5	-	44.1
Trading revenue	88.5	127.7	-	-	216.2
Net gain on non-trading financial assets and liabilities at fair value through profit or loss	-	14.9	-	-	14.9
Gain on commodity reverse repurchase agreements [1]	37.9	-	-	-	37.9
Total operating income	141.4	232.1	10.5	-	384.0
Credit impairment charges	(0.6)	(0.1)	-	-	(0.7)
Revenue after impairments	140.8	232.0	10.5	-	383.3
Operating expenses	(143.7)	(218.1)	(17.3)	-	(379.1)
(Loss) / profit before taxation	(2.9)	13.9	(6.8)	-	4.2
Income tax (charge) / recovery	-	(20.2)	-	1.2	(19.0)
(Loss) / profit attributable to equity shareholders	(2.9)	(6.3)	(6.8)	1.2	(14.8)

[1]This relates to the recovery on the commodity reverse repurchase agreement referred to in note 30.4. Previous gains and losses were included in the Other segment.

Included in operating expenses:					
Depreciation	(2.2)	(2.2)	(0.2)	-	(4.6)
Amortisation of intangible assets	(1.7)	(2.2)	(0.2)	-	(4.1)

2017 Segment results	Commodities $m	FICE $m	IB $m	Other $m	Total $m
Net interest income	14.0	66.7	-	-	80.7
Net fees, commission and revenue sharing arrangements	1.9	19.9	9.3	-	31.1
Trading revenue	82.6	166.3	(0.1)	-	248.8
Net gain on financial assets and liabilities at fair value through profit or loss	-	21.8	-	-	21.8
Total operating income	98.5	274.7	9.2	-	382.4
Credit impairment recoveries	3.5	4.9	-	-	8.4
Revenue after impairments	102.0	279.6	9.2	-	390.8
Operating expenses	(139.2)	(216.5)	(15.6)	-	(371.3)
(Loss) / profit before taxation	(37.2)	63.1	(6.4)	-	19.5
Income tax (charge) / recovery	-	(8.6)	-	18.8	10.2
(Loss) / profit attributable to equity shareholders	(37.2)	54.5	(6.4)	18.8	29.7
Included in operating expenses:					
Depreciation	(2.4)	(2.5)	(0.2)	-	(5.1)
Amortisation of intangible assets	(0.4)	(0.3)	-	-	(0.7)

2018 Segment assets and liabilities					
Total assets	9,530.4	12,241.1	3.9	2,799.1	24,574.5
Total liabilities	9,530.4	12,241.1	3.9	1,541.3	23,316.7
2017					
Total assets	6,969.4	13,027.3	4.0	3,853.0	23,853.7
Total liabilities	6,969.4	13,027.3	4.0	2,570.7	22,571.4

1 Segment reporting (continued)

Geographical analysis

The geographical analysis has been compiled on the basis of location of the office where the transactions are recorded.

Name	Nature of activities	Geographical location	Turnover[1]	Profit / (loss) before tax	Corporation tax paid	Average number of employees
			$m	$m	$m	
2018						
ICBC Standard Bank Plc	Banking	United Kingdom	316.8	1.8	-	802
ICBC Standard Bank Plc DIFC branch	Banking	Dubai	2.0	-	-	3
ICBC Standard Bank Plc Hong Kong branch	Banking	Hong Kong	9.1	0.7	-	26
ICBC Standard Bank Plc Singapore branch	Banking	Singapore	28.4	0.8	-	94
ICBC Standard Bank Plc Tokyo branch	Banking	Japan	2.5	0.1	0.2	10
ICBC Standard Resources (China) Limited	Trading	China	3.6	0.1	-	12
ICBC Standard NY Holdings, Inc. group	Broker/Dealer	USA	21.5	0.6	-	40
Other consolidation eliminations			0.1	0.1	-	-
Total			384.0	4.2	0.2	987
2017						
ICBC Standard Bank Plc	Banking	United Kingdom	317.7	15.4	-	757
ICBC Standard Bank Plc DIFC branch	Banking	Dubai	1.3	0.1	-	2
ICBC Standard Bank Plc Hong Kong branch	Banking	Hong Kong	8.6	0.4	-	22
ICBC Standard Bank Plc Singapore branch	Banking	Singapore	26.5	1.0	-	89
ICBC Standard Bank Plc Tokyo branch	Banking	Japan	2.6	0.1	0.1	10
ICBC Standard Resources (China) Limited	Trading	China	3.2	0.1	-	12
ICBC Standard NY Holdings, Inc. group	Broker/Dealer	USA	20.8	0.7	-	39
Other consolidation eliminations			1.7	1.7	-	-
Total			382.4	19.5	0.1	931

[1] Turnover is defined as accounting revenue, being total operating income.

Summary balance sheet	Total assets	Non-financial assets	Total liabilities	Non-financial liabilities
	$m	$m	$m	$m
2018				
ICBC Standard Bank Plc	24,481.7	7,367.1	23,300.2	5,538.2
ICBC Standard Bank Plc DIFC branch	2.5	2.4	2.8	2.8
ICBC Standard Bank Plc Hong Kong branch	12.3	2.9	7.1	1.8
ICBC Standard Bank Plc Singapore branch	25.9	5.5	6.9	6.9
ICBC Standard Bank Plc Tokyo branch	8.0	7.3	9.9	8.5
ICBC Standard Resources (China) Limited	55.4	1.8	2.7	0.6
ICBC Standard NY Holdings, Inc. group	27.3	6.5	12.2	7.2
Other consolidation eliminations	(38.6)	(12.8)	(25.1)	(12.7)
Total	24,574.5	7,380.7	23,316.7	5,553.3
2017				
ICBC Standard Bank Plc	23,744.5	4,294.3	22,541.6	1,808.5
ICBC Standard Bank Plc DIFC branch	0.8	0.7	1.1	1.1
ICBC Standard Bank Plc Hong Kong branch	12.0	2.6	7.4	1.9
ICBC Standard Bank Plc Singapore branch	25.1	5.0	6.6	6.6
ICBC Standard Bank Plc Tokyo branch	18.0	9.7	19.8	17.4
ICBC Standard Resources (China) Limited	60.0	3.0	2.8	0.7
ICBC Standard NY Holdings, Inc. group	27.4	7.8	12.7	7.5
Other consolidation eliminations	(34.1)	(7.7)	(20.6)	(7.1)
Total	23,853.7	4,315.4	22,571.4	1,836.6

No public subsidies were received during the current or prior year.

The geographical analysis has been prepared in accordance with Capital Requirements (Country-by-Country Reporting) Regulations 2013.

2 Key management assumptions

In preparing the consolidated and company financial statements, estimates and judgements are made that could affect the reported amounts of assets and liabilities within the next reporting period. Estimates and judgements are continually evaluated and are based on factors such as historical experience and current best estimates of uncertain future events that are believed to be reasonable under the circumstances.

2.1 Going concern (judgement)

The group has continued to adopt the going concern basis in preparing the annual financial statements. This basis is adopted due to the parent company support, capital and liquidity position and the projected financial position included in the business plan. The business plan includes assumptions about business performance and continued parental support.

2.2 Taxation (estimate)

The group is subject to direct and indirect taxation in a number of jurisdictions. There may be transactions and calculations for which the ultimate tax determination has an element of uncertainty during the ordinary course of business. The group recognises liabilities based on estimates of the quantum of taxes that may be due. Where the final tax determination is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax expense in the year in which such determination is made.

The group supplies gold for refining as part of its commodities business. With respect to specific transactions, there is technical uncertainty as to whether US$13 million of tax for the past three years should have been charged. If such tax is held to be chargeable, it is expected to be recoverable from the client, and the client in turn would recover the tax paid from the revenue authorities. The group does not consider the tax to be chargeable but has approached the revenue authorities for a ruling to obtain certainty on this matter.

Deferred tax assets (estimate)

The accounting policy for the recognition of deferred tax assets is described in accounting policy 12. A deferred tax asset is recognised to the extent it is probable that suitable future taxable profits will be available against which deductible temporary differences can be utilised. The recognition of a deferred tax asset relies on management's judgements surrounding the probability and sufficiency of suitable future taxable profits, future reversals of existing taxable temporary differences and the group's tax planning strategies.

The deferred tax asset recognised is based on the evidence available about conditions at the reporting date and requires significant judgements to be made by management, especially those based on management's projections of business revenues. Management's judgement takes into account the impact of both negative and positive evidence, including historical financial results and projections of future taxable income, on which the recognition of the deferred tax asset is mainly dependent.

Due to the historic performance of the group with losses suffered in recent years, there is uncertainty over the recoverability of the group's deferred tax asset balances. As a result, deferred tax assets of US$192.1 million (2017: US$191.0 million) have not been recognised in respect of unutilised trading losses carried forward and other temporary differences.

Additional disclosure relating to the deferred tax asset is set out in note 12.

2.3 Determining fair value (estimate)

The fair value of financial instruments that are not quoted in active markets is determined using other valuation techniques. Wherever possible, models use only observable market data. Where required, these models incorporate assumptions that are not supported by prices from observable current market transactions in the same instrument and are not based on available observable market data. Such assumptions include recoverability, risk premiums, liquidity discount rates, credit risk, volatilities and correlations. Changes in these assumptions could affect the reported fair values of financial instruments. Additional disclosures on fair value measurements of financial instruments are set out in notes 23 to 25.

2 Key management assumptions (continued)

2.4 Legal proceedings and regulatory matters (judgement)

From time to time, the group is the subject of litigation, regulatory reviews and requests for information by various governmental and regulatory bodies arising from the group's business operations. While there is inherent uncertainty in predicting the outcome of these matters, management believe that based upon current knowledge, adequate provisions have been made if required in accordance with accounting policy 11.

The above includes the following matters:

- ICBC Standard Bank Plc is defending a class action lawsuit filed against it and a number of other institutions in the Southern District of New York for unquantified damages arising as a result of an alleged conspiracy to manipulate and rig the global benchmarks for physical platinum and palladium prices, as well as the prices of platinum and palladium based financial derivative products. ICBC Standard Bank Plc is also defending a similar complaint filed against it (and various other institutions) by an individual plaintiff.

- In February 2017, the South African Competition Commission filed a referral affidavit with the Competition Tribunal alleging collusive behaviour in the trading of foreign currency pairs involving the Rand between 2007 and 2013. The allegations are made against twenty three institutions, including Standard New York Securities Inc (a subsidiary of ICBC Standard Bank Plc, now known as ICBC Standard Securities Inc).

3 Cash and balances with central banks

	Group		Company	
	2018	2017	**2018**	2017
	$m	$m	**$m**	$m
Reserve Account with Bank of England[1]	**1,920.9**	2,989.5	**1,920.9**	2,989.5

[1]This reserve account operates in the same way as a current account with an overnight contractual tenor.

	Group		Company	
	2018	2017	**2018**	2017
	$m	$m	**$m**	$m
4 Due from banks and other financial institutions				
Gross banks and other financial institutions	**1,580.4**	2,059.5	**1,497.1**	1,974.2
Credit loss allowances	**(0.9)**	-	**(0.9)**	-
	1,579.5	2,059.5	**1,496.2**	1,974.2
Segmental industry analysis				
Due from banks	**1,035.5**	738.6	**973.1**	677.8
Other financial institutions	**544.0**	1,320.9	**523.1**	1,296.4
	1,579.5	2,059.5	**1,496.2**	1,974.2
Included above are the following amounts with related parties:				
Balances with ultimate holding company (ICBC Limited) and subsidiaries and branches	**110.3**	105.1	**67.1**	64.0
Balances with shareholder with significant influence (SBG) and subsidiaries and branches	**19.6**	85.3	**19.6**	85.3
	129.9	190.4	**86.7**	149.3
5 Financial assets held for trading				
Government, utility bonds and treasury bills	**1,036.8**	2,247.7	**1,036.8**	2,247.7
Corporate bonds and floating rate notes	**355.0**	129.4	**355.0**	129.4
Listed equities	**36.3**	62.4	**36.3**	62.4
Reverse repurchase agreements	**154.3**	140.0	**154.3**	140.0
	1,582.4	2,579.5	**1,582.4**	2,579.5
Included above are the following amounts with related parties:				
Balances with ultimate holding company (ICBC Limited) and subsidiaries and branches	**1.3**	1.6	**1.3**	1.6
Balances with shareholder with significant influence (SBG) and subsidiaries and branches	**-**	-	**-**	-
	1.3	1.6	**1.3**	1.6
6 Non-trading financial assets at fair value through profit or loss				
Debt instruments[1]	**1,334.5**	1,330.1	**1,334.5**	1,330.1
Unlisted equities	**6.2**	5.8	**6.2**	5.8
	1,340.7	1,335.9	**1,340.7**	1,335.9

[1]To mitigate credit risk exposure on these instruments, the group received a credit linked loan also designated at fair value through profit or loss. Refer to note 16.

7 Derivative instruments

7.1 Derivative assets and liabilities

All derivatives are classified as either derivatives held for trading or derivatives held for hedging.

Group — 2018

	Maturity analysis of net fair value < 1 year	Maturity analysis of net fair value 1 - 5 years	Maturity analysis of net fair value > 5 years	Net fair value	Fair value of assets	Fair value of liabilities	Contract / notional amount
	$m	$m	$m	$m	$m	$m	$m
Derivatives held for trading							
Foreign exchange derivatives	34.3	(16.1)	(0.2)	18.0	710.2	(692.2)	72,681.4
Forwards	34.6	(16.9)	-	17.7	704.3	(686.6)	70,293.4
Options	(0.3)	0.8	(0.2)	0.3	5.9	(5.6)	2,388.0
Interest rate derivatives	(116.9)	(11.6)	(39.6)	(168.1)	1,776.1	(1,944.2)	167,930.4
Caps and floors	0.1	-	-	0.1	2.7	(2.6)	1,558.3
Forwards	-	-	0.1	0.1	0.6	(0.5)	1,902.8
Futures options	(0.1)	-	-	(0.1)	-	(0.1)	18,891.0
Swaps	(115.4)	(10.6)	(39.5)	(165.5)	1,770.8	(1,936.3)	143,241.1
Swaptions	(1.5)	(1.0)	(0.2)	(2.7)	2.0	(4.7)	2,337.2
Commodity derivatives	125.3	3.7	-	129.0	1,177.8	(1,048.8)	135,937.4
Forwards	84.6	3.9	-	88.5	606.4	(517.9)	22,322.0
Futures	31.1	(0.1)	-	31.0	522.3	(491.3)	110,761.4
Options	9.6	(0.1)	-	9.5	49.1	(39.6)	2,854.0
Credit derivatives	(99.2)	(46.1)	(22.4)	(167.7)	215.7	(383.4)	4,133.9
Credit default swaps	2.9	(15.6)	3.4	(9.3)	21.3	(30.6)	2,630.3
Total return swaps	(102.1)	(30.5)	(25.8)	(158.4)	194.4	(352.8)	1,503.6
Equity derivatives	6.2	6.2	-	12.4	75.8	(63.4)	1,111.4
Options	6.2	6.2	-	12.4	75.8	(63.4)	1,111.4
Total derivative assets / (liabilities) held for trading	(50.3)	(63.9)	(62.2)	(176.4)	3,955.6	(4,132.0)	381,794.5
Derivatives held for hedging							
Derivatives designated as cash flow hedges	0.3	(0.7)	-	(0.4)	2.3	(2.7)	198.3
Foreign exchange forwards	(1.4)	-	-	(1.4)	-	(1.4)	184.6
Equity options	1.7	(0.7)	-	1.0	2.3	(1.3)	13.7
Derivatives designated as fair value hedges	3.4	58.5	-	61.9	61.9	-	2,500.0
Interest rate swaps	3.4	58.5	-	61.9	61.9	-	2,500.0
Total derivative assets / (liabilities) held for hedging	3.7	57.8	-	61.5	64.2	(2.7)	2,698.3
Total derivative assets / (liabilities)	(46.6)	(6.1)	(62.2)	(114.9)	4,019.8	(4,134.7)	384,492.8

Included above are the following amounts with related parties:

	Net fair value	Fair value of assets	Fair value of liabilities
Balances with ultimate holding company (ICBC Limited) and subsidiaries and branches	(10.3)	251.6	(261.9)
Balances with shareholder with significant influence (SBG) and subsidiaries and branches	163.7	226.7	(63.0)

The company reported derivative assets of US$4,019.8 million (2017: US$4,299.5 million) and derivative liabilities of US$4,134.7 million (2017: US$4,652.6 million).

7 Derivative instruments

7.1 Derivative assets and liabilities

All derivatives are classified as either derivatives held for trading or derivatives held for hedging.

Group 2017

	Maturity analysis of net fair value			Net fair value	Fair value of assets	Fair value of liabilities	Contract / notional amount
	< 1 year	1 - 5 years	> 5 years				
	$m	$m	$m	$m	$m	$m	$m
Derivatives held for trading							
Foreign exchange derivatives	23.4	21.6	(0.2)	44.8	613.2	(568.4)	49,317.7
Forwards	25.9	22.6	-	48.5	592.7	(544.2)	47,379.2
Options	(2.5)	(1.0)	(0.2)	(3.7)	20.5	(24.2)	1,938.5
Interest rate derivatives	101.5	(87.0)	(63.9)	(49.4)	2,061.1	(2,110.5)	158,727.2
Caps and floors	-	1.2	-	1.2	2.9	(1.7)	2,933.6
Forwards	-	-	-	-	4.1	(4.1)	8,351.4
Futures options	-	-	-	-	-	-	16,034.3
Swaps	101.6	(86.5)	(63.3)	(48.2)	2,046.1	(2,094.3)	127,890.7
Swaptions	(0.1)	(1.7)	(0.6)	(2.4)	8.0	(10.4)	3,517.2
Commodity derivatives	(142.8)	20.6	-	(122.2)	1,446.9	(1,569.1)	130,261.8
Forwards	21.7	(20.3)	-	1.4	72.8	(71.4)	1,013.4
Futures	(197.5)	9.5	-	(188.0)	1,144.0	(1,332.0)	124,988.1
Options	33.1	31.4	-	64.5	230.1	(165.6)	4,258.3
Swaps	(0.1)	-	-	(0.1)	-	(0.1)	2.0
Credit derivatives	(127.0)	(30.7)	(130.8)	(288.5)	102.6	(391.1)	3,228.1
Credit default swaps	3.7	(19.9)	3.3	(12.9)	27.0	(39.9)	2,597.8
Total return swaps	(130.7)	(10.8)	(134.1)	(275.6)	75.6	(351.2)	630.3
Equity derivatives	2.1	(7.4)	-	(5.3)	8.2	(13.5)	764.5
Options	2.1	(7.4)	-	(5.3)	8.2	(13.5)	764.5
Total derivative assets / (liabilities) held for trading	(142.8)	(82.9)	(194.9)	(420.6)	4,232.0	(4,652.6)	342,299.3
Derivatives held for hedging							
Derivatives designated as cash flow hedges	6.1	3.4	-	9.5	9.5	-	100.8
Foreign exchange forwards	2.9	0.3	-	3.2	3.2	-	85.3
Equity options	3.2	3.1	-	6.3	6.3	-	15.5
Derivatives designated as fair value hedges	-	58.0	-	58.0	58.0	-	2,500.0
Interest rate swaps	-	58.0	-	58.0	58.0	-	2,500.0
Total derivative assets / (liabilities) held for hedging	6.1	61.4	-	67.5	67.5	-	2,600.8
Total derivative assets / (liabilities)	(136.7)	(21.5)	(194.9)	(353.1)	4,299.5	(4,652.6)	344,900.1

Included above are the following amounts with related parties:

	Net fair value	Fair value of assets	Fair value of liabilities
Balances with ultimate holding company (ICBC Limited) and subsidiaries and branches	(140.8)	160.8	(301.6)
Balances with shareholder with significant influence (SBG) and subsidiaries and branches	9.2	190.1	(180.9)

7 Derivative instruments (continued)

The contract/notional amount is the sum of the absolute value of all bought and sold contracts. The amount cannot be used to assess the market risk associated with the positions held and should be used only as a means of assessing the extent of the group's participation in derivative contracts.

7.2 Use and measurement of derivative instruments

In the normal course of business, the group enters into a variety of derivative transactions for both trading and hedging purposes. Derivative financial instruments are entered into for trading purposes on behalf of customers and for the group's own account, and for hedging foreign exchange, interest rate and equity exposures. Derivative instruments used by the group in both trading and hedging activities include swaps, options, forwards, futures and other similar types of instruments based on foreign exchange rates, interest rates, credit risk and the prices of commodities and equities.

The risks associated with derivative instruments are monitored in the same manner as for the underlying instruments. Risks are also measured across the product range in order to take into account possible correlations.

The fair values of all derivatives are recognised in the balance sheet and are only offset to the extent that the group currently has a legal right of set-off and there is an intention to settle on a net basis.

Swaps are transactions in which two parties exchange cash flows on a specified notional amount for a predetermined period. The major types of swap transactions undertaken by the group are as follows:

- Interest rate swap contracts generally entail the contractual exchange of fixed and floating rate interest payments in a single currency, based on a notional amount and an interest reference rate.
- Cross currency interest rate swaps involve the exchange of interest payments based on two different currency principal balances and interest reference rates and generally also entail exchange of principal amounts at the start and/or end of the contract.
- Credit default swaps are the most common form of credit derivative, under which the party buying protection makes one or more payments to the party selling protection during the life of the swap in exchange for an undertaking by the seller to make a payment to the buyer following a credit event, as defined in the contract, with respect to a third party.
- Total return swaps are contracts in which one party (the total return payer) transfers the economic risks and rewards associated with an underlying asset to another counterparty (the total return receiver). The transfer of risk and reward is affected by way of an exchange of cash flows that mirror changes in the value of the underlying asset and any income derived therefrom.

Options are contractual agreements under which the seller (writer) grants the purchaser the right, but not the obligation, either to buy (call option) or to sell (put option) by or on a set date, a specified amount of a financial instrument or commodity at a predetermined price. The seller receives a premium from the purchaser for this right. Options may be traded over-the-counter (OTC) or on a regulated exchange.

Forwards and futures are contractual obligations to buy or sell a specified amount of a financial instrument or commodity on a future date at a specified price. Forward contracts are tailor-made agreements that are transacted between counterparties in the OTC market, whereas futures are standardised contracts transacted on regulated exchanges.

7.3 Derivatives held for trading

The group trades derivative instruments on behalf of customers and for its own account. The group transacts derivative contracts to address customer demands both as a market maker in the wholesale markets and in structuring tailored derivatives for customers. The group also takes positions for its own account. Trading derivative products includes the following derivative instruments:

7.3.1 Foreign exchange derivatives

Foreign exchange derivatives are used to hedge foreign currency risks on behalf of customers and for the group's own positions. Foreign exchange derivatives primarily consist of forward exchange contracts, foreign exchange futures and foreign exchange options.

7.3.2 Interest rate derivatives

Interest rate derivatives are used to modify the volatility and interest rate characteristics of interest-earning assets and interest-bearing liabilities on behalf of customers and for the group's own positions. Interest rate derivatives primarily consist of caps and floors, forward rate agreements, futures options and swaps.

7.3.3 Commodity derivatives

Commodity derivatives are used to address customer commodity demands and to take positions for the group's own account. Commodity derivatives primarily consist of forwards, futures, and options.

7.3.4 Credit derivatives

Credit derivatives are used to hedge the credit risk exposure from one counterparty to another and manage the credit exposure to selected counterparties on behalf of customers and for the group's own positions. Credit derivatives primarily consist of credit default swaps and total return swaps.

7.3.5 Equity derivatives

Equity derivatives are used to address customer equity demands and to take positions for the group's own account. Equity derivatives primarily consist of futures, options, index options, swaps and other equity related financial derivative instruments.

7 Derivative instruments (continued)

7.4 Derivatives held for hedging

7.4.1 Derivatives designated as cash flow hedges

The group designates certain derivative contracts as a hedge of the exposure to variability in cash flows attributable to a particular risk associated with a recognised asset or liability or highly probable future transaction that could affect profit or loss (cash flow hedges), as follows:

- The income statement volatility associated with future highly probable expenses in currencies other than the functional currency is hedged utilising forward exchange contracts.
- Equity options are used to mitigate risk of change in cash flows arising from changes in the long-term incentive liability, underpinned by the SBG or ICBC share price (note 30.9.1).

The former provides a hedge of the group's sterling cost base against the US dollar functional currency for exchange rate movements. The hedge ratio is determined by comparing the notional amount of the derivative against the forecasted operating costs that are to be hedged. For the purposes of hedge effectiveness testing, the group compares changes in the fair value of the hedged item resulting from movements in exchange rates with changes in the fair value of the forward currency transactions used as hedging instruments, including the time value elements of those forwards.

The latter provides a hedge of the group's employee share based payments liability against the equity share price movements of the underlying equity shares to which these relate. The hedge ratio is determined by comparing the notional amount of the derivative against the value of the share based payments liability to be hedged. For the purposes of hedge effectiveness testing, the group compares changes in the fair value of the hedged item resulting from movements in the equity share price with changes in the fair value of the equity options used as hedging instruments. Only the intrinsic value of the options has been designated as a hedge and so effectiveness is measured by comparing changes in the liability and options using the spot equity price, ignoring time value. Consequently, any time value changes will be recognised immediately in profit or loss as ineffectiveness.

Possible sources of ineffectiveness in the group's cash flow hedging relationships include the following:

- Use of derivatives as the hedging instrument creates credit risk exposure to the derivative counterparties. This is mitigated by using highly rated derivative counterparties and margining arrangements.
- *Differences in timing of settlements on the hedged item and hedging instrument. This is mitigated by matching the terms of the hedged item and hedging instrument as closely as possible.*
- For hedges of the groups share based payments liability, excluding time value from the value of the options used to hedge the group's employee share based payments liability.
- For hedges of the group's cost base, ineffectiveness will arise if the notional amount hedged exceeds the actual or budgeted cash flows. This is mitigated by only hedging 90% of the cost base.

Gains and losses on the effective portion of derivatives designated as cash flow hedges of forecast transactions are initially recognised directly in other comprehensive income in the cash flow hedging reserve, and are transferred to the income statement when the forecast cash flows impact the income statement.

The forecast cash flows that will result in the release of the cash flow hedging reserve into the income statement at 31 December are as follows:

	Group		Company	
	2018	2017	**2018**	2017
	$m	$m	**$m**	$m
3 months or less	**53.2**	28.4	**53.2**	28.4
More than 3 months but less than 1 year	**138.8**	65.3	**138.8**	65.3
More than 1 year but less than 5 years	**6.3**	7.0	**6.3**	7.0
	198.3	100.7	**198.3**	100.7
Reconciliation of movements in the cash flow hedging reserve				
Balance at beginning of the year	**3.1**	(22.0)	**3.1**	(22.0)
Amounts recognised directly in other comprehensive income	**(8.6)**	14.6	**(8.6)**	14.6
Less: amounts transferred to profit or loss (operating expenses)	**3.7**	10.5	**3.7**	10.5
Balance at end of the year	**(1.8)**	3.1	**(1.8)**	3.1

There is no current or deferred tax charged or credited to equity in 2018 (2017: US$ nil).

7 Derivative instruments (continued)

7.4 Derivatives held for hedging (continued)

7.4.2 Derivatives designated as fair value hedges

The group's fair value hedges consist of interest rate swaps that are used to mitigate the risk of changes in the fair value of financial instruments as a result of changes in market interest rates.

The financial instruments currently designated by the group in fair value hedge relationships are its fixed rate debt issuance and certain long dated reverse repurchase agreements. The hedge ratio for the group's fair value hedging relationships is determined by comparing the principal of the hedged item and the notional amount for the derivative. For the purposes of hedge effectiveness testing, the group compares changes in the fair value of the hedged item resulting from movements in interest rates with changes in the fair value of the interest rate swaps used as the hedging instruments.

Possible sources of ineffectiveness in the group's fair value hedging relationships include the following:

- Use of derivatives as the hedging instrument creates credit risk exposure to the derivative counterparties. This is mitigated by using highly rated interest rate swap counterparties and margining arrangements.
- Differences in timing of settlements on the hedged item and hedging instrument. This is mitigated by matching the terms of the hedged item and hedging instrument as closely as possible.
- Different amortisation profiles on the hedged item principal amounts and the interest rate swap notionals. This is mitigated by matching the terms of the hedged item and hedging instruments as closely as possible.
- Use of different discounting curves when measuring the fair value of the hedged items and hedging instruments.

For qualifying fair value hedges, all changes in the fair value of the derivative and in the fair value of the hedged item in relation to the risk being hedged are recognised in profit or loss.

	Group		Company	
	2018	2017	**2018**	2017
Gains / (losses) arising from fair value hedges	**$m**	$m	**$m**	$m
- on hedging instruments	**1.6**	(1.7)	**1.6**	(1.7)
- on the hedged item attributable to the hedged risk	**(1.5)**	-	**(1.5)**	-

The hedged items are disclosed in note 8 - 'Reverse repurchase agreements' and note 21 - 'Subordinated debt'.

	Group		Company	
	2018	2017	**2018**	2017
	$m	$m	**$m**	$m
8 Reverse repurchase agreements				
Banks and other financial institutions[1]	**4,061.4**	4,705.5	**4,061.4**	4,705.5
Credit loss allowances	**(0.5)**	-	**(0.5)**	-
	4,060.9	4,705.5	**4,060.9**	4,705.5
Included above are the following amounts with related parties:				
Balances with ultimate holding company (ICBC Limited) and subsidiaries and branches	**165.9**	38.6	**165.9**	38.6
Balances with shareholder with significant influence (SBG) and subsidiaries and branches	**204.0**	-	**204.0**	-
	369.9	38.6	**369.9**	38.6

[1]To manage interest rate volatility on certain reverse repurchase agreements, the group entered into fair value hedges. Refer note 7.4.2.

	Group 2018 $m	Group 2017 $m	Company 2018 $m	Company 2017 $m
9 Loans and advances to customers				
Gross loans and advances to customers	**739.9**	611.1	**739.9**	611.1
Demand loans and advances	**18.2**	61.2	**18.2**	61.2
Term loans	**721.7**	549.9	**721.7**	549.9
Credit loss allowances	**(2.6)**	(4.2)	**(2.6)**	(4.2)
	737.3	606.9	**737.3**	606.9
Segmental industry analysis				
Governments and public sector organisations	-	1.7	-	1.7
Manufacturing	**143.9**	34.6	**143.9**	34.6
Mining	**411.4**	444.9	**411.4**	444.9
Transport	-	14.2	-	14.2
Wholesale	**121.3**	73.9	**121.3**	73.9
Other	**63.3**	41.8	**63.3**	41.8
	739.9	611.1	**739.9**	611.1
10 Financial investments				
Fair value through other comprehensive income[1]:				
Debt securities	**1,952.3**	958.4	**1,952.3**	958.4
Unlisted equities	-	3.6	-	3.6
	1,952.3	962.0	**1,952.3**	962.0

[1]Prior year balances represented the IAS 39 available-for-sale debt and equity securities.

11 Property and equipment

	2018			2017		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
	$m	$m	$m	$m	$m	$m
Group						
11.1 Summary						
Computer equipment	**20.1**	**(13.4)**	**6.7**	14.6	(11.3)	3.3
Office equipment	**6.0**	**(3.9)**	**2.1**	6.0	(3.4)	2.6
Furniture and fittings	**18.4**	**(7.0)**	**11.4**	18.0	(5.0)	13.0
	44.5	**(24.3)**	**20.2**	38.6	(19.7)	18.9

	2017				2018
	Carrying value	Additions	Disposals	Depreciation charge	Carrying value
	$m	$m	$m	$m	$m
11.2 Movement					
Computer equipment	**3.3**	**5.4**	**-**	**(2.0)**	**6.7**
Office equipment	**2.6**	**-**	**-**	**(0.5)**	**2.1**
Furniture and fittings	**13.0**	**0.5**	**-**	**(2.1)**	**11.4**
	18.9	**5.9**	**-**	**(4.6)**	**20.2**

	2016				2017
	Carrying value	Additions	Disposals	Depreciation charge	Carrying value
	$m	$m	$m	$m	$m
Computer equipment	4.8	1.3	-	(2.8)	3.3
Office equipment	3.1	-	-	(0.5)	2.6
Furniture and fittings	14.7	0.1	-	(1.8)	13.0
	22.6	1.4	-	(5.1)	18.9

	2018			2017		
	Cost	**Accumulated depreciation**	**Carrying value**	Cost	Accumulated depreciation	Carrying value
	$m	**$m**	**$m**	$m	$m	$m
Company						
11.3 Summary						
Computer equipment	**18.5**	**(12.0)**	**6.5**	13.1	(10.1)	3.0
Office equipment	**5.3**	**(3.4)**	**1.9**	5.2	(3.0)	2.2
Furniture and fittings	**9.6**	**(3.1)**	**6.5**	9.1	(2.1)	7.0
	33.4	**(18.5)**	**14.9**	27.4	(15.2)	12.2

	2017			**2018**
	Carrying value	**Additions**	**Depreciation charge**	**Carrying value**
	$m	**$m**	**$m**	**$m**
11.4 Movement				
Computer equipment	**3.0**	**5.4**	**(1.9)**	**6.5**
Office equipment	**2.2**	**-**	**(0.3)**	**1.9**
Furniture and fittings	**7.0**	**0.4**	**(0.9)**	**6.5**
	12.2	**5.8**	**(3.1)**	**14.9**

	2016			2017
	Carrying value	Additions	Depreciation charge	Carrying value
	$m	$m	$m	$m
Computer equipment	4.2	1.3	(2.5)	3.0
Office equipment	2.6	-	(0.4)	2.2
Furniture and fittings	7.8	-	(0.8)	7.0
	14.6	1.3	(3.7)	12.2

	Group		Company	
	2018	2017	**2018**	2017
	$m	$m	**$m**	$m
12 Deferred tax assets				
Deferred tax asset recognised	**0.3**	1.1	**-**	-
Deferred tax asset not recognised	**192.1**	191.0	**191.3**	190.9
Unused tax losses and other temporary differences	**192.4**	192.1	**191.3**	190.9

12.1 Movements in deferred tax balances

Group	**Opening balance**	**Recognised in profit or loss**	**Recognised in OCI**	**Asset not recognised**	**Closing balance**
2018	**$m**	**$m**	**$m**	**$m**	**$m**
Capital allowances	**(0.5)**	**0.2**	**-**	**-**	**(0.3)**
Share-based payments	**0.2**	**(0.1)**	**-**	**-**	**0.1**
Other short-term temporary differences	**0.6**	**(0.1)**	**-**	**-**	**0.5**
Unused tax losses	**0.8**	**(0.8)**	**-**	**-**	**-**
Total recognised deferred tax	**1.1**	**(0.8)**	**-**	**-**	**0.3**
Total unrecognised deferred tax[1]	**191.0**	**-**	**-**	**1.1**	**192.1**
Temporary differences not recognised	**39.8**	**-**	**-**	**0.1**	**39.9**
Unused tax losses not recognised	**151.2**	**-**	**-**	**1.0**	**152.2**
	192.1	**(0.8)**	**-**	**1.1**	**192.4**

	Opening balance	Recognised in profit or loss	Recognised in OCI	Asset not recognised	Closing balance
2017		$m	$m	$m	$m
Capital allowances	(1.0)	0.5	-	-	(0.5)
Share-based payments	0.4	(0.2)	-	-	0.2
Other short-term temporary differences	0.9	(0.3)	-	-	0.6
Unused tax losses	1.1	(0.3)	-	-	0.8
Total recognised deferred tax	1.4	(0.3)	-	-	1.1
Total unrecognised deferred tax[1]	223.6	-	-	(32.6)	191.0
Temporary differences not recognised	50.7	-	-	(10.9)	39.8
Unused tax losses not recognised[2]	172.9	-	-	(21.7)	151.2
	225.0	(0.3)	-	(32.6)	192.1

[1]Deferred tax assets have not been recognised by the group in respect of gross deductible temporary differences and gross tax losses of US$1,027.6 million (2017: US$1,022.6 million). The group has not recognised UK deferred tax assets in respect of gross deductible temporary differences of US$159.9 million (2017: US$159.2 million) and gross tax losses of US$864.4 million (2017: US$863.4 million). UK deductible temporary differences and UK tax losses can be carried forward indefinitely. In addition, the group has not recognised deferred tax assets in China in respect of gross tax losses of US$3.3 million, of which US$2.9 million will expire in 2021 and US$0.4 million in 2022. The main UK corporation tax rate for 2018 is 19%. A reduction in the main UK corporation tax rate to 17% from 1 April 2020 has been enacted. Additionally, an 8% surcharge on banking companies in the UK took effect from 1 January 2016. UK tax losses arising before this date cannot be utilised against taxable profits subject to the surcharge. The group and company applied tax rates that are expected to be applied to the temporary differences and unused tax losses when they reverse based on the laws that have been enacted or substantively enacted at the reporting date.

[2]The reduction in the unused tax losses not recognised in the prior year mostly relates to the surrender of a portion of the company's 2015 and 2016 UK tax losses to certain related parties under the UK consortium relief rules during the year ended 31 December 2017.

12 Deferred tax assets (continued)

12.1 Movements in deferred tax balances (continued)

Company	**Opening balance**	**Recognised in profit or loss**	**Recognised in OCI**	**Asset not recognised**	**Closing balance**
2018	**$m**	**$m**	**$m**	**$m**	**$m**
Capital allowances	-	-	-	-	-
Share-based payments	-	-	-	-	-
Total recognised deferred tax	-	-	-	-	-
Total unrecognised deferred tax[1]	**190.9**	-	-	**0.4**	**191.3**
Temporary differences not recognised	**39.8**	-	-	**0.2**	**40.0**
Unused tax losses not recognised[2]	**151.1**	-	-	**0.2**	**151.3**
	190.9	-	-	**0.4**	**191.3**

	Opening balance	Recognised in profit or loss	Recognised in OCI	Asset not recognised	Closing balance
2017	$m	$m	$m	$m	$m
Capital allowances	-	-	-	-	-
Share-based payments	-	-	-	-	-
Total recognised deferred tax	-	-	-	-	-
Total unrecognised deferred tax[2]	223.6	-	-	(32.7)	190.9
Temporary differences not recognised	50.7	-	-	(10.9)	39.8
Unused tax losses not recognised	172.9	-	-	(21.8)	151.1
	223.6	-	-	(32.7)	190.9

[1]Deferred tax assets have not been recognised by the group in respect of gross deductible temporary differences and gross tax losses of US$1,027.6 million (2017: US$1,022.6 million). The company has not recognised UK deferred tax assets in respect of gross deductible temporary differences of US$159.9 million (2017: US$159.2 million) and gross tax losses of US$864.4 million (2017: US$863.4 million). UK deductible temporary differences and UK tax losses can be carried forward indefinitely. The main UK corporation tax rate for 2018 is 19%. A reduction in the main UK corporation tax rate to 17% from 1 April 2020 has been enacted. Additionally, an 8% surcharge on banking companies in the UK took effect from 1 January 2016. UK tax losses arising before this date cannot be utilised against taxable profits subject to the surcharge. The company applied tax rates that are expected to be applied to the temporary differences and unused tax losses when they reverse based on the laws that have been enacted or substantively enacted at the reporting date.

[2]The reduction in the unused tax losses not recognised in the prior year mostly relates to the surrender of a portion of the company's 2015 and 2016 UK tax losses to certain related parties under the UK consortium relief rules during the year ended 31 December 2017.

	Group 2018 $m	Group 2017 $m	Company 2018 $m	Company 2017 $m
13 Other assets				
Non-financial assets held for trading[1]	**6,991.5**	4,018.2	**6,991.5**	4,018.2
Unsettled dealing balances	**229.5**	132.9	**229.5**	132.9
Other receivables	**100.7**	114.6	**100.5**	113.5
Intangible assets	**38.2**	29.3	**38.2**	29.3
	7,359.9	4,295.0	**7,359.7**	4,293.9

[1]Non-financial assets held for trading consist of allocated and unallocated precious metals, base metals and energy stocks which form part of the group's commodities business. These include holdings in warehouses operated by authorised third parties. Allocated balances held by the group on behalf of customers are not recognised on the group's balance sheet.

Included above are the following amounts due from related parties:

	Group 2018 $m	Group 2017 $m	Company 2018 $m	Company 2017 $m
Balances with ultimate holding company (ICBC Limited) and subsidiaries and branches	**4.0**	13.6	**4.0**	13.6
Balances with shareholder with significant influence (SBG) and subsidiaries and branches	**30.4**	61.7	**30.4**	61.7
	34.4	75.3	**34.4**	75.3

Intangible assets	**2018**			2017		
	Cost $m	**Accumulated amortisation $m**	**Carrying value $m**	Cost $m	Accumulated amortisation $m	Carrying value $m
Group and company						
13.1 Summary						
Computer software	**19.2**	**(4.3)**	**14.9**	3.3	(0.5)	2.8
Acquired customer lists	**0.6**	**(0.5)**	**0.1**	0.6	(0.3)	0.3
Work in progress[2]	**23.2**	**-**	**23.2**	26.2	-	26.2
	43.0	**(4.8)**	**38.2**	30.1	(0.8)	29.3

[2]Work in progress relates to strategic software systems currently being developed, which are not yet amortised as they are not yet available for use.

	2016				**2017**				**2018**
	Carrying value $m	Additions $m	Transfers $m	Amortisation charge $m	**Carrying value $m**	**Additions $m**	**Transfers $m**	**Amortisation charge $m**	**Carrying value $m**
13.2 Movement									
Computer software	-	-	3.3	(0.5)	**2.8**	**-**	**16.0**	**(3.9)**	**14.9**
Acquired customer lists	0.5	-	-	(0.2)	**0.3**	**-**	**-**	**(0.2)**	**0.1**
Work in progress	15.3	14.2	(3.3)	-	**26.2**	**13.0**	**(16.0)**	**-**	**23.2**
	15.8	14.2	-	(0.7)	**29.3**	**13.0**	**-**	**(4.1)**	**38.2**

14 Investment in group companies

	Company 2018 $m	Company 2017 $m
Company		
Carrying value at end of the year	**29.5**	29.5

The subsidiary undertakings are as follows (directly held unless otherwise indicated):

Entity	**Activity**	**Location of registered office[2]**	**% interest in ordinary shares**
ICBC Standard NY Holdings Inc.	Holding company	United States of America	100
ICBC Standard Securities Inc.[1]	Broker / dealer	United States of America	100
ICBC Standard Resources (America) Inc.[1]	Trading company	United States of America	100
ICBC Standard Resources (China) Limited	Trading company	The People's Republic of China	100

[1]Indirectly held - the immediate parent of these entities is ICBC Standard NY Holdings Inc.
[2]Refer to registered address information on page 141.

	Group		Company	
	2018	2017	**2018**	2017
	$m	$m	**$m**	$m
15 Financial liabilities held for trading				
Government and utility bonds	**172.3**	353.7	**172.3**	353.7
Corporate bonds	**3.2**	35.0	**3.2**	35.0
Credit-linked notes	**665.1**	1,134.2	**665.1**	1,134.2
Other unlisted instruments	**15.0**	21.3	**15.0**	21.3
	855.6	1,544.2	**855.6**	1,544.2
Included above are the following amounts with related parties:				
Balances with ultimate holding company (ICBC Limited) and subsidiaries and branches	**1.1**	0.8	**1.1**	0.8
Balances with shareholder with significant influence (SBG) and subsidiaries and branches	**0.6**	0.6	**0.6**	0.6
	1.7	1.4	**1.7**	1.4
16 Non-trading financial liabilities at fair value through profit or loss				
Debt instruments issued[1]	**1,257.7**	1,337.6	**1,257.7**	1,337.6
	1,257.7	1,337.6	**1,257.7**	1,337.6

[1]All owing to ultimate holding company (ICBC Limited) and subsidiaries and branches.

	Group		Company	
	2018	2017	**2018**	2017
17 Due to banks and other financial institutions				
Due to banks	**8,397.3**	8,966.9	**8,397.3**	8,966.9
Other financial institutions	**873.9**	1,153.4	**873.9**	1,153.4
	9,271.2	10,120.3	**9,271.2**	10,120.3
Included above are the following amounts with related parties:				
Balances with ultimate holding company (ICBC Limited) and subsidiaries and branches	**3,420.9**	3,274.7	**3,420.9**	3,274.7
Balances with shareholder with significant influence (SBG) and subsidiaries and branches	**1,997.9**	2,552.0	**1,997.9**	2,552.0
	5,418.8	5,826.7	**5,418.8**	5,826.7
18 Repurchase agreements				
Banks and other financial institutions	**1,114.7**	1,794.2	**1,114.7**	1,794.2
	1,114.7	1,794.2	**1,114.7**	1,794.2
Included above are the following amounts with related parties:				
Balances with ultimate holding company (ICBC Limited) and subsidiaries and branches	**98.6**	309.2	**98.6**	309.2
Balances with shareholder with significant influence (SBG) and subsidiaries and branches	-	-	-	-
	98.6	309.2	**98.6**	309.2

	Group		Company	
	2018	2017	**2018**	2017
	$m	$m	**$m**	$m
19 Certificates of deposit				
Commercial paper	**-**	16.7	**-**	16.7
	-	16.7	**-**	16.7
Included above are the following amounts with related parties:				
Balances with ultimate holding company (ICBC Limited) and subsidiaries and branches	**-**	-	**-**	-
Balances with shareholder with significant influence (SBG) and subsidiaries and branches	**-**	16.7	**-**	16.7
	-	16.7	**-**	16.7
20 Due to customers				
Call deposits	**299.1**	386.7	**299.1**	386.7
Term deposits	**170.6**	214.1	**170.6**	214.1
	469.7	600.8	**469.7**	600.8
21 Subordinated debt				
Subordinated fixed rate notes 2019[1]	**506.3**	514.9	**506.3**	514.9
Subordinated floating rate notes 2027[2]	**150.0**	150.0	**150.0**	150.0
Accrued interest	**3.5**	3.5	**3.5**	3.5
	659.8	668.4	**659.8**	668.4
Balances with ultimate holding company (ICBC Limited) and subsidiaries and branches	**150.4**	150.4	**150.4**	150.4
Balances with shareholder with significant influence (SBG) and subsidiaries and branches	**-**	-	**-**	-
	150.4	150.4	**150.4**	150.4

[1]Subordinated bonds issued in US Dollars (US$500 million) bearing interest at 8.125% per annum until maturity on 2 December 2019. These bonds are listed on the London Stock Exchange. To manage interest rate volatility, the group entered into a fair value hedge. Refer note 7.4.2.

[2]Subordinated bonds with a principal amount of US$150.0 million and a floating interest rate of 3 month USD Libor plus 3.67% per annum were issued in June 2017. These bonds mature on 15 June 2027.

Claims in respect of the loan capital are subordinated to the claims of other creditors. The group has not defaulted on principal or interest, or incurred any other breaches with respect to its subordinated liabilities during 2018 and 2017.

	Group 2018 $m	Group 2017 $m	Company 2018 $m	Company 2017 $m
22 Other liabilities				
Precious metal payables[1]	**5,059.8**	1,515.0	**5,059.8**	1,515.0
Unsettled dealing balances	**372.5**	186.8	**374.4**	188.0
Long-term incentive schemes	**20.8**	22.7	**20.8**	21.8
Other	**99.7**	111.4	**92.1**	104.3
	5,552.8	1,835.9	**5,547.1**	1,829.1

[1] This represents unallocated precious metal balances owed to customers

	Group 2018 $m	Group 2017 $m	Company 2018 $m	Company 2017 $m
Balances with ultimate holding company (ICBC Limited) and subsidiaries and branches	**4,306.2**	510.7	**4,308.3**	512.1
Balances with shareholder with significant influence (SBG) and subsidiaries and branches	**17.0**	47.9	**17.0**	47.9
	4,323.2	558.6	**4,325.3**	560.0

23 Estimation of fair values

23.1 Financial instruments measured at fair value

The process of marking to market seeks to value a financial instrument at its fair value. The best indicator of fair value is an independently published price quoted in an active market. If the instrument is not traded in an active market, its fair value is determined using valuation techniques consistent with other market participants to price similar financial instruments.

Where valuation techniques are used to determine fair values, they are validated and periodically independently reviewed by qualified senior personnel. All models are approved before they are used, and models are calibrated and back-tested to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data; however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of the financial instruments. Such assumptions include risk premiums, liquidity discount rates, credit spreads, market volatilities and product correlations.

In order to arrive at fair value, valuation adjustments are made where appropriate to incorporate liquidity risk, model risk, parameter uncertainty and credit risk. As a practical expedient, instruments are sometimes priced at mid-market. This includes situations where instruments that comprise a combination of risks (e.g. corporate bonds which include interest rate risk and credit risk) are hedged against some of the risks, leaving the other risks open. In that case, a bid / offer adjustment is applied to the net open risk position as appropriate.

The valuation methodologies used are objective and deterministic, i.e. given the same market conditions and holding assumptions, the marking process should produce identical results. However, valuing any instrument or portfolio involves a degree of judgement and can never be completely defined in mechanistic terms.

There may not be one perfect mark for any position, but rather ranges of possible values. At any point in time, the mark-to-market on a financial instrument must be based on the effective deal tenor or term of the underlying risk.

For certain commodity trades, where the group purchases spot and sells to the same counterparty at a fixed price on a forward settling basis, transactions are valued as financing transactions and are priced accordingly. Where similar trades occur but the far leg is executed as an option or at a prevailing market price, the individual trades are priced as individual spot and forward trades.

Derivatives values are estimated using either market prices, broker quotes or discounting future cash flows. Performance risk of the counterparts and correlation between counterpart and underlying performance may also be factored into the valuation where appropriate.

23.2 Fair value of financial instruments carried at amortised cost

The fair value of financial instruments not carried at fair value incorporates the group's estimate of the amount at which it would be able to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date. It does not reflect the costs/benefits that the group expects to measure on the flows generated over the expected life of the instrument. Other reporting entities may use different valuation methodologies and assumptions in determining fair values for which no observable market prices are available.

The fair values stated at a point in time may differ significantly from the amounts which will actually be paid on the maturity date or settlement dates of the instruments. In many cases, it will not be possible to realise immediately the estimated fair values.

The following methods and significant assumptions have been applied in determining the fair values of financial instruments not carried at fair value:

- The fair value of demand deposits with no specific maturity is assumed to be the amount payable at the end of the reporting period.
- The fair value of the variable and fixed rate financial instruments carried at amortised cost is estimated by comparing interest rates when the loans were granted with current market interest rates and credit spreads on similar loans.
- For impaired loans, fair value is estimated using valuation models, such as discounting the future cash flows over the time period they are expected to be recovered at the original effective interest rate, which includes consideration of collateral and expected lifetime credit losses.
- For secured loans and deposits arising from sale and repurchase agreements and for bond transactions that are due to settle on a date beyond the market norm (i.e. forward settlement), the group receives collateral in the form of cash or securities. The collateral is valued using established valuation techniques and variation margin is called or paid. Carrying amounts therefore closely reflect fair values.

23.3 Overnight index based swap curves (OIS)

A number of market participants have changed inputs in the valuation methodology of certain collateralised products from the use of Libor rates to overnight index swap (OIS) rates to reflect the nature of the cost of financing of the product. Most collateral balances on derivative trades are funded at an overnight rate and hence OIS curves are more relevant than traditional Libor curves for such trades.

As is the practice amongst market participants, OIS discounting was used where applicable to value the rates portfolio within the group. Discounting of collateralised derivatives also accounted for the currency in which collateral balances were posted.

23 Estimation of fair values (continued)

23.4 Credit, debit, and funding valuation adjustments (CVA, DVA, and FVA)

The methodology for estimating CVA and DVA as at 31 December 2018 was consistent with that used at 31 December 2017, with inputs updated where required. Credit and debit valuation adjustments are taken against derivative exposures in order to reflect the potential impact of counterparty performance with regards to these contracts.

The exposure upon which a provision is calculated is not the current replacement value in the balance sheet but rather an expectation of future exposures. The typical calculation of a future exposure on a trade is based on a simulation of expected positive exposures performed to standard market methodologies.

For most products, the group uses a simulation methodology to calculate the expected positive exposure to a counterparty. This incorporates a range of potential exposures across the portfolio of transactions with the counterparty over the life of the portfolio. The simulation methodology includes credit mitigants such as counterparty netting agreements and collateral agreements with the counterparty.

Where material, adjustments are made to account for 'wrong-way risk'. Wrong-way risk arises when the underlying value of the derivative prior to any CVA is positively correlated to the probability of default by the counterparty. When there is deemed to be significant wrong-way risk, a counterparty-specific approach is applied.

Own credit adjustments (DVA) on derivative instruments and credit-linked notes are based on the expectation of future exposures that counterparties will have to the group.

For derivative trades, CVA is calculated by applying the probability of default (PD) of the counterparty conditional on the non-default of the group to the expected positive exposure to the counterparty and multiplying the result by the loss given default (LGD). Conversely, DVA is calculated by applying the PD of the group, conditional on the non-default of the counterparty, to the expected exposure that the counterparty has to the group and multiplying by the LGD. Both calculations are performed over the life of the potential exposure. The group takes provisions against DVA for trades where DVA calculated by the group is not reflective of an exit price (typically for non-bank and non-collateralised counterparties). The PD of the group has been estimated based on the market view of ICBC's credit risk, as the group's credit risk is not directly observable.

In order to reflect the funding costs and benefits related to uncollateralised flows on derivative exposures, a funding valuation adjustment (FVA) is also applied. The FVA was calculated using similar methodology as for CVA and DVA. However, valuations were adjusted for effects related to the expected funding of the flows rather than the performance of the parties.

24 Classification of assets and liabilities

The tables that follow analyse financial instruments carried at the end of the reporting period by measurement basis. Fair values are determined for each balance sheet line item and classified into three levels depending on their valuation basis. The different levels are based on the extent to which quoted prices are used in the calculation of the fair value of financial instruments and the levels have been defined as follows:

Level 1 - quoted market price: financial instruments with quoted prices for identical instruments in active markets that the group can access at the measurement date.
Level 2 - valuation technique using observable inputs: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.
Level 3 - valuation technique with significant unobservable inputs: financial instruments valued using valuation techniques where one or more significant inputs are unobservable.

All fair valued instruments are subjected to the independent price verification (IPV) process. Level 3 items are identified where the asset or liability contains a significant exposure to a parameter that is not directly observable in the market, e.g. credit spreads, discounts rates etc. Level 3 classification does not infer lack of comfort with the modelled price, but rather that a significant exposure within the pricing cannot be directly tested to an observable exit price, or where the observation is indicative and not testable in an active market. Classification is always determined at an instrument and not portfolio level. Transfers between levels of the fair value hierarchy are deemed to occur at the end of the reporting period.

24 Classification of assets and liabilities (continued)

The table below sets out the classification of assets and liabilities, and their fair values.

31 December 2018	Note	Held-for-trading[1] $m	Non-trading financial assets at fair value through profit or loss $m	Loans and receivables $m	Financial assets at fair value through other comprehensive income $m	Other amortised cost $m	Other non-financial assets /liabilities $m	Total carrying value $m	Level 1 $m	Level 2 $m	Level 3 $m	Other[3] $m	Total fair value $m
Financial assets measured at fair value													
Financial assets held for trading	5	1,582.4	-	-	-	-	-	1,582.4	74.5	1,377.2	130.7	-	1,582.4
Non-trading financial assets at fair value through profit or loss	6	-	1,340.7	-	-	-	-	1,340.7	-	1,332.6	8.1	-	1,340.7
Derivative financial assets	7	4,019.8	-	-	-	-	-	4,019.8	610.2	3,300.4	109.2	-	4,019.8
Financial investments	10	-	-	-	1,952.3	-	-	1,952.3	1,952.3	-	-	-	1,952.3
		5,602.2	1,340.7	-	1,952.3	-	-	8,895.2	2,637.0	6,010.2	248.0	-	8,895.2
Financial assets carried at amortised cost													
Cash and balances with central banks[2]	3	-	-	1,920.9	-	-	-	1,920.9	-	-	-	1,920.9	1,920.9
Due from banks and other financial institutions[3]	4	-	-	1,579.5	-	-	-	1,579.5	-	-	704.6	871.7	1,576.3
Reverse repurchase agreements	8	-	-	4,060.9	-	-	-	4,060.9	-	4,066.8	-	-	4,066.8
Loans and advances to customers	9	-	-	737.3	-	-	-	737.3	-	-	737.3	-	737.3
		-	-	8,298.6	-	-	-	8,298.6	-	4,066.8	1,441.9	2,792.6	8,301.3
Other non-financial assets		6,991.5	-	-	-	-	389.2	7,380.7					
Total assets		12,593.7	1,340.7	8,298.6	1,952.3	-	389.2	24,574.5					
Financial liabilities measured at fair value													
Financial liabilities held for trading	15	855.6	-	-	-	-	-	855.6	19.0	636.9	199.7	-	855.6
Non-trading financial liabilities at fair value through profit or loss	16	-	1,257.7	-	-	-	-	1,257.7	-	1,257.7	-	-	1,257.7
Derivative financial liabilities	7	4,134.7	-	-	-	-	-	4,134.7	548.5	3,300.8	285.4	-	4,134.7
		4,990.3	1,257.7	-	-	-	-	6,248.0	567.5	5,195.4	485.1	-	6,248.0
Financial liabilities carried at amortised cost													
Due to banks and other financial institutions[3]	17	-	-	-	-	9,271.2	-	9,271.2	-	-	8,406.4	751.0	9,157.4
Repurchase agreements	18	-	-	-	-	1,114.7	-	1,114.7	-	1,114.4	-	-	1,114.4
Certificates of deposit	19	-	-	-	-	-	-	-	-	-	-	-	-
Due to customers	20	-	-	-	-	469.7	-	469.7	-	-	469.7	-	469.7
Subordinated debt	21	-	-	-	-	659.8	-	659.8	-	520.8	148.5	-	669.3
		-	-	-	-	11,515.4	-	11,515.4	-	1,635.2	9,024.6	751.0	11,410.8
Other non-financial liabilities	22	5,060.0	-	-	-	-	493.3	5,553.3					
Total liabilities		10,050.3	1,257.7	-	-	11,515.4	493.3	23,316.7					

There were no significant transfers between level 1 and level 2 in the current year.

[1]Includes derivative assets and liabilities held for hedging. Refer to note 7.4.

[2]Represents cash and cash equivalents.

[3]Fair value approximates carrying value as instruments are short-term, have interest rates that reprice frequently and/or are fully or substantially collateralised.

24 Classification of assets and liabilities (continued)

31 December 2017	Note	Held-for-trading[1] $m	Designated at fair value $m	Loans and receivables $m	Available-for-sale assets $m	Other amortised cost $m	Other non-financial assets / liabilities $m	Total carrying value $m	Level 1 $m	Level 2 $m	Level 3 $m	Other[2] $m	Total fair value $m
Financial assets measured at fair value													
Financial assets held for trading	5	2,579.5	-	-	-	-	-	2,579.5	105.2	2,364.9	109.4	-	2,579.5
Financial assets designated at fair value through profit or loss	6	-	1,335.9	-	-	-	-	1,335.9	-	1,330.1	5.8	-	1,335.9
Derivative financial assets	7	4,299.5	-	-	-	-	-	4,299.5	1,081.1	3,101.1	117.3	-	4,299.5
Financial investments	10	-	-	-	962.0	-	-	962.0	958.4	-	3.6	-	962.0
		6,879.0	1,335.9	-	962.0	-	-	9,176.9	2,144.7	6,796.1	236.1	-	9,176.9
Financial assets carried at amortised cost													
Cash and balances with central banks[2]	3	-	-	2,989.5	-	-	-	2,989.5		-	-	2,989.5	2,989.5
Due from banks and other financial institutions[3]	4	-	-	2,059.5	-	-	-	2,059.5	-	-	1,356.2	703.3	2,059.5
Reverse repurchase agreements	8	-	-	4,705.5	-	-	-	4,705.5		4,710.8	-	-	4,710.8
Loans and advances to customers	9	-	-	606.9	-	-	-	606.9	-	-	606.9	-	606.9
		-	-	10,361.4	-	-	-	10,361.4		4,710.8	1,963.1	3,692.8	10,366.7
Other non-financial assets		4,018.2	-	-	-	-	297.2	4,315.4					
Total assets		10,897.2	1,335.9	10,361.4	962.0	-	297.2	23,853.7					
Financial liabilities measured at fair value													
Financial liabilities held for trading	15	1,544.2	-	-	-	-	-	1,544.2	86.5	1,250.5	207.2	-	1,544.2
Financial liabilities designated at fair value through profit or loss	16	-	1,337.6	-	-	-	-	1,337.6		1,337.6	-	-	1,337.6
Derivative financial liabilities	7	4,652.6	-	-	-	-	-	4,652.6	1,287.0	3,163.5	202.1	-	4,652.6
		6,196.8	1,337.6	-	-	-	-	7,534.4	1,373.5	5,751.6	409.3	-	7,534.4
Financial liabilities carried at amortised cost													
Due to banks and other financial institutions[3]	17	-	-	-	-	10,120.3	-	10,120.3		-	9,548.9	584.1	10,133.0
Repurchase agreements	18	-	-	-	-	1,794.2	-	1,794.2	-	1,793.6	-	-	1,793.6
Certificates of deposit	19	-	-	-	-	16.7	-	16.7		-	16.8	-	16.8
Due to customers	20	-	-	-	-	600.8	-	600.8	-	-	600.8	-	600.8
Subordinated debt	21	-	-	-	-	668.4	-	668.4		551.0	149.7	-	700.7
		-	-	-	-	13,200.4	-	13,200.4	-	2,344.6	10,316.2	584.1	13,244.9
Other non-financial liabilities	22	1,515.0	-	-	-	-	321.6	1,836.6					
Total liabilities		7,711.8	1,337.6	-	-	13,200.4	321.6	22,571.4					

There were no significant transfers between level 1 and level 2 in the current or prior year.

[1]Includes derivative assets and liabilities held for hedging. Refer to note 7.4.

[2]Represents cash and cash equivalents.

[3]Fair value approximates carrying value as instruments are short-term, have interest rates that reprice frequently and/or are fully or substantially collateralised.

25 Financial instruments measured at fair value

25.1 Valuation techniques used in determining the fair value of level 2 and level 3 instruments

The following table sets out the group's principal valuation techniques used in determining the fair value of its financial assets and financial liabilities that are classified within levels 2 and 3.

	Valuation basis	Main assumptions	Level 2 2018 $m	Level 2 2017 $m	Level 3 2018 $m	Level 3 2017 $m
Net derivative instruments	Discounted cash flow model (DCF)	Credit curve, interest rate curve, repurchase curve, rho, asset price	(5.9)	(137.6)	(164.0)	(74.7)
	Black Scholes model	Equity volatility, FX volatility, swaption vega	5.5	75.2	(12.2)	(10.1)
			(0.4)	(62.4)	(176.2)	(84.8)
Financial assets held for trading	DCF	Bond price, recovery level, discount rate, credit curve, interest rate curve	1,377.2	2,364.9	130.7	109.4
Non-trading financial assets at fair value through profit or loss	DCF	Recovery level, credit curve, interest rate curve	1,332.6	1,330.1	1.9	-
	Other	Share price, net asset value	-	-	6.2	5.8
			1,332.6	1,330.1	8.1	5.8
Financial investments	Other	Share price	-	-	-	3.6
Financial liabilities held for trading	DCF	Interest rate, credit curve, correlation, discount rate, period, net asset value	(636.9)	(1,250.5)	(199.7)	(207.2)
Financial liabilities designated at fair value through profit or loss	DCF	Discount rate, credit rate, credit curve	(1,257.7)	(1,337.6)	-	-
			814.8	1,044.5	(237.1)	(173.2)

25.2 Reconciliation of level 3 financial instruments

2018 Group[1]	Net derivative instruments $m	Financial assets held for trading $m	Non-trading financial assets at fair value through profit or loss $m	Financial investments $m	Financial liabilities held for trading $m	Total $m
Balance at beginning of the year	(84.8)	109.4	5.8	3.6	(207.2)	(173.2)
Total gains / (losses) included in trading revenue	50.1	23.2	(0.7)	-	(19.8)	52.8
- Realised	(19.2)	(5.1)	-	-	(1.7)	(26.0)
- Unrealised	69.3	28.3	(0.7)	-	(18.1)	78.8
IFRS 9 reclassification	-	-	5.1	(3.6)	-	1.5
Purchases	(120.0)	44.1	-	-	-	(75.9)
Issues	-	-	-	-	(28.1)	(28.1)
Sales	(43.1)	(45.3)	(2.1)	-	-	(90.5)
Settlements	-	-	-	-	54.5	54.5
Transfers into level 3[2]	(0.1)	1.1	-	-	-	1.0
Transfers out of level 3[3]	21.7	(1.8)	-	-	0.9	20.8
Balance at end of the year	(176.2)	130.7	8.1	-	(199.7)	(237.1)

2017 Group[1]	Net derivative instruments $m	Financial assets held for trading $m	Financial assets designated at fair value through profit or loss $m	Financial investments $m	Financial liabilities held for trading $m	Total $m
Balance at beginning of the year	(144.9)	27.5	7.8	3.4	(302.3)	(408.5)
Total gains / (losses) included in trading revenue	63.2	7.2	(0.4)	-	(12.4)	57.6
- Realised	150.3	6.4	-	-	38.1	194.8
- Unrealised	(87.1)	0.8	(0.4)	-	(50.5)	(137.2)
Gain included in OCI	-	-	-	0.2	-	0.2
Purchases	(6.4)	149.0	-	-	-	142.6
Issues	-	-	-	-	(67.1)	(67.1)
Sales	5.6	(74.3)	(1.6)	-	-	(70.3)
Settlements	-	-	-	-	174.6	174.6
Transfers into level 3[2]	(2.5)	-	-	-	-	(2.5)
Transfers out of level 3[3]	0.2	-	-	-	-	0.2
Balance at end of the year	(84.8)	109.4	5.8	3.6	(207.2)	(173.2)

[1] There are no material differences between group and company.
[2] The inputs of certain valuation models became unobservable and consequently the fair values were transferred into level 3.
[3] The inputs of certain valuation models became observable and consequently the fair values were transferred out of level 3.

25.3 Sensitivity of level 3 financial assets and liabilities and range of inputs

The table below lists key unobservable inputs to level 3 financial instruments and provides the range of those inputs at 31 December 2018 and 31 December 2017.

Group[1]	Main assumptions	Range of estimates for unobservable input 2018	2017
Net derivative instruments	Credit curve, interest rate curve, repurchase curve, rho, asset price	Less than 1% to 21.6%	Less than 1% to 32.6%
	Equity volatility, FX volatility, swaption vega	0	Less than 1% to 19.4 %
Financial assets held for trading	Discount rate, credit curve, interest rate curve	Less than 1% to 1%	Less than 1% to 26.0%
	Bond price, recovery level	Less than 1 to 106.4	Less than 1 to 106.0
Non-trading financial assets at fair value through profit or loss	Recovery level	Less than 1 to 32.2	N/A
	Period	N/A	6 months
	Share price, net asset value	0%	N/A
Financial investments	Discount rate, liquidity discount rate, share price	10%	10%
Financial liabilities held for trading	Credit curve, interest rate curve, correlation	Less than 1% to 10.8%	Less than 1% to 26.0%

[1]There are no material differences between group and company.

The fair value of level 3 financial instruments is determined using valuation techniques which incorporate assumptions based on unobservable inputs and are subject to management's judgement. Although the group believes that its estimates of fair values are appropriate, changing one or more of these assumptions to reasonably possible alternative values could impact the fair value of the financial instruments. The table below indicates the effect that a change of unobservable inputs to reasonably possible alternatives (1% up or down) would have on profit or loss at the reporting date. Level 3 instruments contain sensitivities to both observable and unobservable parameters. The table below measures the sensitivity to unobservable parameters only. These positions are risk managed using various instruments of which the associated gains or losses are not reflected in the table below.

		Effect recorded in profit or loss			
		2018		2017	
		Favourable	(Adverse)	Favourable	(Adverse)
Group[1]	Main assumptions	$m	$m	$m	$m
Net derivative instruments	Credit curve, interest rate curve, repurchase curve, rho, asset price, Equity volatility, FX volatility, swaption vega	17.5	(17.5)	4.8	(4.8)
Financial assets held for trading	Discount rate, credit curve, interest rate curve, Bond price, recovery level	13.9	(13.9)	8.7	(8.7)
Non-trading financial assets at fair value through profit or loss	Recovery level, Period	0.8	(0.8)	0.6	(0.6)
Financial investments	Discount rate, liquidity discount rate, share price	-	-	0.4	(0.4)
Financial liabilities held for trading	Credit curve, interest rate curve, correlation	5.6	(5.6)	9.2	(9.2)

[1]There are no material differences between group and company.

26 Reclassification of financial assets

Amounts reclassified from held-for-trading to loans and receivables at amortised cost

In 2008, the group reclassified certain loans for which there was a clear change of intent to hold those assets for the foreseeable future, rather than to exit or trade in the short term, from held-for-trading to loans and receivables. *These have been reclassified to non-trading financial assets at fair value through profit or loss due to the implementation of IFRS 9 in the current year. See note 38 for further details.*

	2018	2017
	$m	$m
Carrying value of reclassified financial assets at end of the year	N/A	1.7
Fair value of reclassified financial assets at end of the year	N/A	1.7

If the reclassification had not been made, the profit or loss would have included no unrealised fair value gain or loss (2017: nil).

The table below sets out the amounts actually recognised in profit or loss:

Period after reclassification		
Net interest income	N/A	-
Credit impairment recoveries	N/A	2.9
Net income	N/A	2.9

Prior to their reclassification in the current year, the loans in the portfolio were previously assessed for credit impairments in terms of the credit policy set out in note 37.4.

27 Offsetting of financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the balance sheet when the group currently has a legally enforceable right to set-off the recognised amounts and there is an intention to settle the asset and the liability on a net basis, or to realise the asset and settle the liability simultaneously. Certain derivative assets and liabilities met these criteria and US$2,777.8 million was offset in the current year (2017: US$3,786.3 million).

The group also receives and places collateral in the form of cash and marketable securities in respect of derivative transactions, sale and repurchase agreements, and reverse sale and repurchase agreements. This collateral is subject to standard industry terms such as the ISDA credit support annex and other similar agreements. This means that securities received or given as collateral can be pledged or sold during the term of the transaction but must be returned on maturity of the transaction. The terms also give each counterparty the right to terminate the related transactions upon the counterparty's failure to post collateral. In certain circumstances, for example when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is due or payable in settlement of all transactions.

The disclosure set out in the tables below reflects financial assets and liabilities that have been offset in the balance sheet in accordance with IAS 32 *Financial Instruments: Presentation*, as well as financial instruments that are subject to enforceable master netting arrangements or similar agreements, irrespective of whether they have been offset in the balance sheet. There are no measurement differences in the assets and liabilities presented below.

Financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements	Gross $m	Amounts offset in the balance sheet $m	Net amounts included in the balance sheet $m	Amounts that could be offset in the event of counterparty default[1]: Financial instruments $m	Amounts that could be offset in the event of counterparty default[1]: Cash collateral received / pledged $m	Net amount $m
2018						
Assets in scope						
Derivative financial assets	6,797.6	(2,777.8)	4,019.8	(1,927.2)	(664.9)	1,427.7
Commodity reverse repurchase agreements	154.3	-	154.3	(154.3)	-	-
Reverse repurchase agreements	4,060.9	-	4,060.9	(4,060.9)	-	-
Total financial assets in scope	11,012.8	(2,777.8)	8,235.0	(6,142.4)	(664.9)	1,427.7
Liabilities in scope						
Derivative financial liabilities	6,912.5	(2,777.8)	4,134.7	(1,927.2)	(384.5)	1,823.0
Repurchase agreements	1,114.7	-	1,114.7	(1,114.7)	-	-
Total financial liabilities in scope	8,027.2	(2,777.8)	5,249.4	(3,041.9)	(384.5)	1,823.0

Financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements	Gross $m	Amounts offset in the balance sheet $m	Net amounts presented in the balance sheet $m	Amounts that could be offset in the event of counterparty default[1]: Financial instruments $m	Amounts that could be offset in the event of counterparty default[1]: Cash collateral received / pledged $m	Net amount $m
2017						
Assets in scope						
Derivative financial assets	8,085.8	(3,786.3)	4,299.5	(1,986.7)	(537.3)	1,775.5
Commodity reverse repurchase agreements	140.0	-	140.0	(140.0)	-	-
Reverse repurchase agreements	4,705.5	-	4,705.5	(4,705.5)	-	-
Total financial assets in scope	12,931.3	(3,786.3)	9,145.0	(6,832.2)	(537.3)	1,775.5
Liabilities in scope						
Derivative financial liabilities	8,438.9	(3,786.3)	4,652.6	(1,986.7)	(326.5)	2,339.4
Repurchase agreements	1,794.2	-	1,794.2	(1,794.2)	-	-
Total financial liabilities in scope	10,233.1	(3,786.3)	6,446.8	(3,780.9)	(326.5)	2,339.4

[1]Represents netting arrangements that can be applied in the event of default, together with collateral held against exposures.

	2018 $m	2017 $m
28 Ordinary share capital		
Issued and fully paid		
1 083 458 378 ordinary shares of US$1 each (2017: 1 083 458 378)	**1,083.5**	1,083.5
	1,083.5	1,083.5

	Number	Number
Reconciliation of ordinary shares issued		
Shares in issue at beginning of the year	**1,083,458,378**	1,083,458,353
Issue of shares	**-**	25
Shares in issue at end of the year	**1,083,458,378**	1,083,458,378

On 13 January 2017, the company issued an additional 25 ordinary shares of US$1 each to ICBC (15 shares) and SBLH (10 shares), at a share premium of US$10.6 million per share, providing total additional capital of US$265.0 million. This additional capital was provided to support business growth, replenish the capital base of the group and ensure that the group has sufficient financial resources to accomplish its growth and profitability objectives.

In accordance with the provisions of the Companies Act 2006, the directors are generally and unconditionally authorised at any time during a period of five years to allot or to grant any rights to subscribe for or to convert any security into shares up to an aggregate nominal amount of US$150.0 million.

29 Contingent liabilities and commitments

29.1 Contingent liabilities

Loan commitments that are irrevocable over the life of the facility or revocable only in response to material adverse changes are included in the risk management section in note 37.4.

	2018 $m	2017 $m
29.2 Operating lease commitments		
The future minimum payments under non-cancellable operating leases are as follows:		
Properties		
Within 1 year	**11.3**	12.0
After 1 year but within 5 years	**37.3**	41.0
After 5 years	**7.5**	16.7
	56.1	69.7
Equipment		
Within 1 year	**0.2**	0.1
After 1 year but within 5 years	**0.4**	0.3
	0.6	0.4

29.3 Legal proceedings and regulatory matters

From time to time, the group is the subject of litigation, regulatory reviews and requests for information by various governmental and regulatory bodies arising from the group's business operations. While there is inherent uncertainty in predicting the outcome of these matters, management believe that based upon current knowledge, adequate provisions have been made if required in accordance with accounting policy 11. Refer to note 2.4.

During 2015, ICBC Standard Bank Plc entered into a Deferred Prosecution Agreement (DPA) with the United Kingdom Serious Fraud Office following a judgment delivered by the High Court of England and Wales on 30 November 2015. The DPA related to allegations that ICBC Standard Bank Plc failed, contrary to section 7 of the UK Bribery Act 2010, to prevent two senior executives of Stanbic Bank Tanzania (Stanbic) engaging a local partner with the intent that the engagement would induce Tanzanian government representatives into acting partially in awarding a capital raising mandate to ICBC Standard Bank Plc and Stanbic. ICBC Standard Bank Plc also agreed with the United States Securities and Exchange Commission to resolve a claim that it acted negligently and did not disclose to US investors the involvement of the local partner in this capital raising mandate. On 30 November 2018, the UK Serious Fraud Office announced the end of the DPA confirming that ICBC Standard Bank Plc had fully complied with its terms.

	2018 $m	2017 $m
Group		
30 Supplementary income statement information		
30.1 Interest income[1]		
Interest on loans and advances and short-term funds	**224.9**	178.1
Interest on FVOCI instruments	**25.0**	13.2
	249.9	191.3

[1]All interest income reported above relates to financial assets not carried at fair value through profit or loss.

Included above are the following amounts receivable from related parties:		
Transactions with ultimate holding company (ICBC Limited) and subsidiaries and branches	**2.0**	0.7
Transactions with shareholder with significant influence (SBG) and subsidiaries and branches	**2.6**	2.9
	4.6	3.6

30.2 Interest expense[1]		
Subordinated debt	**43.1**	33.5
Other interest-bearing liabilities[2]	**135.9**	77.1
	179.0	110.6

[1]All interest expense reported above relates to financial liabilities not carried at fair value through profit or loss.

[2]Interest expense net of charge to trading revenue as per accounting policy 15.

Included above are the following amounts payable to related parties:		
Transactions with ultimate holding company (ICBC Limited) and subsidiaries and branches	**84.4**	71.5
Transactions with shareholder with significant influence (SBG) and subsidiaries and branches	**35.8**	19.5
	120.2	91.0

30 Supplementary income statement information (continued)

	2018 $m	2017 $m
30.3 Non-interest revenue		
Net fees, commission and revenue sharing arrangements[1]	**44.1**	31.1
Trading revenue	**216.2**	248.8
- Commodities	**89.0**	83.2
- Debt securities	**16.3**	48.7
- *Equities*	**4.3**	7.1
- Foreign exchange[2]	**106.6**	109.8
Net gain on non-trading financial assets and liabilities at fair value through profit or loss	**14.9**	21.8
Gain on commodity reverse repurchase agreements (note 30.4)	**37.9**	-
	313.1	301.7

[1]Revenue sharing arrangements include receipts of US$5.1 million (2017: US$7.3 million). There were no payments in 2018 (2017: US$ nil). These amounts all relate to transactions with SBG companies.

[2]Includes cross currency swap instruments.

Included above are the following amounts with related parties:		
Transactions with ultimate holding company (ICBC Limited) and subsidiaries and branches	**(4.1)**	(4.9)
Transactions with shareholder with significant influence (SBG) and subsidiaries and branches	**8.7**	10.9
	4.6	6.0

Fee and commission income from contracts with customers in the scope of IFRS 15 is disaggregated by business unit in note 1. Fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The group recognises revenue when it transfers control over a service to a customer or when the service is complete, depending on the nature of the contract and the service provided. The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers and the related revenue recognition policies.

Business unit	Nature and timing of satisfaction of performance obligations	Revenue recognition under IFRS 15 (applicable 1 January 2018)
Commodities	The group provides vaulting and clearing services to clients in its precious metals business. The fees for these services principally comprise storage and transfer fees.	Revenue related to storage services is recognised over time reflecting the provision of the storage service on a continuous basis over the storage term.
	Storage fees are set at fixed rates per amount of metal stored. Transfer fees are transaction based.	Revenue related to transfers is recognised at the point in time when the transfer is complete.
	The group leases metals to and from clients in its precious metals business. The fees for these services are based on the value of the metal lease and the agreed lease rate.	Revenue related to metal leases is recognised over time throughout the term of the lease and is paid on termination of the lease.
FICE	The group provides brokerage services for its clients on securities trades. Fees for these services are transaction based.	Revenue related to brokerage services is recognised at the point in time when the transaction is complete.
Investment Banking	The group's investment banking business provides various finance related services, including debt and equity underwriting and other advisory services. Fees received for these services are transaction based.	Revenue related to transactions in the group's investment banking business is recognised at the point in time when the transaction is complete.
All	The group provides guarantees to various clients. Fees received for these services are based on the value of the guarantee provided, the creditworthiness of the obligor and the term of the guarantee.	Revenue related to guarantees is recognised over time throughout the term of the guarantee.

30 Supplementary income statement information (continued)

30.4 Loss on commodity reverse repurchase agreements

In 2014, the group recognised a valuation loss of US$147.1 million on a series of commodity financing arrangements, otherwise referred to as commodity reverse repurchase agreements (reverse repos). This was based on evidence that the financing arrangements were adversely affected by fraudulent activities in respect of physical aluminium held as collateral in bonded warehouses in Shandong Province, China. The group commenced investigations and legal proceedings against several parties with respect to its rights to the physical aluminium and lodged claims under the relevant insurance policies.

In 2015, the group provided for the remaining US$20.0 million of exposure to the reverse repos. Following settlement of the majority of the claim with the insurers on a portion of the exposure, recoveries of US$70.5 million were recorded in the income statement in 2015, leaving the net recovery in 2015 at US$50.5 million. As an agreement has not been reached with the remaining insurer for that portion of the claim, no further revenue for the insurance claim has been recognised in 2017 or 2018. The group continues to pursue this claim.

In 2018, the outstanding injunctions against the metal were lifted and the metal shipped to Singapore. Due to the group being able to access and thus sell the metal, the fair value has now been recognised. The group thus recorded recoveries of US$37.9 million on the metal net of hedging, storage, freight and other costs (2017: US$ nil). The metal was recognised at fair value less costs to sell, consistent with other commodities as per accounting policy note 6.

Legal costs of US$1.7 million have been incurred in 2018 in pursuit of the group's claim to the metal (2017: US$3.9 million), with these being reflected within operating expenses.

30.5 Credit impairment (charges) / recoveries

	2018 $m	2017 $m
Stage 1: 12-month ECL	**(0.3)**	N/A
Cash and balances with central banks	-	N/A
Reverse Repurchase Agreement	(0.5)	N/A
Due from banks and other financial institutions	0.2	N/A
Loans and advances to customers	0.1	N/A
Financial investment (FVOCI)	-	N/A
Commitments and financial guarantees given	(0.1)	N/A
Stage 2: Lifetime ECL - not credit-impaired	**(0.1)**	-
Loans and advances to customers	(0.1)	N/A
Stage 3: Lifetime ECL - credit-impaired	**(0.3)**	N/A
Loans and advances to customers	(0.3)	N/A
Specific impairments recoveries	**N/A**	5.6
Portfolio impairments recoveries	**N/A**	2.8
Net credit impairment (charges) / recoveries	**(0.7)**	8.4

30.6 Staff costs

Salaries and allowances	**194.0**	216.2
Other direct staff costs	**25.2**	24.4
Long-term incentive schemes	**14.6**	11.1
Retirement benefit costs	**9.7**	10.5
	243.5	262.2

30 Supplementary income statement information (continued)

	2018	2017
	$m	$m
30.7 Other operating expenses		
Amortisation of intangible assets	**4.1**	0.7
Auditors' remuneration	**3.0**	3.0
Audit of ICBC Standard Bank Plc company	**2.0**	2.1
Audit of subsidiaries[1]	**0.4**	0.4
Audit related assurance services	**0.6**	0.5
All other services	**-**	-
Depreciation	**4.6**	5.1
Computer equipment	**2.0**	2.8
Office equipment	**0.5**	0.5
Furniture and fittings	**2.1**	1.8
Operating lease charges - Properties	**13.3**	14.5
Information technology and communication	**43.4**	41.2
Premises	**7.4**	8.1
Other expenses	**54.6**	30.6
	130.4	103.2

[1]Includes US$0.2 million (2017: US$0.2 million) in respect of fees for audit services to firms other than KPMG.

	2018	2017
30.8 Indirect taxation		
Value added tax	**5.2**	5.9
	5.2	5.9

30 Supplementary income statement information (continued)

30.9 Long-term incentive schemes

30.9.1 Quanto stock unit plan

Since 2007, the group has operated a deferred incentive arrangement in the form of the quanto stock unit plan. Qualifying employees with an incentive award above a set threshold are awarded quanto stock units denominated in US Dollars for nil consideration. For those in issue as at 31 December 2015, the value is based on the Standard Bank Group Limited (SBG) share price and moves in parallel to the change in price of the SBG ordinary shares listed on the Johannesburg Stock Exchange. The awards made in 2016 and subsequent years are based on the ICBC ordinary share price as quoted on the Hong Kong Stock Exchange. The cost of the award is accrued over the vesting period (generally three years), commencing with the year in which the quanto stock units are awarded and communicated to employees. Awards will be exercised on vesting. Units granted since 1 January 2012 do not allow for incremental payments to employees in service for four years. A description of the underlying accounting principles is disclosed in accounting policy 14 'Long-term incentive schemes'.

The provision in respect of liabilities under the scheme amounts to US$20.8 million (quanto US$14.0 million, deferred cash US$6.8 million) at 31 December 2018 (2017: US$22.7 million), and the charge for the year is US$14.7 million (quanto of US$8.6 million, deferred cash of US$6.1 million; 2017: US$11.1 million, being quanto of US$8.0 million and deferred cash of US$3.1 million). The change in liability due to changes in the SBG and ICBC share prices is hedged through the use of equity options designated as cash flow hedges (see note 7.4.1).

	2018	2017
SBG shares	**Units**	Units
Units outstanding at beginning of the year	**13,921**	71,216
Exercised	**(13,921)**	(56,730)
Leavers / lapses	-	(565)
Units outstanding at end of the year	-	13,921
Of which relates to key management	-	2,522

The following SBG quanto stock units granted to employees had not been exercised at 31 December:

	2018	2017
Expiry year[1]	**Units**	Units
2018	-	12,528
2019	-	1,393
	-	13,921

[1]The units vest at various intervals between the reporting date and the expiry date.

	2018	2017
ICBC shares	**Units**	Units
Units outstanding at beginning of the year	**2,781,411**	2,569,916
Granted	**987,377**	1,116,699
Exercised	**(1,214,592)**	(859,324)
Leavers / lapses	**(31,107)**	(45,880)
Units outstanding at end of the year	**2,523,089**	2,781,411
Of which relates to key management	**1,105,998**	1,489,534

The following ICBC quanto stock units granted to employees had not been exercised at 31 December:

	2018	2017
Expiry year[1]	**Units**	Units
2018	-	1,198,922
2019	**1,524,377**	1,220,892
2020	**674,182**	361,597
2021	**324,530**	
	2,523,089	2,781,411

[1]The units vest at various intervals between the reporting date and the expiry date.

30 Supplementary income statement information (continued)

30.9 Long-term incentive schemes

30.9.1 Quanto stock unit plan

The unrecognised compensation cost related to the unvested awards amounts to US$23.6 million (2017: US$22.0 million). The quanto element of this is US$12.1 million, with US$11.5 million being deferred cash awards. These represent the accumulated amount deferred on awards issued and approved. The vesting of these awards is expected to occur as follows:

	2018 $m	2017 $m
Year ending 31 December 2018	-	12.9
Year ending 31 December 2019	7.0	6.6
Year ending 31 December 2020	2.2	2.2
Year ending 31 December 2021	0.3	0.3
Year ending 31 December 2022	23.6	-
	33.0	22.0

Deferred awards of US$13.0 million have been approved for issue in March 2019. This is split into quanto awards of US$6.5 million and cash deferral of US$6.5 million. These awards will have seven vesting periods from 1 year to 7 years.

30.9.2 SBG equity scheme

Certain employees are granted share options under the SBG equity-settled share-based scheme. Awards prior to 2011 can be exercised within 10 years, 2011 awards can be exercised within the longest vesting period applied to these awards (generally three years) and awards after 2011 will be exercised on vesting. The outstanding award value under the SBG share scheme amounts to US$5.0 million (2017: US$5.0 million), and the amount charged for the year is US$ nil (2017: US$ nil).

	2018 Units	2017 Units
Options outstanding at beginning of the year	202,252	381,921
Transfers in	-	16,720
Transfers out	-	(7,345)
Exercised	(45,002)	(189,044)
Leavers / lapses	(6,250)	-
Options outstanding at end of the year	**151,000**	202,252
Of which relates to key management	137,500	142,970

Share options were exercised regularly throughout the year, other than during closed periods. The average share price for the year was ZAR193.34.

The following options granted to employees had not been exercised at 31 December:

Options expiry period	Option price range per share (ZAR)	2018 Units	2017 Units
Year to December 2019	62.39 - 65.00	4,750	26,000
Year to December 2020	111.94	75,000	82,500
Year to December 2021	98.80	71,250	93,752
		151,000	202,252

30 Supplementary income statement information (continued)

30.10 Directors' emoluments

Directors[1,2]	2018 $m	2017 $m
Emoluments of directors in respect of services rendered		
Emoluments	**5.1**	4.6
Proceeds from exercise of share-based incentives	**1.4**	1.4
Pension contribution	**-**	-
Highest paid director		
Emoluments	**2.7**	2.2
Proceeds from exercise of share-based incentives	**1.3**	1.3

[1]Compensation relates to services rendered to the group. In addition, US$0.3 million was paid on the group's behalf by entities consolidated into the ultimate holding company (ICBC Limited) and the shareholder with significant influence (SBG).

[2]The number of directors for whom pension contributions were paid was one during the year and at year end for both 2018 and 2017.

Long-term benefits under the SBG quanto stock unit plan	2018 Units	2017 Units
Number of units brought forward	**-**	4,906
Exercised	**-**	(4,906)
As at 31 December	**-**	-

Long-term benefits under the ICBC quanto stock unit plan	2018 Units	2017 Units
Number of units brought forward	**336,610**	322,251
Issued during the year	**107,310**	121,776
Exercised	**(148,009)**	(107,417)
As at 31 December	**295,911**	336,610

Long-term benefits under the SBG equity-settled share-based scheme	2018 Units	2017 Units
Number of options brought forward	**68,750**	118,750
Exercised	**(6,250)**	(50,000)
As at 31 December	**62,500**	68,750

30.11 Company profits

As permitted by section 408 of the Companies Act 2006, the company's statement of comprehensive income has not been presented. The company's loss of US$14.6 million (2017: US$27.7 million profit) has been included in the consolidated income statement.

30.12 Dividends

No dividends were declared in 2018 (2017: nil).

	2018 $m	2017 $m
31 Income tax (charge) / credit		
Current year tax charge	**(21.2)**	(9.2)
- Overseas tax[1]	**(20.4)**	(8.8)
- Overseas deferred tax	**(0.8)**	(0.4)
Prior years	**2.2**	19.4
- UK corporation tax[2]	**2.2**	19.4
- Overseas tax	**-**	(0.1)
- Overseas deferred tax	**-**	0.1
Total tax (charge) / credit	**(19.0)**	10.2

UK tax rate reconciliation

The UK corporation tax rate for the year ended 31 December 2018 was 19% (2017: 19.25%). The difference between the actual tax (charge)/credit and the tax that would result from applying the standard UK corporation tax rate to the group's profit before tax is explained below.

	2018 $m	2017 $m
Profit before taxation		
Continuing operations	**4.2**	19.5
Tax charge at the standard rate of 19% (2017: 19.25%)	**(0.8)**	(3.8)
Effects of:		
Adjustment to tax in respect of prior years - UK consortium relief[2]	**2.2**	19.4
Origination/reversal of temporary differences not recognised	**(2.7)**	2.7
Different tax rates in other countries	**(0.1)**	(0.3)
Non-deductible expenses	**(0.3)**	(1.1)
Deferred tax asset written off	**(0.7)**	-
Net impact of overseas tax[1]	**(16.6)**	(7.4)
Other	**-**	0.7
Tax (charge) / credit included in the income statement	**(19.0)**	10.2
Effective tax rate (%)	**452.4**	(52.3)

[1]Primarily relates to certain interest income received by the company that is subject to withholding tax imposed in the country of origin. Income that is subject to such tax is recognised gross of the taxes and the corresponding withholding tax is recognised as a tax expense.

[2]Surrender of a portion of the company's 2015, 2016 and 2017 UK tax losses to certain related parties under the UK consortium relief rules during the years ended 31 December 2017 (2015 and 2016 tax losses) and 31 December 2018 (2017 tax losses).

32 Notes to the cash flow statement

	Group		Company	
	2018	2017	**2018**	2017
	$m	$m	**$m**	$m
32.1 Increase in income-earning assets				
Financial assets held for trading	**997.1**	(1,609.0)	**997.1**	(1,609.0)
Non-trading financial assets at fair value through profit or loss	**(4.8)**	3.3	**(4.8)**	3.3
Loans and advances	**1,157.0**	(1,346.7)	**1,158.1**	(1,342.4)
Other assets	**(3,060.1)**	118.6	**(3,061.0)**	117.5
Financial investments	**(991.0)**	335.1	**(991.0)**	335.1
	(1,901.8)	(2,498.7)	**(1,901.6)**	(2,495.5)

32.2 Decrease in deposits and other liabilities				
Deposits and current accounts	**(1,673.5)**	1,839.4	**(1,673.5)**	1,841.7
Net derivative instruments	**(236.4)**	215.7	**(236.4)**	215.8
Financial liabilities held for trading	**(688.6)**	762.5	**(688.6)**	762.5
Financial liabilities designated at fair value through profit or loss	**(79.9)**	24.3	**(79.9)**	24.3
Other liabilities	**3,707.9**	756.8	**3,711.0**	758.9
	1,029.5	3,598.7	**1,032.6**	3,603.2

32.3 Corporation and withholding tax paid				
Amounts unpaid at beginning of the year	**0.3**	0.4	**(0.1)**	(0.1)
Income tax charge	**(19.0)**	10.2	**(18.0)**	10.6
Amounts received from branches of ultimate holding company (ICBC Limited)	**-**	-	**-**	-
Non-cash movements	**(1.2)**	(18.9)	**(2.0)**	(19.2)
Amounts unpaid at end of the year	**(0.3)**	(0.3)	**-**	0.1
	(20.2)	(8.6)	**(20.1)**	(8.6)

32.4 Cash and cash equivalents				
Balances with central banks	**1,920.9**	2,989.5	**1,920.9**	2,989.5
Other cash equivalents[1]	**871.7**	703.3	**809.6**	638.1
Cash and cash equivalents at end of the year	**2,792.6**	3,692.8	**2,730.5**	3,627.6

[1]Other cash equivalents include overnight placements that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

32.5 Reconciliation of liabilities arising from financing activities

				2018
	Opening balance	**Cash flow movements**	**Non-cash flow movements**	**Closing balance**
Group and company	**$m**	**$m**	**$m**	**$m**
Subordinated debt	**668.4**	**-**	**(8.6)**	**659.8**
Total	**668.4**	**-**	**(8.6)**	**659.8**

				2017
	Opening balance	Cash flow movements	Non-cash flow movements	Closing balance
Group and company	$m	$m	$m	$m
Subordinated debt	529.2	150.3	(11.1)	668.4
Total	529.2	150.3	(11.1)	668.4

33 Related party transactions

33.1 Subsidiaries

The subsidiary companies listed in note 14 comprise a limited part of the group's activities and transactions with these entities are not significant. The principal nature of the transactions are payments for business introduced and trading facilitation activities. Intercompany transactions, balances and unrealised surpluses and deficits are eliminated on consolidation.

33.2 ICBC and SBG related parties

The group entered into transactions with other entities forming part of the ICBC Group and Standard Bank Group. The transactions were entered into in the course of banking operations and were conducted in the ordinary course of business at arm's length. These transactions include funding and acceptance of interbank deposits, lending, derivative transactions and correspondent banking transactions. The transactions were priced at the prevailing market rates at the time of the transactions. A significant portion of this activity reflects funding and placements of precious metal holdings received, as well as the deposit of excess liquidity by other entities with the group. The extent of these activities is presented in notes 16, 17, 18 and 19. As part of its normal activities, the group also advanced funds to other entities within the ICBC and Standard Bank groups, the extent of which is disclosed in notes 4, 5 and 8. Balances arising from derivative transactions are shown in note 7.1. Issue of additional share capital in January 2017 is described in note 28.

33.3 Risk mitigation transactions

The group entered into equity risk mitigation transactions with Standard Bank of South Africa Limited (SBSA), of which US$2.7 million remains outstanding as at the reporting date (2017: US$5.8 million). Under the transactions, SBSA provides risk mitigation to the group. Under IFRS, the equity exposures are not derecognised, *with the liabilities recognised on the balance sheet.*

33.4 Key management compensation

Key management comprises directors of ICBCS and members of the governance committee of the principal operating entities.

	2018 **$m**	2017 $m
Salaries and other short-term benefits	**16.4**	14.0
Long-term incentives recognised in the income statement	**5.0**	4.9
Amounts included in the income statement	**21.4**	18.9
Proceeds on exercise of long-term incentives	**4.4**	5.9

There were no other transactions with key management in 2018 (2017: nil).

The average executive key management consists of 14 employees (2017: 13 employees).

34 Pensions and other post-retirement benefits

The group makes defined contributions to employees' pension providers. The assets of these providers are held separately from the group. Included in staff costs are contributions paid for pensions and other post-retirement benefits which amounted to US$9.7 million (2017: US$10.5 million). There were no outstanding contributions at the end of the reporting period (2017: US$ nil).

35 Subsequent events

No material adjusting or non-adjusting events have occurred between the balance sheet date and the date the annual financial statements have been approved for issue.

36 Maturity analysis

The maturity analysis is based on the remaining periods to contractual maturity from year end.

Group - 31 December 2018

	Repayable on demand	Maturing within 1 month	Maturing after 1 month but within 3 months	Maturing after 3 months but within 6 months	Maturing after 6 months but within 12 months	Maturing after 12 months but within 5 years	Maturing after 5 years	Undated	Total
	$m	$m	$m	$m	$m	$m	$m	$m	$m
Assets									
Cash and balances with central banks	1,920.9	-	-	-	-	-	-	-	1,920.9
Due from banks and other financial institutions	1,235.8	172.0	21.0	0.1	-	150.6	-	-	1,579.5
Financial assets held for trading	0.8	158.6	110.0	97.4	131.0	293.2	755.1	36.3	1,582.4
Non-trading financial assets at fair value through profit or loss	-	-	-	-	1,330.7	-	3.8	6.2	1,340.7
Derivative financial assets	8.8	755.0	699.8	427.4	466.8	1,114.1	547.9	-	4,019.8
Reverse repurchase agreements	677.2	537.6	249.4	60.4	328.3	2,208.0	-	-	4,060.9
Loans and advances to customers	18.4	41.8	56.8	112.3	220.5	281.3	6.2	-	737.3
Financial investments	5.1	20.1	70.3	80.2	322.8	1,453.8	-	-	1,952.3
Property and equipment	-	-	-	-	-	-	-	20.2	20.2
Current tax assets	-	-	-	-	-	-	-	0.3	0.3
Deferred tax assets	-	-	-	-	-	-	-	0.3	0.3
Other assets	180.9	144.0	-	0.5	2.0	-	3.2	7,029.3	7,359.9
Total assets	**4,047.9**	**1,829.1**	**1,207.3**	**778.3**	**2,802.1**	**5,501.0**	**1,316.2**	**7,092.6**	**24,574.5**
Liabilities									
Financial liabilities held for trading	15.0	69.6	55.6	77.1	87.0	292.6	258.7	-	855.6
Non-trading financial liabilities at fair value through profit or loss	-	-	-	-	1,257.7	-	-	-	1,257.7
Derivative financial liabilities	60.4	695.0	710.9	421.4	516.7	1,120.2	610.1	-	4,134.7
Due to banks and other financial institutions	2,022.8	4,349.8	2,079.4	500.9	306.7	5.5	6.1	-	9,271.2
Repurchase agreements	-	634.1	384.9	95.7	-	-	-	-	1,114.7
Certificates of deposit	-	-	-	-	-	-	-	-	-
Due to customers	328.2	13.9	102.8	20.1	4.7	-	-	-	469.7
Current tax liabilities	-	-	-	-	-	-	-	0.8	0.8
Subordinated debt	-	-	-	-	509.4	-	150.4	-	659.8
Other liabilities	5,192.7	292.8	-	1.1	-	0.2	7.0	58.7	5,552.5
Total liabilities	**7,619.1**	**6,055.2**	**3,333.6**	**1,116.3**	**2,682.2**	**1,418.5**	**1,032.3**	**59.5**	**23,316.7**

Undated other assets include commodities held for trading. Other liabilities payable on demand include obligations to return commodity balances placed with the group.

36 Maturity analysis

The maturity analysis is based on the remaining periods to contractual maturity from year end.

Company - 31 December 2018

	Repayable on demand	Maturing within 1 month	Maturing after 1 month but within 3 months	Maturing after 3 months but within 6 months	Maturing after 6 months but within 12 months	Maturing after 12 months but within 5 years	Maturing after 5 years	Undated	Total
	$m	$m	$m	$m	$m	$m	$m	$m	$m
Assets									
Cash and balances with central banks	1,920.9	-	-	-	-	-	-	-	1,920.9
Due from banks and other financial institutions	1,147.5	172.0	21.0	0.1	-	155.6	-	-	1,496.2
Financial assets held for trading	0.8	158.6	110.0	97.4	131.0	293.2	755.1	36.3	1,582.4
Non-trading financial assets at fair value through profit or loss	-	-	-	-	1,330.7	-	3.8	6.2	1,340.7
Derivative financial assets	8.8	755.0	699.8	427.4	466.8	1,114.1	547.9	-	4,019.8
Reverse repurchase agreements	677.2	537.6	249.4	60.4	328.3	2,208.0	-	-	4,060.9
Loans and advances to customers	18.4	41.8	56.8	112.3	220.5	281.3	6.2	-	737.3
Financial investments	5.1	20.1	70.3	80.2	322.8	1,453.8	-	-	1,952.3
Property and equipment	-	-	-	-	-	-	-	14.9	14.9
Other assets	180.2	144.0	-	0.5	2.0	-	3.2	7,029.8	7,359.7
Investment in group companies	-	-	-	-	-	-	-	29.5	29.5
Total assets	**3,958.9**	**1,829.1**	**1,207.3**	**778.3**	**2,802.1**	**5,506.0**	**1,316.2**	**7,116.7**	**24,514.6**
Liabilities									
Financial liabilities held for trading	16.1	69.6	55.6	77.1	87.0	292.6	257.6	-	855.6
Non-trading financial liabilities at fair value through profit or loss	-	-	-	-	1,257.7	-	-	-	1,257.7
Derivative financial liabilities	60.4	695.0	710.9	421.4	516.7	1,120.2	610.1	-	4,134.7
Due to banks and other financial institutions	2,022.8	4,349.8	2,079.4	500.9	306.7	5.5	6.1	-	9,271.2
Repurchase agreements	-	634.1	384.9	95.7	-	-	-	-	1,114.7
Certificates of deposit	-	-	-	-	-	-	-	-	-
Due to customers	328.2	13.9	102.8	20.1	4.7	-	-	-	469.7
Current tax liabilities	-	-	-	-	-	-	-	0.8	0.8
Subordinated debt	-	-	-	-	509.4	-	150.4	-	659.8
Other liabilities	5,190.4	292.8	-	1.1	-	0.2	7.0	55.3	5,546.8
Total liabilities	**7,617.9**	**6,055.2**	**3,333.6**	**1,116.3**	**2,682.2**	**1,418.5**	**1,031.2**	**56.1**	**23,311.0**

Undated other assets include commodities held for trading. Other liabilities payable on demand include obligations to return commodity balances placed with the group.

36 Maturity analysis

The maturity analysis is based on the remaining periods to contractual maturity from year end.

Group - 31 December 2017

	Repayable on demand	Maturing within 1 month	Maturing after 1 month but within 3 months	Maturing after 3 months but within 6 months	Maturing after 6 months but within 12 months	Maturing after 12 months but within 5 years	Maturing after 5 years	Undated	Total
	$m	$m	$m	$m	$m	$m	$m	$m	$m
Assets									
Cash and balances with central banks	2,989.5	-	-	-	-	-	-	-	2,989.5
Due from banks and other financial institutions	1,752.8	73.4	1.0	0.6	26.8	203.4	1.5	-	2,059.5
Financial assets held for trading	34.1	91.5	33.7	451.1	530.5	384.7	991.4	62.5	2,579.5
Financial assets designated at fair value through profit or loss	-	-	-	-	1,330.1	-	-	5.8	1,335.9
Derivative financial assets	24.9	754.8	732.4	508.8	490.7	1,255.9	532.0	-	4,299.5
Reverse repurchase agreements	780.3	1,359.7	390.1	168.6	-	2,006.8	-	-	4,705.5
Loans and advances to customers	55.8	2.6	34.0	46.9	162.1	300.3	5.2	-	606.9
Financial investments	-	-	-	-	130.4	828.0	-	3.6	962.0
Property and equipment	-	-	-	-	-	-	-	18.9	18.9
Current tax assets	-	-	-	-	-	-	-	0.4	0.4
Deferred tax assets	-	-	-	-	-	-	-	1.1	1.1
Other assets	190.2	-	-	-	-	1.0	3.0	4,100.8	4,295.0
Total assets	5,827.6	2,282.0	1,191.2	1,176.0	2,670.6	4,980.1	1,533.1	4,193.1	23,853.7
Liabilities									
Financial liabilities held for trading	12.2	47.3	268.7	136.8	234.6	304.1	540.5	-	1,544.2
Financial liabilities designated at fair value through profit or loss	-	-	-	-	1,337.6	-	-	-	1,337.6
Derivative financial liabilities	33.0	649.0	855.1	527.2	583.0	1,278.5	726.8	-	4,652.6
Due to banks and other financial institutions	1,597.4	4,052.9	1,445.4	2,685.4	324.6	7.6	7.0	-	10,120.3
Repurchase agreements	44.8	820.2	377.9	201.1	-	350.2	-	-	1,794.2
Certificates of deposit	-	-	-	-	16.7	-	-	-	16.7
Due to customers	365.2	214.9	6.2	11.1	3.4	-	-	-	600.8
Current tax liabilities	-	-	-	-	-	-	-	0.7	0.7
Subordinated debt	-	-	-	-	-	518.0	150.4	-	668.4
Other liabilities	1,775.2	-	-	-	-	0.6	3.3	56.8	1,835.9
Total liabilities	3,827.8	5,784.3	2,953.3	3,561.6	2,499.9	2,459.0	1,428.0	57.5	22,571.4

Undated other assets include commodities held for trading. Other liabilities payable on demand include obligations to return commodity balances placed with the group.

36 Maturity analysis

The maturity analysis is based on the remaining periods to contractual maturity from year end

Company - 31 December 2017

	Repayable on demand	Maturing within 1 month	Maturing after 1 month but within 3 months	Maturing after 3 months but within 6 months	Maturing after 6 months but within 12 months	Maturing after 12 months but within 5 years	Maturing after 5 years	Undated	Total
	$m	$m	$m	$m	$m	$m	$m	$m	$m
Assets									
Cash and balances with central banks	2,989.5	-	-	-	-	-	-	-	2,989.5
Due from banks and other financial institutions	1,662.3	73.4	1.0	0.6	26.8	208.6	1.5	-	1,974.2
Financial assets held for trading	34.1	91.5	33.7	451.1	530.5	384.7	991.4	62.5	2,579.5
Financial assets designated at fair value through profit and loss	-	-	-	-	1,330.1	-	-	5.8	1,335.9
Derivative financial assets	24.9	754.8	732.4	508.8	490.7	1,255.9	532.0	-	4,299.5
Reverse repurchase agreements	780.3	1,359.7	390.1	168.6	-	2,006.8	-	-	4,705.5
Loans and advances to customers	55.8	2.6	34.0	46.9	162.1	300.3	5.2	-	606.9
Financial investments	-	-	-	-	130.4	828.0	-	3.6	962.0
Property and equipment	-	-	-	-	-	-	-	12.2	12.2
Other assets	272.1	-	-	-	-	1.0	3.0	4,017.8	4,293.9
Investment in group companies	-	-	-	-	-	-	-	29.5	29.5
Total assets	5,819.0	2,282.0	1,191.2	1,176.0	2,670.6	4,985.3	1,533.1	4,131.4	23,788.6
Liabilities									
Financial liabilities held for trading	12.2	47.3	268.7	136.8	234.6	304.1	540.5	-	1,544.2
Financial liabilities designated at fair value through profit or loss	-	-	-	-	1,337.6	-	-	-	1,337.6
Derivative financial liabilities	33.0	649.0	855.1	527.2	583.0	1,278.5	726.8	-	4,652.6
Due to banks and other financial institutions	1,597.4	4,052.9	1,445.4	2,685.4	324.6	7.6	7.0	-	10,120.3
Repurchase agreements	44.8	820.2	377.9	201.1	-	350.2	-	-	1,794.2
Certificates of deposit	-	-	-	-	16.7	-	-	-	16.7
Due to customers	365.2	214.9	6.2	11.1	3.4	-	-	-	600.8
Current tax liabilities	-	-	-	-	-	-	-	0.7	0.7
Subordinated debt	-	-	-	-	-	518.0	150.4	-	668.4
Other liabilities	1,772.5	-	-	-	-	0.6	3.3	52.7	1,829.1
Total liabilities	3,825.1	5,784.3	2,953.3	3,561.6	2,499.9	2,459.0	1,428.0	53.4	22,564.6

Undated other assets include commodities held for trading. Other liabilities payable on demand include obligations to return commodity balances placed with the group.

37 Risk management

37.1 Overview and executive summary

The effective management of risk within the stated risk appetite is fundamental to the banking activities of the group. The group seeks to achieve a measured balance between risk and reward in the businesses as described below. In this regard, the group continues to build and enhance the risk management capabilities that assist in delivering growth plans in a controlled environment.

Risk management is at the core of the operating and management structures of the group. Managing and controlling risks, and in particular avoiding undue concentrations of exposure, limiting potential losses from stress events, restricting significant positions in less quantifiable risk areas and constraining profit or loss volatility are essential elements of risk management and the control framework which serve to protect the group's reputation and business franchise.

Overall responsibility for risk management within the group rests with the Board of Directors (the Board). Accountability for risk management resides at all levels within the group, from the executive management down through the organisation to each business manager and risk specialist. The three lines of defence model is embedded in the group's operating model.

In the **first line of defence**, business unit management is primarily responsible for risk management. The assessment, evaluation and measurement of risk is an ongoing process which is integrated into day-to-day business activities. This includes the continued development of the group's operational risk management framework, identification of material issues and the implementation of remedial action where required. Business unit management is also accountable for appropriate reporting to the various governance bodies within the group.

The **second line of defence** is represented by the group's risk management function which is independent of line management within the business areas. The risk function is primarily accountable for establishing and maintaining the group's risk management framework, standards and supporting policies, as well as for providing risk oversight and independent reporting of risk to executive management, board level committees and the Board.

The **third line of defence** consists of internal audit which provides an independent assessment of the adequacy and effectiveness of the group's overall system of internal control and risk governance structures. The internal audit function reports independently to the group's board audit committee (BAC).

The market conditions prevailing in the year under review and the risks associated with these conditions are considered in the strategic report.

37.2 Risk management framework

Governance structure

Overall responsibility for risk management within the group rests with the Board. Day-to-day responsibility is delegated to the governance committee and its sub-committees which review, inter alia, summaries of market, liquidity, credit, operational, country and regulatory risks.

The Board also delegates certain functions and responsibilities to the BAC and the board risk management committee (BRMC).

Risk policies and procedures

The group has developed a set of policies for each major risk type to which it is exposed. The policies set out minimum control requirements and are designed to ensure alignment and consistency in the manner in which the major risk types and capital management metrics across the group are dealt with, from identification to reporting. All policies are applied consistently across the group and certain policies are approved by the BRMC. It is the responsibility of executive management in each business line to ensure the implementation of risk policies and capital management standards. Supporting policies and procedures are implemented by each business line management team and independently monitored by embedded risk resources.

Risk appetite

Risk appetite is an expression of the amount, type and tenor of risk the group is willing to take in pursuit of its financial and strategic objectives, reflecting the group's capacity to sustain losses and continue to meet its obligations as they fall due in a range of different stress conditions. The Board has developed a framework to articulate risk appetite throughout the group and to external stakeholders.

The Board establishes the parameters for risk appetite by:

- providing strategic leadership and guidance;
- reviewing and approving annual budgets and forecasts, under normal and stressed conditions, for the group and *each division;*
- regularly reviewing and monitoring the group's performance in relation to risk through quarterly Board reports; and
- conducting forward-looking analysis of risk tendency against risk appetite in both normal and stressed conditions.

The chief risk officer (CRO) recommends the level of risk appetite for the group to both the BRMC and the Board.

The group's risk appetite is defined by the following metrics:

- earnings volatility;
- liquidity;
- regulatory capital;
- unacceptable risk; and
- economic capital.

These metrics are then converted into limits and triggers across the relevant risk types, at both entity and business unit level, through an analysis of the risks that impact them.

Stress testing

The group's stress testing framework supports the regular execution of stress tests at the business unit and legal entity levels. The group's overall stress testing programme is a key management tool within the organisation and facilitates a forward looking perspective on risk tendency and business performance. Stress testing involves identifying possible events or future changes in economic conditions that could have an impact on the group.

Stress tests are used in proactively managing the group's risk profile, capital planning and management, strategic business planning, setting of capital buffers and liquidity profile. Stress testing is an integral component of the group's internal capital adequacy assessment process (ICAAP), and is used to assess and manage the adequacy of regulatory and economic capital. Stress tests are regularly discussed with the group's regulators.

In managing the group's liquidity position, management considers the impact of stress on its funding and liquidity position by conducting stress testing on a daily basis. The internal stress test models the group's view of a combined severe idiosyncratic and market-wide stress scenario and is used to determine the group's liquidity risk appetite. The stress testing framework is included in the individual liquidity adequacy assessment process (ILAAP), which is used to assess the group's processes for identification, measurement, management and monitoring of liquidity and funding risk.

The appropriateness and severity of the relevant stress scenarios for enterprise-wide stress testing are approved by the BRMC following a recommendation by the risk management committee (RMC) and are reviewed at least annually.

Management reviews the results of the stress tests as measured by the risk appetite metrics, and evaluates the need for mitigating actions. Examples of mitigating actions include reviewing and changing risk limits, reducing business, limiting exposures and putting hedges in place.

Stress testing supports a number of business processes across the group, including:

- strategic planning and budgeting;
- capital and liquidity planning and management, including setting capital and liquidity buffers for the group;
- communication with internal and external stakeholders; and
- assessment, as required, of the impact of changes in short-term macroeconomic factors on the group's performance.

During 2018, the group performed stress tests on scenarios defined by the Prudential Regulation Authority (PRA) in addition to internal group defined scenarios, which included "emerging market risk off" and "global financial crisis" scenarios. The "emerging market risk off" scenario models the impact of a sharp deterioration in emerging market risk appetite, likely to be driven by US Federal Reserve interest rate increases and rising concerns over corporate leverage in the US. The "global financial crisis" scenario envisages a severe slowdown in the Chinese economy due to excessive leverage both in China and imbalances in other parts of the global economy. The scenario provides a severe negative economic stress in the group's key markets based upon heavy reliance on natural resource exports. The impact of a no deal Brexit has been subject to stress testing during the year and this did not have a material impact on the group's financial resources. This stress will be subject to regular review during the first quarter of 2019.

The group also conducts reverse stress testing to complement the overarching stress testing programme. Reverse stress testing identifies those scenarios that could threaten the ongoing stability of the group, and serves to inform what action should be taken to mitigate this risk. These tests are a risk management tool as they assist in testing the group's assumptions about business strategy and contingency planning.

Risk profile

The group's trading activities comprise both own account and customer related business. These activities result in the group holding positions in foreign exchange, commodities and marketable securities for its own account and to facilitate client business.

The group's non-trading portfolios of financial instruments include loans and advances, trade finance, deposits and debt securities.

37.3 Risk categories

The principal risks to which the group is exposed and which it manages are defined as follows:

Credit risk

Credit risk comprises counterparty risk, settlement risk, notional/gross risk and concentration risk. These risk types are defined as follows:

- Counterparty risk is the risk of loss to the group as a result of failure by a counterparty to meet its financial and / or contractual obligations to the group. This risk type has three components:
  - primary credit risk, which is the exposure at default (EAD) arising from lending and related banking product activities including underwriting the issue of these products in the primary market;
  - pre-settlement credit risk, which is the EAD arising from unsettled forward and derivative transactions. This risk arises from the default of the counterparty to the transaction and is measured as the cost of replacing the transaction at current market rates; and
  - issuer credit risk, which is the EAD arising from traded credit and equity products including underwriting the issue of these products in the primary market.
- Settlement risk is the risk of loss to the group from settling a transaction where value is exchanged, but where the group may not receive all or part of the counter value.
- Notional/gross risk is a measure applied most typically to repo type transactions (commodities and securities) and inventory activities, to constrain and control absolute gross volumes of transactions or positions.
- Concentration risk is the risk of loss to the group as a result of excessive build-up of exposure to a single counterparty or group, an industry, market, product, financial instrument or type of security, a country or

geography, or a maturity. Concentration risk typically exists where a number of counterparties are engaged in similar activities and have similar characteristics, which could result in their ability to meet contractual obligations being similarly affected by changes in economic or other conditions.

Country risk

Country risk, also referred to as cross-border transfer risk, is the risk that a client or counterparty, including the relevant sovereign (government entities), does not fulfil its obligations to the group outside the host country due to political or economic conditions in the host country.

Liquidity and funding risk

Liquidity risk arises when the group, despite being solvent, does not have available sufficient financial resources to enable it to meet its obligations as they fall due. Funding risk arises when the group does not have stable sources of funding in the medium and long term to enable it to meet its financial obligations, as they fall due, either at all or only at excessive cost.

Owing to the short-dated and liquid nature of the group's business model, the group's liquidity and funding risks have overlapping time horizons. These risks may arise due to a range of group-specific or market-wide events; for example, when counterparties who provide the group with funding do not roll over that funding, due to perceived risks around the group's financial position, concerns around general market conditions or a combination of both. The majority of assets are short-dated financial assets held for trading which can be monetised within the internal stress test survival horizon of 91 days, with the group's funding being of similar profile.

The group's liquidity risk framework in note 37.6 provides further details as to the identification, measurement, management and monitoring of these risks.

Market risk

Market risk is the risk of a change in market value, earnings (actual or effective) or future cash-flows of a financial instrument or commodity position, or a portfolio of financial instruments or commodities, caused by moves in market variables such as equity, bond and commodity prices, currency exchange rates, interest rates, credit spreads and recovery rates, and correlations and implied volatilities in all of these variables.

Market risk is categorised as trading book risk, interest rate risk in the banking book, valuation risk in equity investments and foreign currency translation risk.

Operational risk (unaudited)

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

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

- **Business disruption and system failure** - The risk of losses arising from disruption of business or system failures. This includes disruption or failure arising from the use of, or reliance on, computer hardware, software, electronic devices, online networks and internal telecommunications systems and disruption or failure arising from utilities failure, changes in organisational structure, people and processes. This also includes information risk and business continuity risk.
- **Damage to physical assets** - The risk of losses arising from loss or damage to physical assets from natural disaster or other events.
- **Execution, delivery and process management** - The risk of losses from failed transaction processing or process management, from relations with trade counterparties and vendors. This also includes tax risk and model risk.
- **Internal fraud** - The risk of losses due to acts of a type intended to defraud, misappropriate property or circumvent regulation, the law or company policy, but excluding diversity/discrimination events, which involves at least one internal party. This also includes financial crime risk.
- **External fraud** - The risk of losses due to acts of a type intended to defraud, misappropriate property or circumvent the law, by a third party including theft from transport/warehouse, collusion in the form of theft or misappropriation and custodian risk.

- **Clients products & business practices** - The risk of losses arising from an unintentional or negligent failure to meet a professional obligation to specific clients (including fiduciary and suitability requirements), or from the nature or design of a product. Compliance risk and legal risk is included here.
- **Employment practices and workplace safety** - The risk of losses arising from acts inconsistent with employment, health or safety laws or regulations.

Business risk (unaudited)

Business risk relates to the potential revenue shortfall compared to the cost base due to strategic and / or reputational reasons. From an economic capital perspective, business risk capital requirements are calculated as the potential loss arising over a one year timeframe within a certain level of confidence as implied by the group's chosen target rating. The group's ability to generate revenue is impacted by the external macroeconomic environment, its chosen strategy and its reputation in the markets in which it operates.

Reputational risk (unaudited)

Reputational risk results from damage to the group's image which may impair its ability to retain and generate business. Such damage may result from a breakdown of trust, confidence or business relationships. Safeguarding the group's reputation is of paramount importance to its continued success and is the responsibility of every member of staff.

37.4 Credit risk

Credit risk comprises mainly counterparty credit risk arising from loans granted, commodity leasing, securities financing transactions and derivative contracts entered into with clients and market counterparties.

The group manages credit risk through:

- maintaining a strong culture of responsible risk taking and a robust risk policy and control framework;
- identifying, assessing and measuring credit risk clearly and accurately across the group, from the level of individual facilities up to the total portfolio;
- defining, implementing and re-evaluating risk appetite under actual and stress conditions;
- monitoring credit risk relative to limits; and
- ensuring that there is expert scrutiny and independent approval of credit risks and their mitigation.

First line responsibility for credit risk management resides with the business lines, which are in turn supported by the overarching risk function.

In the trading/derivatives area, the group is exposed to counterparty credit risk, which arises as a result of movements in the fair value of securities and commodities financing, and OTC derivative contracts. The risk amounts reflect the estimated aggregate replacement or exit costs that would be incurred by the group in the event of counterparties defaulting on their obligations.

The exposure to counterparty credit risk is affected by the nature of the trades and after recognition of any eligible netting and collateral arrangements.

Credit risk assessment method

Stage of financial instruments

The group classifies the financial instruments into three stages and makes provisions for expected credit losses accordingly, depending on whether credit risk on that financial instrument has increased significantly since initial recognition.

The three stages are defined as follows:

- Stage 1: For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon purchase or origination, the 12 month ECL is recognised. For instruments in stage 1, interest revenue is calculated by applying the effective interest rate to the gross carrying amount of the instrument.

- Stage 2: For exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, an allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument (lifetime ECL). For instruments in stage 2, interest revenue continues to be calculated by applying the effective interest rate to the gross carrying amount of the instrument.
- Stage 3: For exposures where there is objective evidence of impairment, which are considered to be in default or otherwise credit impaired, an allowance (or provision) for lifetime ECL is also required. However, for instruments in stage 3, interest revenue is calculated by applying the effective interest rate to the amortised cost (net of the allowance or provision) rather than the gross carrying amount of the instrument.

The assessment of whether an instrument is in stage 1 or stage 2 considers the relative change in the probability of default occurring over the expected life of the instrument, not the change in the amount of expected credit losses.

An instrument is in stage 3 if it exhibits objective evidence of credit impairment, which includes:

- Known cash flow difficulties experienced by the borrower;
- A breach of contract such as default or delinquency in interest and/or principal payments;
- Breaches of loan covenants;
- It becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- The group, for economic or legal reasons relating to the borrower's financial difficulty, grants the borrower a concession that it would not otherwise consider.

Exposures that have not deteriorated significantly since origination or which are less than 30 days past due, are considered to have a low credit risk. The loss allowance for these instruments is based on 12 month ECL.

An exposure will migrate through the ECL stages as asset quality deteriorates. If, in a subsequent period, asset quality improves and also reverses any previously assessed significant increase in credit risk since origination, then the loss allowance reverts from lifetime ECL to 12 month ECL.

Significant increase in credit risk

The assessment of significant increase in credit risk since initial recognition is performed on a monthly basis by comparing the risk of default occurring over the expected life of the instrument between the monthly reporting date and the date of initial recognition.

A significant increase in credit risk occurs when any of the following situations arise within the group's rating system:

- a decline in risk rating of three or more risk grades between risk grades 12 and 20 (equivalent to Standard & Poor's risk ratings of BBB- to B-);
- any decline in risk rating into risk grade 21 (equivalent to Standard & Poor's risk rating of CCC+) or lower; or
- any decline in risk rating below risk grade 21.

In addition, qualitative factors, such as watch list exposures, can also trigger a significant increase in credit risk.

Description of models and parameters

The group's models for determining ECLs use three key input parameters, being probability of default (PD), loss given default (LGD) and exposure at default (EAD). ECLs are calculated by multiplying these three components. PD is the likelihood of default assessed on the prevailing economic conditions at the reporting date adjusted to take into account estimates of future economic conditions that are likely to impact the risk of default. LGD is a current assessment of the amount that will be recovered in the event of default and EAD is the expected balance sheet exposure at default. PD and LGD are linked to the risk grades and assigned at counterparty level.

PDs are calculated by constructing a through-the-cycle term structure using a Standard & Poor's based transition matrix and the group's internal through the cycle PD. Moody's KMV data is then used to convert this into a point-in-time PD.

LGDs are based on a workout model, which calculates an expected rate of recovery on financial instruments by assigning a defined loss rate for different default resolution paths, and weights these according to an assumed probability of each default event occurring. The default resolution events comprise: (i) cure events; (ii) restructure events; and (iii) liquidation events.

The EAD is based on the balance sheet value of the exposure (including accrued interest) adjusted for the value of any collateral (which may be on- or off-balance sheet) held against that balance.

Forward-looking economic view and macroeconomic scenario

The group's forward-looking economic view is taken into consideration when the internal credit ratings are determined. The ratings incorporate average expected default probabilities (EDPs) from Moody's KMV and are inherently linked to the group's forward looking economic view.

When calculating the weighted average ECL, the optimism, neutral and pessimism scenarios and their weightings provided by an external economic forecasting service provider are also taken into account by the group.

Write-off policy

When an asset is uncollectible, it is written off against the related provision. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off reduce the amount of the expense in the income statement.

Framework and governance

Strategy and process to manage risk

The group's head of credit has functional responsibility for credit risk across the group and reports to the CRO.

Structure and organisation of credit risk management function

A formal structure exists for the approval of credit limits, which are agreed through delegated authority derived from the Board.

The Board awards the highest level of delegated authority to the credit committee to exercise responsibility of granting credit risk. The credit committee is convened as a sub-committee of the RMC with a mandate to:

- Exercise responsibility for the independent assessment, approval, review, and monitoring of credit and country risk limits and exposures relating to the group's business under a delegated authority construct;
- Ensure that the origination and management of credit and country risk exposures (including structured transactions) in the portfolio are in line with the credit risk policy and any other guidance given to it by the RMC from time to time;
- Escalate matters to RMC as appropriate, including breaches of risk appetite and proposed corrective actions;
- Monitor and review non-performing loan and watchlist exposures;
- Review and approve counterparty trading documentation (e.g. ISDA Master Agreements, Global Master Repurchase Agreements, etc.) and legal opinions on netting, collateral and other forms of credit risk mitigation; and
- Approve any underwriting commitments related to primary markets transactions.

Methodology to assign credit limits

The group uses internal models and practices to measure and manage credit risk to ensure that it is properly understood, managed and controlled.

The credit modelling framework includes the use of PD, LGD, EAD, UL, expected loss (EL), Ecap consumption and economic profit (EP). The group's risk appetite is in part calibrated to these economic risk drivers.

PD models are used to assess the probability of a counterparty not making full and timely repayment of credit obligations over a specific time horizon. The models use a combination of forward-looking qualitative factors and quantitative inputs. Each customer is assigned an internal credit rating which in turn is mapped to a statistically calibrated PD as illustrated in the table below. Different models are used for each discrete credit portfolio and counterparty, and each model has its own particular set of risk factors and inputs used for assessing the rating. All models are statistically tested and independently validated to ensure that they have an acceptable level of predictive power, provide an accurate forward-looking rating assessment suitable for use in regulatory and economic capital assessment and are stable through an economic cycle. For Ecap management, the group uses forward-looking ratings but also explores point-in-time (PIT) versus through-the-cycle (TTC) impacts through stress testing and deploys a credit migration model to assess the impact of risk rating downgrades.

The group's 25 point master rating scale below is indicatively mapped against external rating agencies' alphanumerical rating scales and group grading categories.

Group master rating scale	Moody's Investor Services	Standard & Poor's	Fitch	Grading
1 - 4	Aaa to Aa3	AAA to AA-	AAA to AA-	Investment grade
5 - 7	A1 to A3	A+ to A-	A+ to A-	
8 - 12	Baa1 to Baa3	BBB+ to BBB-	BBB+ to BBB-	
13 - 25	Ba1 to Ca	BB+ to CCC-	BB+ to CCC-	Sub-investment grade
Default	C	D	D	Default

Exposure to credit risk

For the tables that follow, the definitions below have been used for the different categories of exposures:

- **Neither past due nor impaired** represents exposures that are current and fully compliant with all contractual terms and conditions.
- **Past due but not specifically impaired** includes those exposures where the counterparty has failed to make its contractual payment or has breached a material covenant, but impairment losses have not yet been incurred due to the expected recoverability of future cash flows, including collateral. Ultimate loss is not expected but could occur if the adverse condition persists. These exposures are analysed further between those that are less than 90 days past due and those that are 90 days or more past due.
- **Specifically impaired** exposures include those where there is objective evidence that an impairment loss has been incurred and for which there has been a measurable decrease in the estimated future cash flows as a result of the borrower's payment status or objective evidence of impairment. Other criteria that are used by the group to determine that there is objective evidence of impairment include:
  - known cash flow difficulties experienced by the borrower;
  - breach of loan covenants or conditions;
  - the probability that the borrower will enter bankruptcy or other financial reorganisation; and
  - a significant downgrading in credit rating by an external credit rating agency, where, owing to the borrower's financial difficulties, concessions are granted to the counterparty.

  Specifically impaired exposures are further analysed into the following categories:
  - **sub-standard items** that show underlying well-defined weaknesses and are considered to be specifically impaired;
  - **doubtful items** that are not yet considered final losses because of some pending factors that may strengthen the quality of the items; and
  - **loss items** that are considered to be uncollectible in whole or in part. The group provides fully for its anticipated loss, after taking any security into account.
- **Non-performing exposures** are those exposures for which the group has identified objective evidence of default, such as breach of a material covenant or condition, or instalments are due and unpaid for 90 days or more.

Maximum exposure to credit risk

	Performing			Non-performing	
	Neither past due nor impaired	Past due but not specifically impaired		Specifically impaired	Gross credit exposure
		< 90 days	>= 90 days		
	$m	$m	$m	$m	$m
2018					
Cash and balances with central banks	1,920.9	-	-	-	1,920.9
Gross due from banks and other financial institutions	1,580.4	-	-	-	1,580.4
Financial assets held for trading	1,546.1	-	-	-	1,546.1
Non-trading financial assets at fair value through profit or loss	1,334.5	-	-	-	1,334.5
Derivative financial assets	4,019.8	-	-	-	4,019.8
Gross reverse repurchase agreements	4,061.4	-	-	-	4,061.4
Gross loans and advances to customers	739.7	-	-	0.2	739.9
Gross financial investments	1,952.3	-	-	-	1,952.3
Total balance sheet exposure to credit risk	17,155.1	-	-	0.2	17,155.3
Guarantees					20.0
Irrevocable unutilised facilities					16.8
Commodity leases					417.1
Total off-balance sheet exposure to credit risk					453.9
Total exposure to credit risk					17,609.2
Reconciliation to the balance sheet					
Add: Equity instruments (disclosed in notes 5 and 6)					42.5
Add: Non-financial assets					7,380.7
Less: Credit loss allowance					(4.0)
Less: Off-balance sheet exposure					(453.9)
Total assets					24,574.5

	Performing			Non-performing	
	Neither past due nor impaired	Past due but not specifically impaired		Specifically impaired	Gross credit exposure
		< 90 days	>= 90 days		
	$m	$m	$m	$m	$m
2017					
Non-trading financial assets at fair value through profit or loss	1,330.1	-	-	-	1,330.1
Derivative financial assets	4,299.5	-	-	-	4,299.5
Due from banks and other financial institutions	2,059.5	-	-	-	2,059.5
Reverse repurchase agreements	4,705.5	-	-	-	4,705.5
Loans and advances to customers	610.6	-	-	0.5	611.1
Gross loans and advances & derivative financial assets	13,005.2	-	-	0.5	13,005.7
Cash and balances with central banks					2,989.5
Financial assets held for trading					2,517.1
Financial investments					958.4
Total balance sheet exposure to credit risk					19,470.7
Irrevocable unutilised facilities					30.1
Commodity leases					848.3
Total off-balance sheet exposure to credit risk					878.4
Total exposure to credit risk					20,349.1
Reconciliation to the balance sheet					
Add: Equity instruments (disclosed in notes 5, 6 and 10)					71.8
Add: Non-financial assets					4,315.4
Less: Impairments for loans and advances					(4.2)
Less: Off-balance sheet exposures					(878.4)
Total assets					23,853.7

Analysis of gross balances subject to three stage expected credit loss (ECL) model

	Stage 1	Stage 2	Stage 3			Total
			Sub-standard	Doubtful	Loss	
2018	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
Cash and balances with central banks	**1,920.9**	-	-	-	-	**1,920.9**
Due from banks and other financial institutions	**1,580.4**	-	-	-	-	**1,580.4**
Reverse repurchase agreements	**4,061.4**	-	-	-	-	**4,061.4**
Loans and advances to customers	**705.1**	**34.6**	-	**0.2**	-	**739.9**
Financial investments	**1,952.3**	-	-	-	-	**1,952.3**
Commitments and financial guarantees given	**36.8**	-	-	-	-	**36.8**
Total	**10,256.9**	**34.6**	-	**0.2**	-	**10,291.7**

There are no past due but not impaired exposures at the end of 2018 (2017: US$ nil).

Movements in credit loss allowances

	Stage 1 12-month ECL $m	Stage 2 Lifetime ECL - not credit-impaired $m	Stage 3 Lifetime ECL - credit-impaired $m	Total $m
Credit loss allowance at 1 January 2018	**(3.5)**	-	**(0.4)**	**(3.9)**
Transfer:				
to stage 1	-	-	-	-
to Stage 2	-	-	-	-
to Stage 3	-	-	-	-
Increases due to origination and acquisition	(2.6)	(0.1)	-	**(2.7)**
Changes due to change in credit risk	1.8	-	(0.3)	**1.5**
Financial assets derecognised during the period	0.4	-	-	**0.4**
Write-offs of allowances against exposures	-	-	0.5	**0.5**
Credit loss allowance at 31 December 2018	**(3.9)**	**(0.1)**	**(0.2)**	**(4.2)**

Performing portfolio impairments (policy applicable prior to 1 January 2018)

Under IAS 39, portfolio credit impairments provided for latent losses in a group of loans which had not yet been identified as specifically impaired. ICBCS assessed its loan portfolios for impairment at the end of each reporting period. In determining whether an impairment loss should have been recorded in profit or loss, ICBCS made judgements as to whether there was observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease could be allocated to an individual loan in that portfolio. Estimates were also made of the duration between the occurrence of a loss event and the identification of a loss on an individual basis. The impairment for performing loans was determined on a portfolio basis, based on calculated loss ratios, adjusted for economic conditions and other indicators of potential default.

Collective portfolio impairments were not used to reduce exposures for regulatory purposes. The emergence period was the time lapsed from the loan default trigger to the point of identifying the loss. The emergence period was assessed as 12 months for 2017.

Renegotiated loans and advances

Renegotiated loans and advances are loans which have been refinanced, rescheduled, rolled over or otherwise modified during the year because of weaknesses in the counterparty's financial position and where it has been judged that normal repayment is expected to continue after the restructure. Renegotiated loans and advances are assessed on an individual basis and monitored during the rehabilitation period before being transferred into the performing portfolio. Following rehabilitation, internally generated risk grades are assigned that reflect the revised risk of the exposure. Consequent impairment recognition is evaluated as part of the normal credit process. There were no renegotiated loans that would otherwise be past due or impaired as at 31 December 2018 (2017: US$ nil).

The primary aim of providing forbearance facilities to customers is to enable the complete recovery of the exposure through the full repayment of arrears. The group does not follow a general forbearance policy but each facility is treated on its own merits. Watchlist review is an early warning mechanism which identifies any deterioration in counterparty performance. These exposures are immediately subject to independent scrutiny and, where necessary, a programme of intensive monitoring and review until such time as the position can be transferred back to line management. In cases where the remedial strategy does not produce the expected corrective action, the group may consider an alternative remedial strategy or referral to the BS&R team for active recovery management. An impairment charge is raised if the new terms are less favourable and result in the discounted cash flows being lower than the carrying value of the exposures. At 31 December 2018, performing loan exposures of US$34.6 million were under BS&R watchlist review (2017: US$ nil).

The expected credit loss allowance on the watchlist portfolio, including forbearance facilities, is mainly dependent on the internal credit grade allocated to it. Additionally, management adjustments to the model also capture the enhanced risks attached to this portfolio.

Credit risk mitigation and hedging

Collateral, guarantees, credit derivatives and netting are widely used by the group for credit risk mitigation. The amount and type of credit risk mitigation depends on the circumstances of each case.

The amount and type of collateral required depends on the nature of the underlying risk and an assessment of the credit risk of the counterparty, as well as requirements or intentions with respect to reductions in capital requirements.

Derivative netting

For derivative transactions, the group typically uses internationally recognised and enforceable International Swaps and Derivatives Association (ISDA) agreements, with a credit support annexure (CSA), where collateral support is considered necessary. Other credit protection terms may be stipulated, such as limitations on the amount of unsecured credit exposure acceptable, collateralisation if mark-to-market credit exposure exceeds acceptable limits and termination of the contract if certain credit events occur, for example, a downgrade of the counterparty's external credit rating.

Master netting agreements

Where it is appropriate and likely to be effective, the group seeks to enter into master netting agreements. Although master netting agreements do not generally result in an offset of balance sheet assets and liabilities for accounting purposes, as transactions are usually settled on a gross basis in the ordinary course of business, they do reduce the credit risk exposure and capital requirements to the extent that, if an event of default occurs, all amounts with the counterparty can be terminated and settled on a net basis. The group's overall exposure to credit risk on derivative instruments subject to master netting agreements can change substantially within a short period, since this is the net position of all trades under the master netting agreement.

Guarantees/standby letters of credit

A guarantee is a contract whereby a third party guarantor promises to recompense the lender in the event of failure by a customer to meet their obligations. Regulatory capital relief is only taken through the use of risk weighted substitution for guarantees provided by appropriate central governments, central banks or similar institutions. Where regulatory capital relief is sought to reflect the risk mitigating effect of a guarantee, there are minimum operational and legal requirements that are required to be met. On the basis that these are met, alternative forms of protection, for example indemnities, may be classified as guarantees for regulatory capital purposes.

Credit derivatives

Credit derivatives are a method of transferring credit risk from one counterparty (the protection buyer) to another (the protection seller). In return for a risk premium, the protection seller agrees to make a payment (or series of payments) to the protection buyer in the event of the occurrence of a stipulated event. Capital relief under regulatory requirements is restricted to the following types of credit derivative:

- credit default swaps;
- total return swaps; and
- credit-linked notes (to the extent of their cash funding).

In respect of a credit default swap, various credit events defined in the ISDA affecting the obligor (including bankruptcy, failure to pay and restructuring), can trigger settlement. Settlement usually takes place by the protection *buyer being paid by the protection seller the notional amount minus the recovery as determined by an auction of the* eligible securities of the obligor governed by ISDA.

Under a total return swap, the protection buyer will pass on to the seller all payments it receives on the underlying credit obligation, plus any decrease in the market value of the credit obligation, in return for an interest related payment (market rate and spread). Where the deterioration in the value of the asset that is protected is not recorded (either through reductions in fair value or by an addition to reserves), the credit protection must not be recognised as eligible for capital relief.

Under a credit-linked note, the protection buyer will issue a bond or note which is linked to the creditworthiness of an obligor and backed by certain collateral. The bond or note is purchased by the protection seller, who will receive a coupon on the bond or note (market rate and spread). If a credit event occurs in either the obligor or the collateral, the bond or note is redeemed by the protection buyer with the recovery being the redemption amount. If no credit event occurs, the bond or note will be redeemed at par by the protection buyer.

Exposures are monitored to prevent an excessive concentration of risk or single name concentrations.

Collateral required in respect of a rating downgrade

The group enters into derivative contracts with rated and unrated counterparties. To mitigate counterparty credit risk, the group stipulates credit protection terms such as limitations on the amount of unsecured credit exposure it will accept, collateralisation requirements if mark-to-market credit exposure exceeds those amounts and the collateralisation and termination requirements of the contract if certain credit events occur, which may include but not be limited to a downgrade of the counterparty's public credit rating.

Certain counterparties require that the group provides similar credit protection terms. From time to time, the group may agree to provide those terms on a restrictive basis. Rating downgrades as a collateralisation or termination event are generally conceded only to highly rated counterparties and, whenever possible, on a bilateral and reciprocal basis. Exceptionally, such rating downgrades may be conceded to unrated counterparties when their size, credit strength and business potential are deemed acceptable. In these cases, the concessions must be approved by Treasury and the CRO.

The impact on the group of the amount of collateral it would have to provide given a credit downgrade would be determined by the then negative mark-to-market on derivative contracts where such a collateralisation trigger has been conceded. The impact on the group's liquidity of a collateral call linked to a credit downgrading is included in the stress testing model which is approved by CapCom.

Financial effect of collateral and other credit enhancements

The table below indicates the estimated financial effect that collateral has on the group's maximum exposure to credit risk. The collateral disclosed is in relation to the gross credit exposure reported under IFRS and does not represent the collateral qualifying for prudential reporting purposes. The table displays the on-balance sheet and off-balance sheet credit exposures for the group, further divided between netting arrangements, and unsecured and secured exposures, with an additional breakdown of collateral coverage for the secured portion.

Netting arrangements represent amounts which are legally enforceable upon default, totalling US$2,600.8 million (2017: US$2,533.9 million). This is in addition to balances meeting the offsetting principles as described in accounting policy 5.

Unsecured exposures of US$7,964.7 million (2017: US$10,125.5 million) largely represent corporate and government bonds, precious metal leases, cash collateral placed with recognised exchanges and short-term placements with highly rated banks and non-banking financial institutions.

A significant portion of the secured exposures relates to reverse repo type securitised lending, where the collateral is typically highly rated, liquid and tradeable. For loans and advances, the collateral accepted includes property, other tangible assets across diverse jurisdictions, guarantees and credit enhancements such as credit default swaps. However, guarantees received based on future revenue streams, assets whose value is highly correlated to the counterparty and floating charges over assets have been excluded from the table. Total exposures of US$6,357.9 million (2017: US$5,399.7 million) are covered by more than 100%, primarily relating to the reverse repurchase lending activity.

Collateral obtained by the group

It is the group's policy to dispose of repossessed assets in an orderly manner. The proceeds are used to reduce or repay the outstanding claim. Generally, the group does not use repossessed assets for business purposes. No collateral has been repossessed in 2018 or 2017.

Financial effect of collateral and other credit enhancements[5]

	Total exposure to credit risk	Netting[1] arrangements	Exposure after netting	Unsecured exposures	Secured exposures	Extent of collateral and risk mitigation:		
						1 - 50%[2]	51 - 100%[3]	> 100%[4]
	$m	$m	$m	$m	$m	$m	$m	$m
2018								
Cash and balances with central banks	1,920.9	-	1,920.9	1,920.9	-	-	-	-
Due from banks and other financial institutions	1,580.4	470.1	1,110.3	984.7	125.6	-	-	125.6
Financial assets held for trading	1,646.1	-	1,646.1	1,402.9	143.2	-	79.6	63.6
Non-trading financial assets at fair value through profit or loss	1,334.5	-	1,334.5	-	1,334.5	-	-	1,334.5
Derivative financial assets	4,019.8	1,927.2	2,092.6	1,391.0	701.6	30.1	85.8	585.7
Reverse repurchase agreements	4,061.4	-	4,061.4	-	4,061.4	-	85.4	3,976.0
Loans and advances to customers	739.9	-	739.9	62.5	677.4	-	404.9	272.5
Financial investments	1,952.3	-	1,952.3	1,952.3	-	-	-	-
Total balance sheet exposure to credit risk	17,156.3	2,397.3	14,758.0	7,714.3	7,043.7	30.1	655.7	6,357.9
Guarantees	20.0	-	20.0	20.0	-	-	-	-
Irrevocable unutilised facilities	16.8	-	16.8	16.8	-	-	-	-
Commodity leases	417.1	203.5	213.6	213.6	-	-	-	-
Total off-balance sheet exposure to credit risk	453.9	203.5	250.4	250.4	-	-	-	-
Total exposure to credit risk	17,609.2	2,600.8	15,008.4	7,964.7	7,043.7	30.1	655.7	6,357.9

	Total exposure	Netting[1] arrangements	Exposure after netting	Unsecured exposures	Secured exposures	Extent of collateral and risk mitigation:		
						1 - 50%[2]	51 - 100%[3]	> 100%[4]
	$m	$m	$m	$m	$m	$m	$m	$m
2017								
Cash and balances with central banks	2,989.5	-	2,989.5	2,989.5	-	-	-	-
Due from banks and other financial institutions	2,059.5	337.1	1,722.4	1,508.9	213.5	-	10.1	203.4
Financial assets held for trading	2,517.1	-	2,517.1	2,388.3	128.8	-	-	128.8
Financial assets designated at fair value through profit or loss	1,330.1	-	1,330.1	-	1,330.1	-	-	1,330.1
Derivative financial assets	4,299.5	1,986.7	2,312.8	1,483.1	829.7	259.6	276.9	293.2
Reverse repurchase agreements	4,705.5	-	4,705.5	-	4,705.5	142.4	1,331.8	3,231.3
Loans and advances to customers	611.1	-	611.1	129.0	482.1	-	269.2	212.9
Financial investments	958.4	-	958.4	958.4	-	-	-	-
Total balance sheet exposure to credit risk	19,470.7	2,323.8	17,146.9	9,457.2	7,689.7	402.0	1,888.0	5,399.7
Guarantees	-	-	-	-	-	-	-	-
Irrevocable unutilised facilities	30.1	-	30.1	30.1	-	-	-	-
Commodity leases	848.3	210.1	638.2	638.2	-	-	-	-
Total off-balance sheet exposure to credit risk	878.4	210.1	668.3	668.3	-	-	-	-
Total exposure to credit risk	20,349.1	2,533.9	17,815.2	10,125.5	7,689.7	402.0	1,888.0	5,399.7

[1] Represents netting arrangements that can be applied in the event of default. This is in addition to offsetting applied in the balance sheet, as permitted by IAS 32.

[2] Represent exposures secured between 1% and 50%.

[3] Represent exposures secured between 51% and 100%.

[4] Represent exposures secured in excess of 100%.

[5] Collateral valuations are performed based on the nature and price volatility of the underlying collateral.

Wrong-way risk exposure

Wrong-way risk (WWR) is defined as the risk that arises due to adverse correlation between counterparty credit exposure and credit quality. WWR is present where the risk of default by the counterparty increases as the group's credit exposure to the counterparty increases or as the value of the collateral held by the group decreases.

This risk is addressed by taking into consideration the high correlation between the default event and exposure to the counterparty when calculating the potential exposure and security margin requirements on these transactions.

37.5 Country risk

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

Country risk is mitigated through a number of methods, including:

- political and commercial risk insurance;
- co-financing with multilateral institutions; and
- structures to mitigate transferability and convertibility risk such as collection, collateral and margining deposits outside the jurisdiction in question.

The following table illustrates customer risk by geographical segment.

Geographic analysis of gross loans & advances (notes 4, 8 and 9)[1]

	2018		2017	
	$m	%	$m	%
United Kingdom	**1,214.8**	**19.1**	1,786.5	24.3
Eurozone				
Luxembourg	**225.8**		200.0	
Netherlands	**137.8**		33.9	
Other	**167.2**		127.0	
	530.8	**8.3**	360.9	4.9
Rest of Europe				
Turkey	**208.4**		340.3	
Jersey	**125.6**		24.9	
Other	**102.4**		58.6	
	436.4	**6.8**	423.8	5.7
Asia-Pacific				
China	**514.9**		893.8	
Hong Kong	**128.1**		662.5	
Other	**67.3**		223.0	
	710.3	**11.1**	1,779.3	24.1
Sub-Saharan Africa				
Angola	**1,951.5**		1,962.4	
Nigeria	**352.2**		271.3	
Other	**5.6**		37.2	
	2,309.3	**36.2**	2,270.9	30.8
North America				
United States	**334.0**		445.2	
Cayman Islands	**127.0**		171.8	
Other	**171.0**		73.7	
	632.0	**9.9**	690.7	9.4
Latin America				
Panama	**35.5**		22.5	
Brazil	**3.2**		20.1	
Other	**0.1**		5.0	
	38.8	**0.6**	47.6	0.6
Middle East & North Africa				
Egypt	**206.5**		13.2	
Qatar	**139.6**		2.3	
Other	**163.2**		0.9	
	509.3	**8.0**	16.4	0.2
	6,381.7	**100.0**	7,376.1	100.0

[1]Based on the borrower's country of risk

Geographic analysis of financial assets held for trading and non-trading financial assets at fair value through profit or loss[1]

	2018		2017	
	$m	**%**	$m	%
Sub-Saharan Africa	**2,084.4**	**76.4**	2,868.6	77.4
Asia-Pacific	**307.5**	**11.3**	81.7	2.2
Middle East & North Africa	**219.9**	**8.1**	637.8	17.2
Rest of Europe	**101.7**	**3.7**	41.3	1.1
Latin America	**8.1**	**0.3**	68.5	1.9
North America	**4.7**	**0.2**	4.4	0.1
Eurozone	**0.2**	**-**	4.9	0.1
	2,726.5	**100.0**	3,707.2	100.0
Composition of Eurozone				
Slovakia	**0.2**	**100.0**	0.2	4.1
Netherlands	**-**	**-**	1.2	24.5
Other	**-**	**-**	3.5	71.4
	0.2	**100.0**	4.9	100.0

[1]Analysis of 'Government, utility bonds and treasury bills' and 'Corporate bonds and floating rate notes' included in notes 5 and 6.

37.6 Liquidity risk

Summary of performance (unaudited)

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

- Liquid asset buffer (LAB) surplus over the PRA's internal liquidity guidance (ILG) requirement; and
- LAB surplus over the group's internal stress test requirement.

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

As at 31 December 2018, the LCR position was 224% (2017: 230%), and the group held surplus LAB of:

- US$2,329 million over the ILG requirement, measured at calendar day 30 (2017: US$3,170 million).
- US$1,571 million over the internal stress test requirement, measured at the low point of the 91-day survival horizon (2017: US$2,153 million).

Objectives

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

The core objectives of the framework are:

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

Organisation and structure

The group has a clear three lines of defence structure operating model for the management and monitoring of liquidity risk:

First line: The capital management committee (CapCom) is the primary forum for managing liquidity. CapCom delegates responsibility to the liquidity sub-committee (LSC) for overseeing liquidity risk management in business-as-usual (BAU) and early signs of stressed conditions.

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

- ensure that the group's liquidity and funding positions are actively and efficiently managed within the constraints of the RAS;
- produce funding and liquidity reports including internal liquidity management information and regulatory returns;
- own the ILAAP, liquidity sections of the recovery and resolution pack, and internal liquidity policy documents (e.g. the liquid asset investment policy);
- maintain the funding plan;
- own the Treasury P&L;
- maintain the group's methodologies for liquidity stress testing, funds transfer pricing and recharge of liquidity risk (i.e. the contingent liquidity charge); and
- ensure compliance with changes in funding and liquidity regulations and ensure that the impact on the group's business model is articulated and effectively communicated to senior management.

Second line: The Board risk management committee (BRMC) provides the primary non-executive committee oversight and delegates responsibility to the GovCo's sub-committees, the risk management committee (RMC) and the market and liquidity risk committee (MLRC). The RMC and MLRC ensure liquidity risk is monitored appropriately in BAU and stressed conditions, including monitoring breaches of the RAS. The risk methodologies approval committee (RMAC) is responsible for the technical and quantitative reviews of liquidity models.

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

Liquidity Risk's main responsibilities are to:

- own the liquidity and funding section of the RAS, the liquidity limit/EWI monitoring policy and are responsible for the annual update of associated sections of the ILAAP;
- monitor the group's adherence to the Board approved RAS;
- report the daily limit/EWI dashboard and monitor and escalate triggers of the dashboard as required;
- perform the second line review of regulatory returns prior to submission, and of associated adjustments and business requirement documentation (BRD);
- provide robust feedback, challenge and formal review the internal liquidity stress testing methodology;
- undertake the second line review of Treasury owned policies and the ILAAP.

Third line: Internal Audit provides independent, objective assurance as a third line of defence and is mandated by the BAC to assess the adequacy and effectiveness of the risk management framework.

Policies and methodologies

The group incorporates various elements into its cohesive liquidity risk management and monitoring framework including robust policies, methodologies and processes.

- *Risk appetite statement and framework:* Establish the funding and liquidity risk appetite, ensuring alignment to the group's strategy, resource availability and business requirements. The RAS prescribes the LAB surplus to be maintained to meet regulatory ILG and the group's internal stress testing liquidity requirements.
- *Internal stress test methodology:* Helps management understand potential vulnerabilities to severe stress events across all applicable liquidity risk drivers. This assists in determining business-as-usual risk management actions and constructing the recovery plan.
- *Liquid asset investment policy:* Defines the asset classes that can be included in the LAB and the procedures for controlling and monitoring them.
- *Short-term and long-term cash flow management and forecasting*: Provides daily monitoring of the group's funding and liquidity positions, supplemented by active monitoring of the group's forecast liquidity position to ensure that funding and liquidity is managed within the group's RAS limits.
- *Liquidity limit/early warning indicators monitoring policy*: Uses group-specific and macroeconomic indicators to alert senior management to potential liquidity deficiencies and details the escalation procedures to be followed in the event of non-adherence to maximise the time available to execute appropriate mitigation actions.
- *Funds transfer pricing and contingent liquidity charge mechanism:* Ensures appropriate reallocation of the cost of funding the LAB according to the desks' funding and contingent liquidity consumption.
- *Recovery plan:* Establishes a framework to respond to liquidity stress events; includes a suite of management actions and roles and responsibilities for their enactment.
- *Funding plan:* Articulates the group's funding strategy across the four year planning horizon, while ensuring alignment with the overall budget process and RAS.

Liquidity stress testing

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

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

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

Liquidity and funding risk monitoring

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

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

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

Liquidity reporting

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

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

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

Structural requirements

The maturity analysis for financial liabilities provides the basis for the management of the group's exposure to structural liquidity risk. The table below shows the notional amounts of all financial liabilities on a contractual basis based on the earliest date on which the group can be required to repay. This differs from the balance sheet carrying value of financial liabilities, which are typically disclosed on a discounted basis. The table also includes contractual cash flows with respect to off-balance sheet items. Where cash flows are exchanged simultaneously, the net amounts have been reflected.

	Redeemable on demand $m	Maturing within 1 month $m	Maturing 1 - 6 months $m	Maturing 6 - 12 months $m	Maturing after 12 months $m	Total $m
2018						
Financial liabilities						
Financial liabilities held for trading	180.4	66.8	145.2	73.2	819.8	1,285.4
Non-trading financial liabilities at fair value through profit or loss	-	-	25.2	1,262.0	-	1,287.2
Derivative financial liabilities	62.4	692.3	1,132.5	516.7	1,730.8	4,134.7
Deposit and current accounts[1]	1,908.3	3,484.6	4,806.6	329.0	378.6	10,907.1
Subordinated debt	-	-	25.2	525.1	222.3	772.6
Total balance sheet financial liabilities	2,151.1	4,243.7	6,134.7	2,706.0	3,151.5	18,387.0
Guarantees	-	20.0	-	-	-	20.0
Irrevocable unutilised facilities	-	-	-	-	16.8	16.8
Total off-balance sheet financial liabilities	-	20.0	-	-	16.8	36.8
Total financial liabilities	2,151.1	4,263.7	6,134.7	2,706.0	3,168.3	18,423.8

[1]Includes deposits due to banks and other financial institutions, repurchase agreements, and deposits due to customers.

	Redeemable on demand $m	Maturing within 1 month $m	Maturing 1 - 6 months $m	Maturing 6 - 12 months $m	Maturing after 12 months $m	Total $m
2017						
Financial liabilities						
Financial liabilities held for trading	391.5	48.5	332.4	295.0	1,182.0	2,249.4
Financial liabilities designated at fair value through profit or loss	-	-	26.4	1,354.9	-	1,381.3
Derivative financial liabilities	25.6	654.6	1,382.6	583.1	2,006.9	4,652.8
Deposit and current accounts[1]	2,004.9	4,308.6	5,529.8	353.3	379.7	12,576.3
Subordinated debt	-	-	24.4	24.7	769.5	818.6
Total balance sheet financial liabilities	2,422.0	5,011.7	7,295.6	2,611.0	4,338.1	21,678.4
Irrevocable unutilised facilities	-	-	-	11.6	18.5	30.1
Total off-balance sheet financial liabilities	-	-	-	11.6	18.5	30.1
Total financial liabilities	2,422.0	5,011.7	7,295.6	2,622.6	4,356.6	21,708.5

[1]Includes deposits due to banks and other financial institutions, repurchase agreements, and deposits due to customers.

37.7 Market risk

Definition

The purpose of market risk management is to identify, measure, assess, monitor, report and manage market risk exposures within acceptable parameters, while optimising the return on risk. Major exposures to market risk occur in markets served by formal financial exchanges and over-the-counter markets. These exposures arise primarily as a result of the execution of customers' orders. The group's exposure to market risk can be categorised as follows:

Trading book market risk

These risks arise in trading activities where the group acts as a principal with clients in the market.

Banking book interest rate risk

These risks arise from the structural interest rate risk caused by the differing repricing characteristics of banking book assets and liabilities.

Foreign currency risk

These risks arise as a result of changes in the fair value or future cash flows of financial exposures as a result of changes in foreign exchange rates other than those changes included in the VaR analysis.

Equity investments

These risks arise from changes in equity prices for listed and unlisted investments.

Framework and governance

The Board approves the market risk appetite for all types of market risk and grants general authority to take on market risk exposure to the BRMC which delegates responsibility for limit setting and exposure monitoring to the RMC at a legal entity level. The RMC also sets market risk standards to ensure that the measurement, reporting, monitoring and management of market risk associated with operations across the group follow a common governance framework. The MLRC is responsible for supervising the group's market risk activities and the correct application of its market risk policies.

Market risk management, which is independent of trading operations, monitor market risk exposures from both trading activities and banking activities. All exposures and any limit excesses are monitored daily, and reported monthly to MLRC. Level 1 limit breaches are also reported quarterly to the RMC.

Market risk measurement

The techniques used to measure and control market risk include:

- daily value at risk (VaR) and stressed value at risk (SVaR);
- stress tests;
- risk factor market risk measures;
- annual net interest income at risk; and
- economic value of equity.

Daily VaR and stressed VaR

The group uses the historical VaR and SVaR approach to quantify market risk under normal conditions and under stressed conditions respectively.

For risk management purposes, VaR is based on 251 days of equally weighted recent historical data, a holding period of one day and a confidence level of 95%. The historical VaR results are calculated in four steps:

(1) Calculate 250 daily market price movements based on 251 days' historical data.

(2) Calculate hypothetical daily profit or loss for each day using these daily market price movements.

(3) Aggregate all hypothetical profits or losses for day one across all positions, giving daily hypothetical profit or loss, and then repeat for all other days.

(4) VaR is the 95th percentile selected from the 250 days of daily hypothetical total profit or loss.

Daily losses exceeding the VaR are likely to occur, on average, 13 times in every 250 days.

SVaR uses a similar methodology to VaR, but based on a one year period of financial stress, selected from 1 January 2007 to the present in order to maximise the losses and assumes a 10-day holding period with a 99% confidence interval.

Where the group has received internal model approval, the market risk regulatory capital requirement is based on VaR and SVaR, both of which use a confidence level of 99% and a 10-day holding period.

Limitations of historical VaR and SVaR are acknowledged globally and include:

- The use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature.
- The use of a one-day or 10-day holding period assumes that all positions can be liquidated or the risk offset in one day or 10-days respectively. This may not fully reflect the market risk arising at times of severe illiquidity, when a one-day or 10-day holding period may be insufficient to liquidate or hedge all positions fully.
- The use of a 95% or 99% confidence level, by definition, does not take into account losses that might occur beyond this level of confidence.
- VaR is calculated on the basis of exposures outstanding at the close of business and, therefore, does not necessarily reflect intraday exposures.
- VaR is unlikely to reflect loss potential on exposures that only arise under significant market moves.

Stress tests

Stress testing provides an indication of the potential losses that could occur under extreme but plausible market conditions, including where longer holding periods may be required to exit positions. Stress tests comprise individual market risk factor testing, combinations of market risk factors per trading desk and combinations of trading desks using a range of historical, hypothetical and point of weakness scenarios. Daily losses experienced during the year ended 31 December 2018 did not exceed the maximum tolerable losses as represented by the group's stress scenario limits.

Other market risk measures

Other market risk measures specific to individual business units include permissible instruments, concentration of exposures, gap limits, maximum tenor and stop loss triggers.

The model validation department independently validate and document new pricing models and perform an annual review of existing models to ensure they are still relevant and behaving within expectations.

Analysis of trading book market risk exposures

The table on the following page shows the aggregated historical VaR for the group's trading positions. The maximum and minimum VaR amounts show the bands in which the values at risk fluctuated during the periods specified. Stop loss triggers are designed to contain losses for individual business units by enforcing management intervention at predetermined loss levels measured against the individual high-water mark year-to-date profit and loss. Other risk measures specific to individual business units are also used. These include permissible instruments, concentration of exposures, gap limits and maximum tenor.

The group's trading units achieved a positive actual income for over 81% of the trading days in 2018 (2017: 80%). The average daily trading revenue earned in 2018 was US$1.3 million (2017: US$1.1 million), with a standard deviation of US$3.0 million (2017: US$1.9 million). During the year, there were no back-testing exceptions at a 99% confidence level (2017: none).

	Normal VaR[2]			
	Maximum[1]	Minimum[1]	Average	Year end
	$m	$m	$m	$m
2018				
Commodities	2.6	0.8	1.5	1.6
Foreign exchange	1.2	0.4	0.8	1.1
Equities	1.6	0.5	0.7	0.7
Debt securities	1.8	0.1	1.2	1.1
Diversification benefit[4]				(2.1)
Total				2.4

	Stress VaR[3]
	Year end
	$m
2018	
Commodities	4.4
Foreign exchange	8.0
Equities	2.4
Debt securities	27.6
Diversification benefit[4]	(17.1)
Total	25.3

	Normal VaR[2]			
	Maximum[1]	Minimum[1]	Average	Year end
	$m	$m	$m	$m
2017				
Commodities	2.6	1.0	1.4	1.4
Foreign exchange	2.5	0.6	1.2	0.8
Equities	1.4	0.3	0.5	1.3
Debt securities	4.7	1.5	2.1	1.6
Diversification benefit[4]				(2.3)
Total				2.8

	Stress VaR[3]
	Year end
	$m
2017	
Commodities	7.1
Foreign exchange	7.7
Equities	6.9
Debt securities	18.0
Diversification benefit[4]	(15.3)
Total	24.4

1 The maximum and minimum VaR figures reported for each market variable did not necessarily occur on the same days. As a result, the aggregate VaR will not equal the sum of the individual market VaR values, and it is inappropriate to ascribe a diversification effect to VaR when these values may have occurred on different dates.

2 Normal VaR is based on a holding period of one day and a confidence interval of 95%.

3 Stress VaR is based on a holding period of ten days and a confidence interval of 99%.

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

Analysis of banking book interest rate risk exposure

Banking related market risk exposure principally involves the management of the potential adverse effect of interest rate movements on equity. This risk is monitored by the group's liquidity risk team under monitoring of the MLRC and CapCom.

The main analytical techniques used to quantify banking book interest rate risk are earnings and valuation-based measures. The results obtained assist in evaluating the optimal hedging strategies on a risk-return basis. Desired changes to a particular interest rate risk profile are achieved through the restructuring of the balance sheet and, where possible, the use of derivative instruments, such as interest rate swaps. Interest rate risk limits are set in terms of both changes in forecast net interest income or earnings (Earnings at Risk) and economic value of equity.

The repricing gaps for the group's non-trading portfolios are shown below. This view is for the purpose of illustration only, as positions are managed by currency to take account of the fact that interest rate changes are unlikely to be perfectly correlated. All assets, liabilities and derivative instruments are cited in gap intervals based on their repricing characteristics.

Repricing gap for non-trading portfolios

	0-3 months $m	**3-6 months $m**	**6-12 months $m**	**>12 months $m**
2018				
Interest rate sensitivity gap	**1,325.2**	**(183.9)**	**30.1**	**148.2**
Cumulative interest rate sensitivity gap	**1,325.2**	**1,141.3**	**1,171.4**	**1,319.6**
Cumulative interest rate sensitivity gap as a percentage of total banking assets	**14.1%**	**12.1%**	**12.4%**	**14.0%**

	0-3 months $m	3-6 months $m	6-12 months $m	>12 months $m
2017				
Interest rate sensitivity gap	2,010.7	(1,819.2)	(201.0)	6.0
Cumulative interest rate sensitivity gap	2,010.7	191.5	(9.5)	(3.5)
Cumulative interest rate sensitivity gap as a percentage of total banking assets	19.4%	1.8%	(0.1%)	(0.0%)

Sensitivity of net interest income

The table below indicates the sensitivity in US Dollar equivalents of the group's net interest income in response to a change in interest rates, after taking into account all risk mitigating instruments, with all other variables held constant. The group has modelled changes of 200 basis points as this is consistent with those used in regulatory submissions and is also used for pillar 2A capital assessments.

	Increase in basis points	0-3 months $m	3-6 months $m	6-12 months $m	>12 months $m
2018					
2% up (interest-rate increase)	**200**	**(2.9)**	**1.0**	**(0.8)**	**(2.2)**
2% down (interest-rate decrease)	**200**	**2.9**	**(1.0)**	**0.8**	**2.2**

	Increase in basis points	0-3 months $m	3-6 months $m	6-12 months $m	>12 months $m
2017					
2% up (interest-rate increase)	200	(0.5)	13.2	2.0	(0.2)
2% down (interest-rate decrease)	200	0.5	(13.2)	(2.0)	0.2

In general, the banking book assets with a duration greater than one week are match funded with the money markets desk, thus reducing interest rate risk. However, a few business areas are exempt from this requirement where their banking book interest rate risk is monitored in the same way as if it was a trading book exposure, i.e. PV01 sensitivities are calculated. This is then aggregated in a similar manner to the other traded risks as detailed earlier.

Foreign currency risk

The group's foreign exchange positions arise mainly from foreign exchange trading activities, which are governed by position limits approved by the RMC in accordance with the group's market risk policy. These position limits are subject to review at least annually and foreign exchange exposures are monitored daily by the market risk function and reviewed monthly to ensure they remain within the approved risk appetite.

The group's policy is not to hold open exposures in respect of the banking book of any significance. Gains or losses on derivatives that have been designated in terms of cash flow hedging relationships are reported directly in equity, with all other gains and losses on derivatives being reported in profit or loss.

Net investment in foreign operations

	2018	2017
Functional currency	**$m**	$m
Chinese Renminbi	**68.7**	73.2

Market risk on equity investments

Market risk on equity investments is managed in accordance with the purpose and strategic benefits of such investments rather than purely on mark-to-market considerations. Periodic reviews and reassessments are undertaken on the performance of the investments.

37.8 Operational risk (unaudited)

Introduction

Operational risk exists in the natural course of business activity. It is not an objective to eliminate all exposure to operational risk, as this would be neither commercially viable nor possible. The group's approach to managing operational risk is to adopt fit-for-purpose operational risk practices that assist business line management in understanding their inherent risk and reducing their risk profile while maximising their operational performance and efficiency.

The operational risk management function is independent from business line management and is part of the second line of defence. It is responsible for the development and maintenance of the operational risk policy, facilitating business's adoption of the framework, oversight and reporting, as well as for challenging the risk profile.

The team proactively analyses incident root causes, trends and emerging threats, advises on the remediation of potential control weaknesses and recommends best practice solutions. Team members have expertise in the key functions they are responsible for to ensure effective challenge.

Framework and governance

BRMC, as the appropriately delegated risk oversight body on behalf of the Board, has ultimate responsibility for operational risk. BRMC ensures that the operational risk management (ORM) framework for the management and reporting of operational risk is implemented across the group, while ensuring regulatory compliance where applicable.

The operational risk committee (OpCo) serves as the main operational risk management committee within the group. The committee's primary responsibility is to monitor and control operational risk for the group and oversee adherence to the agreed risk appetite. It is responsible for ensuring a robust operational risk framework is embedded across the organisation and promoting strong risk culture within the three lines of defence model.

The roles and responsibilities for managing operational risks are stipulated in the operational risk policies. These policies indicate the responsibilities of operational risk specialists at all levels and of the risk owners. Local heads of ORM may develop their own policies and procedures that better suit their unique environments. These policies and procedures must align to the group's policies and procedures and must be approved by their respective governance committees.

The management and measurement of operational risk

The current framework follows a primarily qualitative approach, being focused on ensuring underlying risks are identified and owned and that the residual risk is maintained within an acceptable level in the opinion of the relevant management, overseen by an independent operational risk function within risk management. Independent assurance on the satisfactory management of operational risk is provided by internal audit.

ORM forms part of the day-to-day responsibilities of management at all levels. The ORM framework includes qualitative and quantitative methodologies and tools to assist management to identify, assess and monitor operational risks and to provide management with information for determining appropriate controls and mitigating measures. The framework is based around risk and control self-assessments (RCSA), key indicators (KIs) and incident reporting. Escalation criteria are in place to ensure that management action can be applied in the event that RCSAs or KIs show a level of residual risk exposure beyond that deemed acceptable and when an individual incident breaches a set materiality threshold. In addition, a loss tolerance threshold is set by senior management for aggregate losses.

Historical losses are reviewed, both to ensure that adequate management action is taken in respect of the root cause of loss and near miss incidents, and also to consider whether there is a level of loss experience that challenges the absolute level of the pillar I capital requirement. Losses are recorded in the operational incident database in accordance with the operational risk incident reporting policy.

Given the broad and diverse nature of the above definition, there are specialist operational risk sub-types which are governed under specific governance standards or equivalent documents and are enforced through independent dedicated specialist functions. These are:

- Legal risk is the risk of any of the following descriptions, namely:
  - That business is or may be carried on otherwise than in accordance with applicable laws and regulations;
  - That contractual arrangements either are or may not be binding or enforceable as intended against counterparties or are or may be binding or enforceable against the group otherwise than as intended;
  - That property rights of any description are or may be infringed; or
  - That liability to others may be incurred.
- Compliance risk is the risk that the group may suffer legal or regulatory sanctions, material financial loss or other adverse impact on its reputation as a result of a failure to fully comply with laws, regulations, rules, standards or codes of conduct applicable to its financial services activities.
- Conduct risk is a sub-type of compliance risk. It is the risk that the group's intentional or unintentional business practices and behaviour will lead to the detriment of the group, its clients or the markets in which it operates.
- Financial crime risk is defined as the risk of economic loss, reputational impact and regulatory sanction arising from any type of financial crime against, or on behalf of the group. Financial crime includes, but is not limited to, money laundering, terrorist financing, bribery and corruption, sanctions breaches and fraud. Financial crime includes fraud, money laundering, violent crime and misconduct by staff, customers, suppliers, business partners, stakeholders and third parties.
- Tax risk is defined as any event, action or inaction in tax strategy, operations, financial reporting, or compliance that either adversely affects the group's tax or business objectives or results in an unanticipated or unacceptable level of monetary, financial statement or reputational exposure. Further detail on the group's high level risk management and governance principles in relation to taxation, its attitude towards tax planning and commitment to compliance with all applicable tax laws, reporting and disclosure requirements is provided in the Tax Strategy document, available on the group's website.
- Insurance risk including:
  - Repudiation of claim - non-payment of a perceived loss under specific insurance where the loss is repudiated by insurers due to insufficient proof of loss.
  - Delay in claims settlement - delay caused by the need to provide more / detailed information in support of a claim settlement, which results in the use of capital held by the group to mitigate the insurance loss.
- Information risk is defined as the risk of accidental or intentional unauthorised use, modification, disclosure or destruction of information resources, which would compromise the confidentiality, integrity or availability of information and which could potentially harm the business. This risk principally concerns electronic information and data; however, it also covers hardcopy formats (e.g. paper, whiteboards, etc.) and relies on technical, physical and human controls operating effectively.
- Information technology risk is defined as the risk associated with the use, ownership, operation, involvement, influence and adoption of information technology within the group. It consists of information technology related events and conditions that could potentially impact the business by impacting service availability, performance or function. Businesses are typically highly dependent on information technology to support many operational processes, including regulatory ones, and thus risk outcomes can have significant impact on businesses. As a result, a technology failure can have a crippling impact on the group's brand and reputation.
- Model risk arises from potential weaknesses in a model that is used in the measurement, pricing and management of risk. These weaknesses include incorrect assumptions, incomplete information, flawed implementation, limited model understanding, inappropriate use or inappropriate methodologies leading to incorrect conclusions by the user.

- Change risk is defined as a risk that emerges through changes, updates or alterations made to operational processes across the group due to changes in people, process or technology. Typically, technology changes could affect service reliability and availability, whereas people and process changes would impact operational process efficiency and reliability. Change, whether internal in the form of people, process and technology, or external in the form of market conditions or regulations, is a significant driver of risk. Change risk can, individually or collectively, affect the business and technology operations and service delivery, introduced by technology changes.

37.9 Reputational risk (unaudited)

Reputational risk is the risk caused by damage to an organisation's reputation, name or brand. Such damage may result from a breakdown of trust, confidence or business relationships. Safeguarding the group's reputation is of paramount importance to its continued success and is the responsibility of every member of staff. As a banking group, good reputation depends upon the way in which the group conducts its business, but it can also be affected by the way in which clients, to whom the group provides services, conduct themselves.

37.10 Capital management

The group manages its capital resources and requirements to:

- achieve a prudent balance between maintaining capital ratios to support business strategy and depositor confidence, and providing competitive returns to shareholders; and
- ensure that its actions do not compromise sound governance and appropriate business practices and it *minimises any negative effect on payment capacity, liquidity or profitability.*

The group is subject to regulation and supervision by the Prudential Regulation Authority (PRA) and forms part of the ICBC group which is supervised by the China Banking and Insurance Regulatory Commission (CBIRC).

The group is subject to the Basel III regulatory framework for calculating minimum capital requirements as adopted by the European Banking Authority (EBA) for reporting to the PRA. The ongoing impact of the Basel III regulations has been reviewed by the group and will be factored into capital projections within the appropriate planning horizon.

The group calculates credit and counterparty risk capital requirements using the PRA's standardised rules. Market risk capital is calculated as a combination of approved VaR models and standardised methods. Operational risk is calculated using the standardised approach.

As part of the pillar II process, the group updates its ICAAP (internal capital adequacy assessment process) document which is the firm's self-assessment of capital requirements including for those risks not captured by pillar I. The group has implemented a macroeconomic stress testing model to assess the additional capital requirements and the impact on capital resources of adverse economic conditions. This forms part of the governance process and is incorporated into the ICAAP.

Economic capital (unaudited)

In addition to managing against the regulatory capital requirements, management also utilise more risk sensitive internal economic capital models to monitor and control the risk profile of the organisation. These cover:

- capital adequacy as measured by the ratio of available financial resources to economic capital consumption which forms part of the risk appetite; and
- concentrations in exposures which are reviewed against limits and managed by the risk management committee.

Regulatory capital (unaudited)

In addition to compliance with the requirements prescribed by the PRA, the group is required to meet minimum capital requirements of regulators in those countries in which it operates. Banking regulations are generally based on the guidelines developed by the Basel Committee under the auspices of the Bank for International Settlements. In addition to the requirements of host country regulators, all banking operations are also expected to comply with the capital adequacy requirements on a consolidated basis. The group maintained surplus capital over the minimum requirements prescribed by the PRA throughout the year. The total capital requirement (TCR) prescribed by the PRA for the group is 11.4% (2017: 11.4%).

The capital adequacy ratio, which reflects the capital strength of an entity compared to the minimum regulatory requirement, is calculated by dividing the capital held by that entity by its risk-weighted assets.

Capital is split into two tiers:

- Common equity tier I represents permanent forms of capital such as share capital, share premium and retained earnings less regulatory deductions; and
- Tier II includes medium to long-term subordinated debt and performing portfolio credit impairments.

Risk-weighted assets are determined by applying prescribed risk weightings to on- and off-balance sheet exposures according to the relative credit risk of the counterparty. Included in overall risk-weighted assets is a notional risk weighting for market risks, counterparty risks and large exposure risks relating to trading activities.

Capital resources

The table below sets out the qualifying capital of the regulated entity.

	2018	2017
	$m	$m
Regulatory capital		
Common equity tier I		
Share capital	**1,083.5**	1,083.5
Share premium	**996.0**	996.0
Qualifying reserves	**(821.6)**	(797.2)
Less regulatory deductions (unaudited)	**(53.9)**	(52.8)
Total common equity tier I	**1,204.0**	1,229.5
Tier II		
Subordinated debt instruments (unaudited)	**242.1**	342.1
Credit impairment against performing loans	**-**	3.8
Less regulatory deductions (unaudited)	**-**	-
Total tier II	**242.1**	345.9
Total eligible capital	**1,446.1**	1,575.4

37.11 Summary of unaudited risk management notes

Note number	Section	Sub-section
37.3	Risk categories	Operational risk
37.3	Risk categories	Business risk
37.3	Risk categories	Reputational risk
37.6	Liquidity risk	Summary of performance
37.8	Operational risk	
37.9	Reputational risk	
37.10	Capital management	Economic capital
37.10	Capital management	Regulatory capital
37.10	Capital management	Capital resources (partial)

38 *Adoption of IFRS 9, Financial Instruments*

The following table reconciles the carrying amounts of the group's assets under IAS 39 to the carrying amounts under IFRS 9:

	Notes	IAS 39 carrying amount at 31 December 2017	Reclassification	Remeasurement	IFRS 9 carrying amount at 1 January 2018
		$m	$m	$m	$m
Assets					
Cash and balances with central banks		2,989.5	-	-	2,989.5
Due from banks and other financial institutions		2,059.5	-	-	2,059.5
Financial assets held for trading		2,579.5	-	-	2,579.5
Financial assets designated at fair value through profit or loss (IAS 39) / Non-trading financial assets at FVPL (IFRS 9)	1, 3	1,335.9	5.1	-	1,341.0
Derivative financial assets		4,299.5	-	-	4,299.5
Reverse repurchase agreements		4,705.5	-	-	4,705.5
Loans and advances to customers	1, 4	606.9	(1.7)	0.2	605.4
Financial investments	2, 3	962.0	(3.6)	-	958.4
Other non-financial assets		4,315.4	-	-	4,315.4
		23,853.7	(0.2)	0.2	23,853.7

1 Certain debt securities within loans and advances to customers were held within a business model whose objective at the date of initial application was neither collecting contractual cash flows, nor both collecting contractual cash flows and selling financial assets. In addition, their contractual cash flows were not identified as solely payments of principal and interest (SPPI) on the principal amount outstanding. Therefore, these assets were reclassified to non-trading financial assets at FVPL under IFRS 9.

2 Certain debt investment securities previously classified as available-for-sale and measured at FVOCI, were reclassified to 'hold to collect and sell' under IFRS 9, as their previous categories were no longer used, with no changes to their measurement basis.

3 Certain equity investments previously classified as available-for-sale and measured at FVOCI were reclassified to non-trading financial assets at FVPL under IFRS 9.

4 The IFRS 9 expected credit loss (ECL) approach resulted in an increase in net assets by US$0.2 million, comprising a reduction in provisions for loans and advances to customers reflecting changes to loss given default (LGD) parameters for certain loans and the release of provisions for assets reclassified to FVPL, partially offset by the effect of the forward looking overlay introduced by IFRS 9. This has been offset by the US$0.2 million classification and measurement adjustment to reflect the reclassified debt securities at fair value

There were no changes to the classification and measurement of financial liabilities other than to changes in the fair value of financial liabilities designated at FVPL that are attributable to changes in the instrument's credit risk, which are now presented in OCI.

The following table shows the original classification of the assets under IAS 39 compared to the new classification under IFRS 9:

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
			$m	$m
Assets				
Cash and balances with central banks	Amortised cost (loans and receivables)	Amortised cost	2,989.5	2,989.5
Due from banks and other financial institutions	Amortised cost (loans and receivables)	Amortised cost	2,059.5	2,059.5
Financial assets held for trading	FVPL	FVPL (mandatory)	2,579.5	2,579.5
Financial assets designated at fair value through profit or loss (IAS 39) / Non-trading financial assets at FVPL (IFRS 9)	FVPL	FVPL (designated)	1,335.9	1,335.9
Derivative financial assets	FVPL	FVPL (mandatory)	4,299.5	4,299.5
Reverse repurchase agreements	Amortised cost (loans and receivables)	Amortised cost	4,705.5	4,705.5
Loans and advances to customers	Amortised cost (loans and receivables)	Amortised cost	606.9	605.4
		FVPL (mandatory)	-	1.5
Financial investments	FVOCI (available-for-sale)	FVOCI	962.0	958.4
		FVPL (mandatory)	-	3.6
Other assets	Amortised cost (loans and receivables)	Amortised cost	4,315.4	4,315.4
			23,853.7	23,853.7

The following table reconciles the impairment allowance at 31 December 2017 measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 January 2018:

	Total	Stage 1	Stage 2	Stage 3
	$m	$m	$m	$m
Loss allowance under IAS 39 at 31 December 2017	4.2	N/a	N/a	N/a
Reclassification	(0.2)	N/a	N/a	N/a
Remeasurement	(0.1)	N/a	N/a	N/a
Loan loss allowance under IFRS 9 at 1 January 2018	3.9	3.5	-	0.4

The change in loan loss allowance on moving to the ECL approach in IFRS 9 reflects the collateralised, short term (i.e. less than one-year) nature of the majority of the group's loan portfolio, such that very few exposures have experienced a significant increase in credit risk and are subject to lifetime ECL.

39. Encumbered assets

The group enters into transactions in the normal course of business by which it transfers recognised financial assets or commodity assets directly to third parties. These transfers may give rise to full or partial derecognition of the assets concerned. Where the group has retained substantially all of the risks and rewards associated with the transferred assets, it continues to recognise these assets.

An asset is defined as encumbered if it has been pledged as collateral against an existing liability or used to secure, collateralise or credit enhance a transaction, which impacts its transferability and free use, and, as a result, is no longer available to the group to secure funding, satisfy collateral needs or be sold to reduce funding requirements. An asset is therefore categorised as unencumbered if it has not been pledged as collateral against an existing liability or used to secure, collateralise or credit enhance a transaction.

The group is required to provide cash and/or securities margin placements with counterparties and clearing houses as part of its normal trading activities. These transactions are conducted under standard SIFMA / ICMA commissioned Global Master Repurchase Agreement (GMRA) terms and conditions.

Total encumbered assets inclusive of both pledged assets and cash margin placements at 31 December 2018 were US$1,024.8 million (2017: US$1,670.9 million).

40. Collateral accepted as security for assets

As part of the group's financing activities, it receives securities and other financial assets that it is allowed to sell or re-pledge. Although the group is obliged to return equivalent securities, the risks and rewards associated with the securities remain with the external counterparty and the securities are not recognised on the group's balance sheet. The fair value of financial assets accepted as collateral that the group is permitted to sell or re-pledge in the absence of default is US$4,666.2 million (2017: US$4,595.0 million). In addition, the group received cash collateral of US$1,591.8 million in 2018 (2017: US$1,087.9 million). The fair value of financial assets accepted as collateral that have been sold or re-pledged is US$1,107.2 million (2017: US$1,658.2 million). These transactions are conducted under standard SIFMA / ICMA commissioned GMRA / ISDA / FOA master agreement terms and conditions as well as requirements determined by exchanges where the group acts as intermediary.

41. Ultimate holding company

The largest group in which the results of the company are consolidated is that headed by Industrial and Commercial Bank of China Limited, a company incorporated in the People's Republic of China.

Industrial and Commercial Bank of China Limited

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The People's Republic of China

For more information on ICBC, please visit www.icbc.com.cn

Acronyms and abbreviations

AFS	Available-for-sale
APB	Auditing Practices Board
APER	Approved persons
BAC	Board audit committee
BRMC	Board risk management committee
BS&R	Business support and recovery
CapCom	Capital and liquidity management committee
CBIRC	China Banking and Insurance Regulatory Commission
CEO	Chief Executive Officer
CIB	Corporate and Investment Banking division
COCON	Code of conduct
COMEX	Commodity exchange
Company	ICBC Standard Bank Plc company
CRO	Chief Risk Officer
CSA	Credit Support Annex
CSR	Corporate social responsibility
CVA	Credit valuation adjustment
DCM	Debt Capital Markets
DPA	Deferred prosecution agreement
DVA	Own credit valuation adjustments
EAD	Exposure at default
EBA	European Banking Authority
Ecap	Economic capital
ECL	Expected credit loss
EM	Emerging markets
EMIR	European Market Infrastructure Regulation
EP	Economic profit
EU	European Union
EWI	Early warning indicator
FCA	Financial Conduct Authority
FICE	Fixed Income, Currencies and Equities
FIRB	Foundation internal ratings based
FOA	Futures and Options Association
FOMC	Federal Open Markets Committee
FVA	Funding valuation adjustment
FVOCI	Fair value through other comprehensive income
FVPL	Fair value through profit or loss
GMRA	Global Master Repurchase Agreement
Group	ICBC Standard Bank Plc, its subsidiaries and CSEs
IAS	International Accounting Standards
ICAAP	Internal capital adequacy assessment process
ICBC	Industrial and Commercial Bank of China Limited
ICBCS	ICBC Standard Bank Plc
ILAAP	Individual liquidity adequacy assessment process
ICMA	International Capital Market Association
IFRS	International Financial Reporting Standards as adopted by the EU
ILG	Individual liquidity guidance
IMF	International Monetary Fund
ISDA	International Swap Dealers Association
LAB	Liquid asset buffer
LCR	Liquidity coverage ratio
LGD	Loss given default
LSC	Liquidity sub-committee
MLRC	Market risk and liquidity committee
MRT	Material risk taker
NSFR	Net stable funding ratio
OCI	Other comprehensive income
OIS	Overnight index based swap curves
OpCo	Operational risk committee
ORM	Operational risk management
OTC	Over-the-counter
PBB	Personal and Business Banking
PD	Probability of default
PIT	Point-in-time
PRA	Prudential Regulation Authority
RAS	Risk appetite statement
Remco	Remuneration committee of the group
Repos	Repurchase agreements
RMC	Risk management committee
RMAC	Risk methodologies approval committee
SBG	Standard Bank Group Limited and subsidiaries
SBLH	Standard Bank London Holdings Limited
SBSA	Standard Bank of South Africa Limited
SIFMA	Securities Industry and Financial Markets Association
SPPI	Solely payments of principal and interest
TCR	Total capital requirement
TPRM	Third party risk management framework
TTC	Through-the-cycle
UL	Unexpected loss
VaR	Value-at-risk
VAT	Value added tax
WWR	Wrong way risk
ZAR	South African Rand

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