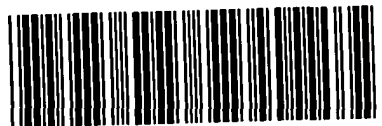


ICBC  Standard Bank

# Consolidated Annual Report

WEDNESDAY



\*AC0C71VS\*

A12

29/03/2023

#146

COMPANIES HOUSE

**ICBC Standard Bank Plc**

**FOR THE YEAR ENDED 31 DECEMBER 2022**

# AT A GLANCE

## OVERVIEW

ICBC Standard Bank is a London-based banking specialist, focused on the provision of Commodities and Financial Markets solutions, to its global client base.

## PURPOSE, VALUES AND STRATEGIC PRIORITIES

### Our purpose statement

To serve our clients globally as the Commodities and Financial Markets hub of ICBC.

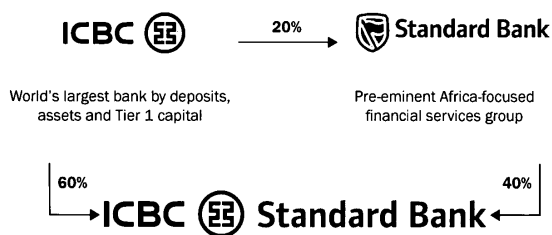
### Underpinned by our values



### Our strategic priorities

- **Specialisation:** Deliver our strategic value to ICBC by enriching the global product offering
- **Integration:** Leverage ICBC global client base, infrastructure and balance sheet strength
- **Simplification:** Scale, build on our foundations and improve efficiency

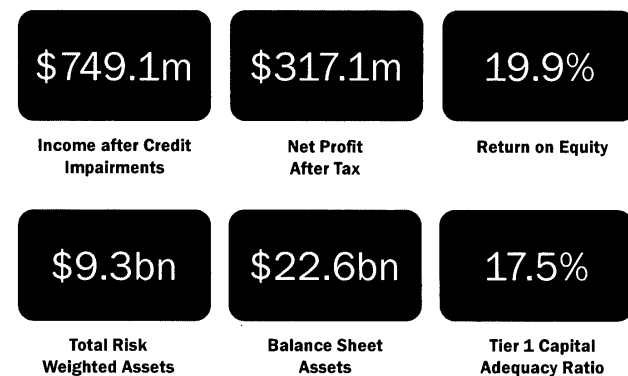
## OWNERSHIP STRUCTURE



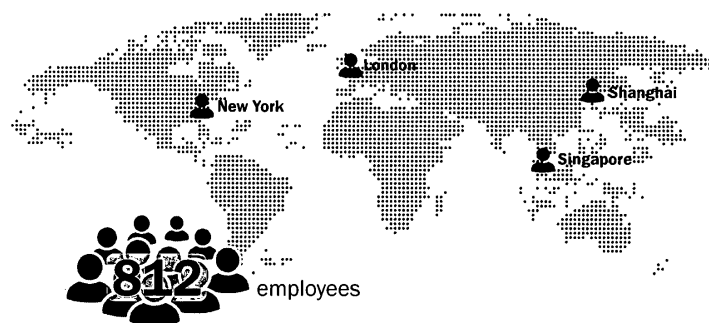
## CREDIT RATING - ICBC STANDARD BANK

	Short Term	Long Term	Outlook
Fitch	F1	A-	Stable
Moody's	P2	Baa1	Stable

## GROUP PERFORMANCE 31 DECEMBER 2022



## OFFICES AND AVERAGE NUMBER OF EMPLOYEES



# CHIEF EXECUTIVE'S REVIEW

2022 continued in the same way it finished in 2021 with a strong financial performance amidst unanticipated headwinds.



**When I look back on 2022 I am extremely proud of the team at ICBC Standard Bank (ICBCS), and of the resilience and commitment I have seen from our colleagues. We have navigated another year of unexpected volatility and have worked together, living our values, to service our clients' needs and deliver value to our shareholders.**

ICBCS delivered a profit of \$317.1 million in 2022, up 222% on the prior year. This is the third consecutive year of over \$100 million pre-tax profit, with 2022 reflecting the strongest performance for well over 10 years. Whilst 2022 performance was boosted by an insurance recovery for commodity inventory losses incurred in 2019, the underlying business performance and risk management was also robust in the face of some significant challenges in the markets. Our capital position is further strengthened with a Tier 1 Capital Adequacy ratio of 17.5%. In the current operating environment, we continue to manage our capital and liquidity with a cautious stance.

Our collaboration and integration with ICBC, our majority shareholder, goes from strength to strength, with annual increases in ICBC originated revenues each year. ICBCS provides complementary products and services to ICBC Group, and this is well-recognised, with a number of exciting business development projects underway with ICBC colleagues globally. The geopolitical and related market events of 2022 also highlighted the importance of being an integral part of the largest Bank in the world from a risk management perspective. This enabled us to weather the storms of the economic volatility.

**Our positive momentum gives us confidence to keep following our guiding**

**Strategic Principles:**

**Specialisation:** Deliver our strategic value to ICBC by enriching the global product offering

**Integration:** Leverage ICBC's global client base, infrastructure and balance sheet strength

**Simplification:** Scale, build on our foundations and improve efficiency

2022 saw a welcome return to relative normality following the global actions taken to manage Covid-19. On returning, our business transitioned to a new hybrid way of working; we believe this offers the appropriate balance between flexibility for our colleagues and the clear benefits we get from collaborating in person in the office.

We continue to make targeted investments in our systems and infrastructure. Our progress on the automation and digitalisation of our Metals platform continued at pace, making our products more accessible to clients.

A year ago, I set out our ESG ambition: **"ICBCS is committed to enabling our clients to pursue our shared goals of social and economic development, and environmental sustainability"**.

I look forward to seeing our work in this area develop further from the strong foundations we have built.

## OUTLOOK

The last few years have taught us that the only thing we can predict is further uncertainty. Although I am optimistic, given our recent performance, we will remain focused and prudent in our risk management. I look forward to seeing the business continue to grow into the niches we have carved, as well as enhancing collaboration with ICBC Group which is a rich source of revenue origination. On behalf of Senior Management and the Board, I would like to thank ICBCS colleagues for their efforts, and our clients and shareholders for their ongoing support. I look forward to sharing further success in 2023.



Wenbin Wang  
Chief Executive Officer

# Contents

## Annual report

Strategic report	6
Directors' report	31
Remuneration policy statement	38
Statement of directors' responsibilities	40
Independent auditor's report	41
Consolidated balance sheet	55
Consolidated income statement	56
Consolidated statement of comprehensive income	57
Consolidated statement of changes in shareholders' equity	58
Consolidated statement of cash flows	59
Company balance sheet	60
Company statement of changes in shareholders' equity	61
Company statement of cash flows	62
Significant accounting policies	63
Notes to the annual financial statements	81
Acronyms and abbreviations	156
Contact information	157

## Strategic Report

The directors present their strategic report for the year ended 31 December 2022 for ICBC Standard Bank Plc ('ICBCS').

### Who we are

ICBC Standard Bank Plc is a London-based banking specialist, focused on the provision of commodities and financial markets solutions, to its global client base. Industrial and Commercial Bank of China Limited ('ICBC') and Standard Bank Group Limited ('SBG'), hold 60% and 40% respectively of the issued share capital of ICBCS.

Within the UK, ICBCS is authorised by the Prudential Regulation Authority ('PRA'), and regulated by the Financial Conduct Authority ('FCA') and the PRA.

### ICBC Group profile

ICBC was established on 1 January 1984 to undertake the business of industrial and commercial credit and savings previously handled by the People's Bank of China.



On 28 October 2005, ICBC was restructured into 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 an excellent customer base, a diversified business structure, strong innovation capabilities and market competitiveness.

ICBC has a presence on six continents and its overseas network spans 49 countries and regions. ICBC provides a comprehensive suite of financial products and services to over 10 million corporate customers and 712 million personal customers through its various distribution channels. These consist of domestic institutions, overseas institutions and correspondent banks worldwide, as well as an e-banking network comprising a range of internet and telephone banking services and self-service banking centres.

### Standard Bank Group profile

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 segments: Consumer & High Net Worth Clients, Business & Commercial Clients and Corporate & Investment Banking. These global client segments operate across South Africa, other African countries and selected international locations outside of Africa.

## How we operate

### Strategy

We specialise in global markets traded products including commodities, fixed income, and currencies, with a focus on frontier and Emerging Market (EM) jurisdictions. These span Asia, Africa, Central and Eastern Europe, the Middle East, and Latin America.

We also provide clients with specialised financing solutions that leverage our global markets capabilities.

We are headquartered in London, with additional operations in Singapore and New York and a commodities sales presence in Shanghai.

We have access to major international financial exchanges including membership of the London Metals Exchange, and seats on the New York Mercantile Exchange (Comex division) and the Shanghai Gold Exchange International Board.

Our strategy is underpinned by three principles; specialisation, integration and simplification. We focus and invest where our business can add the most value; and are taking tangible steps towards integration by collaborating on business opportunities with ICBC.

#### Specialisation

*Deliver our strategic value to ICBC by enriching the global product offering*

- Strengthen our Commodities and Global Markets expertise;
- deploy our resources and capital for maximum impact;
- invest to maintain our competitive edge; and
- provide ancillary and complementary services to ICBC's product offering.

#### Integration

*Leverage ICBC global client base, infrastructure and balance sheet strength*

- Support ICBC to grow and diversify revenue streams;
- collaborate with ICBC for coordinated client, product and operational strategies; and
- facilitate ICBC and SBG group level strategic cooperation.

#### Simplification

*Scale, build on our foundations and improve efficiency*

- Remove internal inefficiencies and low value activity;
- standardise processes and platforms to allow for greater volume; and
- migrate from remaining SBG services and platforms, integrating with ICBC where possible.

## Business model

We offer an extensive spectrum of traded financial market and commodity assets, and related risk management products.

Our businesses originate exposures directly from clients and their market-making activities, which are subsequently risk managed and traded with other market participants and clients through the group's distribution network.

### Commodities

Our Commodities business provides trading, sales, working capital solutions, and structured lending expertise through its Metals and Energy teams.

As one of the four members of London Precious Metals Clearing Limited, we offer vaulting and clearing services for clients, including safe custody for physical bullion at our own vault in London and at market recognised vaults globally.

### Fixed income and currencies

Our Fixed Income and Currencies (FIC) business offers a comprehensive set of foreign exchange, interest rates and credit, money markets, and structured lending products.

Our FIC business provides flow structured products to our global clients for their investment activities, and delivers solutions for global corporates, banks and sovereigns for their financing, treasury and liability risk management requirements.

In recent years, generating diversified yet predictable revenue streams to build long term sustainability has become a key area of focus. This has predominantly been achieved through delivering structured lending capabilities for our clients. The structuring activities include lending against both liquid and illiquid collateral as well as derivatives financing (swaps) across both primary and secondary markets.

## Purpose and Culture

**Our purpose: To serve our clients globally as the commodities and financial markets hub of ICBC**

Our strategy and business model is enabled and supported by having a clear purpose and culture.

We are proud of our diverse workforce that represents a spectrum of cultures across multiple countries. We recognise the importance of having a vision, purpose, and set of values that provides all our employees with a common, shared direction.

In 2022, the Board reviewed a refreshed culture framework which covers the monitoring and measurement of our group's culture. This framework combines trend analysis through measuring agreed quantitative metrics across six focus areas as well as deep dives into emerging trends and colleague survey feedback. There is a monthly working group which discusses themes, applies qualitative overviews to the data, and agrees tangible actions to evolve our culture.



**Our values**

In 2021 we updated our values to ensure we translate our strategy and purpose in a relevant and meaningful way for our people. Building on this, we continue to embed the behaviours that underpin our work. In 2022 we refreshed the way that we manage and communicate our brand to employees and candidates by developing a new Employee Value Proposition (EVP). Our EVP is the set of messages we use to bring the opportunities, employee experience and values at ICBCS to life. It helps us to attract the right potential candidates and forms part of the social contract we make with our people. It informs all aspects of the candidate and employee experience and by doing so, it will play a leading role in fostering the culture we need to take our business forward.

**2022 in review****Operating environment**

**2022 saw another year of extreme volatility and an unpredictable operating environment**

Global markets have witnessed another challenging year caused by multiple factors. The differing approaches and pace to re-opening from Covid, unexpected war in Ukraine and central banks' aggressive battle against soaring inflation have been the dominant narrative throughout the year which contributed to volatilities across all asset classes. Major economies saw significant rate hikes and demand led price swings, followed by fears of stagflation and recession. While economies continued to battle with post-pandemic supply-chain issues and labour shortages, we saw energy and cost of living crises compound challenges for governments' policy landscape.

**Inflation and monetary policy tightening were contributing factors to stock market instability**

The year began with hopes of a sharp economic recovery after the Covid-lockdowns abated in 2021. However, the war in Ukraine led to commodity price shocks and an energy crisis in Europe. With inflation at a 40-year high, central banks rapidly tightened monetary policy, creating a backdrop that has required markets to factor in a substantial increase in the cost of capital.

2022 market shocks were unprecedented and extreme, causing simultaneous stock and bond sell-offs. The S&P 500 rounded off a tumultuous year with its 2022 return at -19%, marking the worst year since 2008. Other asset classes also closed the year with sharp falls in prices with total returns of -21% for EM stocks, -16% for USD bonds and -9% for a basket of the major EM local currency bonds. Inflation prints not seen since the 1970's forced central banks to be overtly hawkish as they tried to wrestle control back and re-establish credibility.

**Interest rate increases and prudent risk appetite pressured the debt market**

EM and frontier bond funds have both suffered tremendous outflow pressures on shifting US interest rate outlook and large swings in risk sentiment. Outflows from the EM fixed-income asset class (including China) continue at a record pace and investors' surveys point to the lowest EM FX and external bond positioning since 2016. Similarly, in the global debt primary markets, overall issuance volumes saw a dramatic year on year decline as higher funding costs prompted deleveraging and issuers sought alternative sources of liquidity.

**Energy markets were buoyant**

The energy sector was strong, with more than 59% gain by year-end due to heightened geopolitical risks. Brent oil prices surged to multi-year highs above USD 120 pbbl in H1 2022. Volatility also spread to industrial metals prices, which nevertheless finished the year in negative territory due mostly to China's Covid-measures and fears of a global recession.

**2023 will likely remain challenging****Outlook for 2023**

The end of the Fed's rate tightening cycle and China's exit from Covid policies are two key themes that are expected to prevail in 2023. That said, the global economy is projected to expand at a sluggish pace of approximately 2.7% in 2023, the weakest growth profile since 2001; with the exception of the global financial crisis and the most acute phase of the Covid pandemic in 2020 according to the International Monetary Fund ('IMF'). While the global economy is not at imminent risk of sliding into severe recession, both the US and parts of Europe are still not likely to see a fall in inflation materialise before the end of 2023 as labour shortages continue to be tight and Europe's energy problems persist.

As such, 2023 could be a better year for EM and frontier markets than 2022. With China's introduction of a suite of pro-growth measures, it is likely to bring a much-welcomed boost for industrial metals and commodity markets during the course of the year. Major trading partners will likely gain from China's demand recovery. We expect to see primary debt issuance return to pre-invasion levels as key inflation benchmarks are expected to peak in 2023.

**How we measure strategic impact and value creation**

We rely on a range of financial and non-financial measures to assess how well our strategy is creating value.

**Both financial and non-financial metrics allow us to assess our strategic impact**

These measures include analysing our financial performance, our investment in maintaining a diverse and inclusive workforce, our contribution to the broader society, our environmental impact, and our ability to deliver sustainable value and returns to our shareholders. Further details on these measures are set out on the following pages.

## Key Performance Indicators

### Business performance

Our results for the year are shown in the consolidated income statement, with the key performance indicators reflected below:

Financial KPIs		
	2022	2021
Income after credit impairments	<b>US\$749.1 million</b>	US\$468.8 million
Adjusted income after credit impairments <sup>1</sup>	<b>US\$515.4 million</b>	US\$460.0 million
Net profit after tax	<b>US\$317.1 million</b>	US\$98.6 million
Adjusted net profit after tax <sup>2</sup>	<b>US\$118.2 million</b>	US\$89.8 million
Total assets	<b>US\$22.6 billion</b>	US\$26.3 billion
Return on equity <sup>3</sup>	<b>19.9%</b>	7.3%
Total capital adequacy ratio	<b>20.2%</b>	18.3%

<sup>1</sup> Adjusted income after credit impairments excludes the recoveries on the commodity inventory intermediation transaction which totalled US\$233.7 million (2021: US\$8.8 million)

<sup>2</sup> Adjusted net profit after tax uses the adjusted income after credit impairments and therefore excludes the recoveries on the commodity inventory intermediation transaction and is net of tax

<sup>3</sup> Calculated from profit after tax and therefore includes the recoveries on the commodity inventory intermediation transaction

2022 saw our third consecutive year of over US\$100.0 million of pre-tax profit which is a measure of the significant progress we have made to develop a financially resilient and sustainable business. This has been achieved throughout a challenging period that has required us to constantly adapt and manage our risks appropriately.

### Commodities income after credit impairments US\$446.0 million

#### Commodities

The Commodities franchise delivered a strong performance in 2022, exceeding prior year performance. Income after credit impairments was US\$446.0 million in 2022 compared to US\$179.9 million in 2021. This includes US\$233.7 million of recoveries on the commodity inventory intermediation transaction as compensation for losses incurred in 2019.

As reported in note 30.5, the group was pursuing recovery of the losses it incurred on its commodity inventory intermediation activities following a fire at a client's oil refinery site and their subsequent bankruptcy in 2019. In January 2022, a settlement agreement in relation to the client's and group's business interruption insurance claims was approved by the US Bankruptcy Court, resulting in the group receiving US\$233.7 million of net proceeds (before tax) in respect of this incident.

### Precious metals vaulting and clearing volumes have grown through ICBC collaboration

The Precious metals desk was the main driver of the metals strong performance, spanning financing, trading flow and risk management activities. Collaboration with ICBC aided the expansion of our vaulting and clearing footprint, with new high-quality clients added. The business focussed on growing financing activity with recyclers as part of the ESG strategy, with work underway to add working capital solutions for metal in-process. In efforts to automate, digitise and

	create efficiencies in the bank; Precious metals migrated its primary trading platform. Progress was also made in laying foundations for a new and enhanced e-platform, which will be rolled out in 2023.
<b>Metals infrastructure was upgraded to improve system risk, automation and simplification</b>	Base metals performed well when set against the context of the 2022 external market disruptions; the nickel market dislocation, the war in Ukraine and China credit stresses all served to constrain risk appetite in the year. The desk progressed its automation and simplification strategy, having upgraded to the e-platform, delivering greater efficiency and an enhanced client product offering.
<b>New energy product line development allows diversification of revenues</b>	The energy team saw strong performance, notably derivatives (client hedging) and structured financing. The derivatives client franchise delivered robust revenues with very high traction and volume with group clients, complemented by an excellent trading performance. 2022 saw the expected acceleration of the structured financing build out; origination was focused on Liquefied Natural Gas (LNG) and upstream opportunities, which have delivered a strong run rate going into 2023. Additionally, the desk has continued to expand its product set to include Liquefied Petroleum Gas (LPG) and Liquefied Natural Gas (LNG), facilitating deepening of existing client relationships and attraction of new ones in support of the climate transition.
<b>FIC income after credit impairments US\$303.1 million</b>	<p><b>Fixed Income and Credit</b></p> <p>Income after credit impairments was US\$303.1 million in 2022 compared to US\$288.9 million in 2021.</p> <p>This positive result was achieved despite the significant volatility and stress in both emerging and developed markets; and increased credit provisioning requirements.</p>
<b>Emerging markets was a large contributor to the improved performance of FIC</b>	The Emerging Markets (EM) sales and trading franchise was a large contributor to the improved performance of FIC. With G7 central banks raising rates to combat inflation, EM currencies, rates and credit were under pressure and experienced significant outflows from EM Funds. In addition to market dislocations, suspended payments by Ukraine and Ghana, and the currency de-peg in Egypt, the business had to navigate the impact of sanctions imposed by multiple authorities on Russia. The bank's resultant exposures in the Rouble market led the business to generate positive returns as it managed down its FX and rates positions. Client activity remained strong across our core markets.
<b>Debt Capital Markets reflected the practical shutdown of the primary debt issuance market in the year</b>	Structured Solutions and Debt Capital Markets portfolio underperformed relative to the prior year. The macro-economic backdrop meant originating new assets was more challenging as risk appetite was generally low. The combination of limited new asset origination and natural roll-off resulted in a fall in net interest accrual year on year. The Debt Capital Markets business reflected the practical shutdown of the primary debt issuance market in the year.

**Total equity US\$1,682.0 million**

**Capital adequacy ratio 20.2%**  
**Tier 1 capital ratio 17.5%**  
**CET1 ratio 15.7%**  
**RWA US\$9,251.0 million**

**LCR at year-end 150%**

**MOODY'S Baa1**

**Fitch Ratings A-**

**We operate a robust risk and control environment**

### Capital resources

At the end of the reporting period, our equity capital resources totalled US\$1,682.0 million (2021: US\$1,370.0 million), and total capital resources qualifying for prudential purposes amounted to US\$1,864.6 million (2021: US\$1,558.4 million).

We remain strongly capitalised at 31 December 2022, with a total capital adequacy ratio of 20.2% (2021: 18.3%), a tier 1 capital ratio of 17.5% (2021: 15.3%), a common equity tier 1 (CET1) ratio of 15.7% (2021: 13.5%) and risk weighted assets of US\$9,251.0 million (2021: US\$8,526.3 million). We maintain capital resources in excess of the minimum regulatory requirement.

Following receipt of recoveries on the commodity inventory intermediation transaction in January 2022, a profit verification exercise contributed US\$182.7 million to the capital base by the end of the first quarter. This additional capital assisted ICBCS in managing the volatile events of Q1 alongside enhanced, and pro-active, management of activities in the first half of 2022 as the market effects of geopolitical events impacted business and resultant Risk Weighted Asset calculations.

### Liquidity

In 2022 we efficiently managed the funding sources and requirements in support of the changing business needs. In response to volatile commodity markets in early 2022, we increased our liquidity reserves and arranged a contingent facility with ICBC, which was not utilised, in order to respond to significant margin calls. We continued to maintain a strong liquidity profile for the remainder of the year. Under our internal stress testing scenarios, we maintained a survival horizon in excess of the internally established limit. Under the regulatory Liquidity Coverage Ratio ('LCR'), we maintained liquidity in excess of the regulatory requirement. As at 31 December 2022, our LCR position was 150% (2021: 199%).

### Credit rating

Our credit rating is premised on support from ICBC as parent, as well as consideration of our own capital and liquidity position, our corporate strategy, and future profitability.

Moody's and Fitch Ratings' long-term credit ratings as at 31 December 2022 remained unchanged at Baa1 and A- respectively, with stable outlooks.

### Non-Financial Performance

#### Risk and Control

As a result of the significant market volatility during the first half of 2022, some market risk measures exceeded risk appetite. These were managed back within appetite over the second half of the year. Our operational risk losses have remained at relatively low levels and well within risk appetite. Significant work has been undertaken to embed the operational resilience framework into processes, including identifying and monitoring Important Business Services,

enhancing management information and rolling out firmwide training. Our principle risks are detailed in note 37.3, which also includes further information on relevant frameworks and policies.

### **Culture and Employee Engagement**

Culture is important to us. We introduced a new culture dashboard which combines quantitative metrics and qualitative overlays. This allows management to track trends and focus their efforts.

**We remain committed to investing in our technology in an effort to digitise and automate**

### **Technology**

During 2022 technology investment resulted in many improvements including continued compliance with the new and expanded regulatory regimes the bank operates within and consolidation of our technology landscape, especially in the Front Office and Operations areas. We continued remediation of key risks identified in respect of our technology end-of-life products and services and migrated to an open and collaborative desktop environment for the organisation. We improved e-trading capabilities for our Global Markets Business with a focus on base metals and identified opportunities for further collaboration with ICBC through the joint development of applications for client services.

**Revenue opportunities originated from ICBC increased 23% to US\$135 million**

### **Integration**

Integration with ICBC remains the critical strategic success factor over the medium to long-term. We continue to make strong progress on our goal to further develop our business cooperation with ICBC. This is measured by the revenue opportunities originated from ICBC during 2022. This is not only a sustainable source of revenue but also strengthens our value within ICBC.

### **Human rights**

We are committed to respecting human rights, and operate in accordance with the Universal Declaration of Human Rights. We also promote human rights across our organisation through our employment policies. The Board also approved our annual Modern Slavery Statement.

### **Bribery and corruption**

We require all our colleagues to comply with the applicable anti-bribery and corruption laws in all the jurisdictions in which we operate.

### **Financial crime and anti-money laundering**

Our financial crime and anti-money laundering policies are designed to ensure that we comply with all necessary regulations and requirements. This includes having appropriate controls in place to mitigate the risk of financial crime.



## ESG – Environmental, Social and Governance

During 2022 we have continued to embed and develop our ESG strategy. We understand the importance of considering our ESG impacts and recognise the need for sustainable practices that drive long term economic growth.

In accordance with the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 and relevant regulatory requirements, we disclose below our Streamlined Energy and Carbon Reporting and, as a regulated bank, additional narrative aligning to the requirements of the Task Force on Climate-Related Financial Disclosures (TCFD) with regards to climate change management.

### Streamlined Energy and Carbon Reporting

We monitor our energy use and proactively identify ways to generate energy efficiencies. This includes complying with the UK Government's policy on Streamlined Energy and Carbon Reporting. This reflects the emissions across our UK operations. A summary of our current year reporting is detailed below:

#### Summary

	2022	2021
Scope 1 emissions <sup>1</sup> / tCO2e	-	-
Scope 2 emissions, location-based / tCO2e	680	799
Scope 3 emissions / tCO2e	1	2
Total gross emissions / tCO2e	681	801
Energy consumption <sup>2</sup> : emissions / kWh	3,518,398	3,771,027
Intensity ratio <sup>3</sup> : tCO2e / m <sup>2</sup>	0.0493	0.0580

<sup>1</sup> tCO2e – tonnes of carbon dioxide equivalent

<sup>2</sup> kWh – kilowatt-hour

<sup>3</sup> m<sup>2</sup> - square metre

Scope 1 - All Direct Emissions from the activities of an organisation or under their control. Including fuel combustion on site such as gas boilers, fleet vehicles and air-conditioning leaks.

Scope 2 - Indirect Emissions from electricity purchased and used by the organisation. Emissions are created during the production of the energy and eventually used by the organisation.

Scope 3 - All Other Indirect Emissions from activities of the organisation but occur from sources that they do not own or control. This does not include the emissions that we finance.

Our report is compiled by a third party. Since our first year for SECR disclosures in 2020, we have consistently reduced our emissions year-on-year.

Our 2022 energy consumption across individual utilities is as follows:

### Energy Consumption

Utility	Energy Consumption		GHG1 Emissions	
	kWh/year	%	tCO <sub>2</sub> e/year	%
Office Electricity	2,273,326	64.6	440	64.6
Data Centre Electricity	1,190,280	33.8	230	33.8
Vault Electricity	52,689	1.5	10	1.5
Transport	2,103	0.1	1	0.1
<b>Total</b>	<b>3,518,398</b>	<b>100</b>	<b>681</b>	<b>100</b>

The methodology used to calculate kWh, Carbon emissions and Intensity Measurement metrics are consistent with ISO 50001:2018 energy reporting principles. kWh consumption is measured by monthly meter readings provided by the landlord. This is converted into GHG emissions using conversion factors published by the Department for Environment, Food and Rural Affairs ('DEFRA'). The intensity metric we have chosen to use is tonnes CO<sub>2</sub>e per metre squared. The total floor area of ICBC Standard Bank's head office is 13,805 m<sup>2</sup>. This gives a total intensity ratio of 0.0493 tCO<sub>2</sub>e/m<sup>2</sup>.

In line with our transition to a hybrid model of working, fan coil unit run times and schedules on floors have been adjusted throughout the course of 2022 based on the number of staff onsite. We continued to drive energy efficiencies by upgrading our computer monitors and audio-visual equipment. Additionally, we will look to change all lighting in our office building to utilise more energy efficient bulbs.



TCFD Requirements	Summary
<b>Governance</b>	
a) Describe the Board's oversight of climate-related risks and opportunities	<ul style="list-style-type: none"> <li>The Board is responsible for setting the group's strategy and has approved a position paper considering climate-related risks and opportunities</li> <li>The Board Risk Management Committee is responsible for the monitoring of the group's analysis of the risks and opportunities of climate change</li> </ul>
b) Describe management's role in assessing and managing climate-related risks and opportunities	<ul style="list-style-type: none"> <li>Executive Management are responsible for embedding climate-related considerations into strategy, governance structures, transaction assessments and related second line risk analysis</li> </ul>
<b>Strategy</b>	
a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term	<ul style="list-style-type: none"> <li>The pace of transition is considered to be the more immediate risk to the group's current strategy, geographic coverage and product offering. Acute physical risks also pose risks over shorter-term horizons</li> <li>Opportunities do exist to provide products to existing and new clients, and the commodities business has identified certain opportunities e.g. financing metals key to low carbon technology (nickel, cobalt etc) as well as lower carbon energy sources (LNG)</li> <li>Technological advances are moving at pace, therefore balancing this with environmental or social impacts will be an on-going consideration when assessing both risks and opportunities</li> </ul>
b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.	<ul style="list-style-type: none"> <li>The identification of climate-related risks and opportunities remains on-going, with continuous assessment of the associated impacts of the activities</li> <li>Whilst the immediate impacts on the group's strategy are relatively limited, the fast-moving nature of regulatory and policy change means this will remain a continual evaluation</li> </ul>
c) Describe the resilience of the organisation's strategy, taking into consideration of different climate-related scenarios, including a 2°C or lower scenario.	<ul style="list-style-type: none"> <li>Given the largely short-dated trading focus of the group, the group can be agile in mitigating some aspects of climate-related risks as well as capture relevant opportunities as markets develop. In the medium to long term the requirement for energy related working capital solutions may decline. The impacts to business planning and strategy will be constantly evaluated as climate solutions evolve</li> <li>The group continues to develop proportionate stress scenarios to assist with informing the strategic direction and risk management</li> </ul>
<b>Risk Management</b>	
a) Describe the organisation's processes for identifying and assessing climate-related risks	<ul style="list-style-type: none"> <li>Climate-related risk identification process continues to evolve with progress being made during 2022, counterparty transactions are subject to climate-related evaluation through a scoring mechanism and a consideration with regards to the tenor of exposures</li> <li>On the physical commodities side, work has progressed to consider climate-related risks when on-boarding locations to store physical inventory, leveraging scenario analysis provided by third party providers</li> <li>The client on-boarding process has been enhanced to capture climate-related (alongside broader ESG) considerations and has been applied in 2023.</li> </ul>
b) Describe the organisation's processes for managing climate-related risks	<ul style="list-style-type: none"> <li>The processes for managing climate-related risks are in early development with the activities being largely limited to transaction specific considerations and relative insurance type mitigants for physical risks; and analysing a Climate Risk Portfolio scenario</li> <li>The management of climate-related risks will form part of strategy considerations</li> </ul>
c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management	<ul style="list-style-type: none"> <li>Climate-related risk is managed as cross-cutting risk type across the three primary risk types. This approach is continuing to be embedded within the group's enterprise risk management framework, with further progress made during 2022</li> <li>The group's risk policies and committee mandates have been updated to address and consider climate-related risks</li> </ul>

Metrics and Targets	
a) Describe the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	<ul style="list-style-type: none"> <li>The group has identified the sectors and activities that are subject to heightened climate risk (and to some extent increased opportunities)</li> <li>Exposures to these sectors are segregated in specific management information for management oversight</li> </ul>
b) Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks	<ul style="list-style-type: none"> <li>Scope 1 and 2 emissions are disclosed in the strategic report as per SECR requirements</li> </ul>
c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	<ul style="list-style-type: none"> <li>The setting of targets is dependent on further developing the climate-related disciplines and knowledge, alongside the strategy of the Bank</li> </ul>

### Governance

The primary responsibility for the governance of risk, and compliance with legal and regulatory obligations, resides with the Board. Through delegated authority from the Board, the Board Risk Management Committee ("BMRC") provides independent and objective oversight of risk management and compliance. The oversight of climate-related risks has primarily been through the BRMC during 2022.

The Chief Risk Officer (SMF4) is the senior management function responsible for identifying and managing the financial risks from climate change.

Quarterly, BRMC review relevant management information concerning our climate risk profile. The reporting covers items such as:

- credit exposure to sectors sensitive to physical and/or transition risk;
- horizon scanning;
- outputs from stress tests;
- reputational risk from counterparty incidents as captured by RepRisk; and
- physical risk to specific assets.

The approach to reporting on our climate risks and opportunities has evolved over 2022 and will continue to do so going forward as we further develop our toolkit.

The assessment and management of climate-related risks and opportunities continues to be embedded within our three lines of defence and existing front-to-back governance structure. The group's Pillar 3 report provides details of the full governance structure and the specific committees whose mandates contain climate-related matters.

A targeted training programme was conducted over the course of 2022, with representatives from credit, global markets, client onboarding and compliance undertaking bespoke training provided by Fitch learning. Further training will be developed across the firm in the future.

## Strategy

Our strategy as it relates to climate risk, whilst still in early stages of development, is to focus on the following areas:

- identifying and managing the climate risk profile of the group's clients, and the group's own climate risks as it pertains in particular to physical assets owned by the group;
- engaging with clients to understand, and where appropriate assist with, their approach to transitioning to a lower carbon economy and the related risks; and
- engaging with clients to understand and assess their approach to building their resilience and adapting to physical climate risks.

We have classified certain activities that are more sensitive from a climate risk perspective into a banned list. We will not directly facilitate these activities with any of our current or prospective clients.

## Banned List

Sector	Activity	Climate change impact
Mining	Mountain top removal	The practice releases air pollutants such as nitrogen oxide and sulphur dioxide contributing to water and soil acidification. Deforestation also results in soil degradation, loss of carbon sinks and biodiversity loss.
Energy	Arctic circle drilling and exploration	Drilling and exploration in this region is particularly sensitive as temperatures in the region have warmed at more than twice the global average, sea-level rise and ocean warmth is accelerating causing biodiversity loss. Melting permafrost also releases trapped methane, the most potent heat trapping gas, into the atmosphere
Energy	Tar sands drilling and exploration	The extraction process is more challenging than with conventional crude leading to higher emissions. Air pollution results from an increase in nitrogen oxide and sulphur oxide release.
Agri-Commodities	Deforestation and/or burning tropical rainforest in order to produce agri-commodities Production or trading in palm oil	The main impacts of deforestation include reduced biodiversity, loss of carbon sinks, release of emissions, disrupted water cycles and soil degradation.
Fisheries	Commercial drift net / bottom trawling fishing	Marine sediments are the largest pool of organic carbon on the planet therefore commercial bottom trawling causes a significant release of emissions contributing to ocean acidification and destruction of marine habitat.

The group has a list of monitored activities which includes oil and gas (across the value chain), and coal (mining and power generation). Given the group's focus on emerging and frontier markets there is often a balance to be struck between climate and social impacts of certain activities. With monitored activities, the group will closely monitor its exposure to these types of activities, and may over time set limits on overall exposure to those activities.

The embedding of climate-related considerations into the group's strategy and financial planning remains on-going. Although our balance sheet generally consists of assets with shorter (i.e. less than one-year) tenors, climate-related risks can manifest over short (1-5 years), medium (10 years) and long (30 years) time horizons. The full impact of climate-related impacts on the financial system may therefore be larger than for other types of risks, and is potentially

non-linear, correlated and irreversible, necessitating the identification and management of climate-related risks and opportunities as an ongoing and evolving issue. As scenario analysis is developed, it will assist in understanding the potential impacts over different time horizons further informing strategy and business planning.

The tables below indicate our current view and potential time horizons over which the strategy could be impacted:

### Climate-related risks identified over short, medium and long term

Transition risks				
Risk driver	Policy and Legal	Market and Economic	Technology	Reputation
Description	<ul style="list-style-type: none"> <li>Increased pricing of GHG emissions</li> <li>Enhanced reporting obligations</li> <li>Regulation of products and services</li> <li>Exposure to litigation</li> </ul>	<ul style="list-style-type: none"> <li>Changing customer behaviour</li> <li>Increased cost of materials</li> <li>Uncertain market signals</li> </ul>	<ul style="list-style-type: none"> <li>Substitution of products and services with lower emissions options</li> <li>Unsuccessful investment in new technologies</li> <li>Costs to transition to lower emissions technology</li> </ul>	<ul style="list-style-type: none"> <li>Consumer preference shifts</li> <li>Stigmatisation of sector</li> <li>Stakeholder concern</li> </ul>
Time horizon	Short - medium	Short - medium	Short - medium	Short - medium
Direct / indirect financial impacts	Compliance costs; stranded assets; asset impairment; restrictions and limitations on carbon intensive assets; and asset depreciation.	Company or securities valuations; asset impairment; viability of certain business models; and credit rating implications.	Write-offs for investments in disrupted technologies; required investment in new technologies; and process change costs to accommodate new technologies.	Damage to brand value resulting in lost revenue and additional expenditures e.g. corporate affairs, litigation etc.
Risk types impacted	Credit, market, liquidity, operational	Credit, market, liquidity, operational	Credit, market, operational	Credit, market, liquidity, operational

Physical risks		
Severity of change	Acute	Chronic
Climate-related events	<ul style="list-style-type: none"> <li>Increased severity of extreme weather events such as hurricanes, wildfires and flooding</li> <li>Heat stress - acute periods of extreme temperatures</li> <li>Water stress - acute periods of severe water shortage</li> </ul>	<ul style="list-style-type: none"> <li>Changes in precipitation patterns and extreme variability in weather patterns</li> <li>Rising mean temperatures</li> <li>Rising sea levels</li> </ul>
Time horizon	Short, medium and long	Long
Direct / indirect financial impacts	Short lived extreme weather impacts. Disruptions to operations, transportation, supply chains etc. Damage to physical assets and impacts on insurance pricing and availability	Impacts due to slow insidious change such as increasing temperature or water stress. Degradation or limitations on resource availability e.g. labour, natural resources etc.
Risk types impacted	Credit, market, liquidity, operational	Credit, operational

## Risk Management

Our approach is to treat climate-related risk as a cross-cutting risk that manifests through or impacts on other risk types such as credit, market and operational risk.

Climate-related risks can crystallise through either physical or transition risk events. The transmission channels from a climate-related risk that then manifest as a financial or non-financial risk are wide ranging, with an event potentially having a consequential impact on multiple risk types.

We define climate risk in our risk taxonomy in the following way:

**Climate-related** risks refer to risks (credit, market, operational etc) posed by the exposure of the Bank or financial sector to physical and transition risks caused by or related to climate change.

**Physical** risks can be either

- **Acute** risks arising from climate and weather-related events such as hurricanes, floods, wildfires and droughts;
- **Chronic** risks arising from longer term shifts in climate and weather patterns such as rising mean temperatures, rising sea levels and ocean acidification

**Transition** risks relate to financial risks which may result from the process of adjustment to a lower-carbon and more circular economy. A range of factors could influence this adjustment including:

- policy and regulation;
- disruptive technology and business models;
- shifting societal sentiment; and
- legal case law.

The principle risk type policies have been updated to include climate-related considerations within the existing risk type frameworks. A policy that covers climate-related risk (as a subset of environmental risk) was implemented in the early part of 2022. As a cross-cutting risk, our existing risk governance framework is utilised to manage climate-related risk. For example, if a counterparty is considered to be particularly vulnerable to climate-related risk through the credit assessment process, corrective action may be taken to both the credit rating and appetite towards the counterparty.

## Scenario Stress analysis

Our scenario analysis continues to be developed and embedded, in a proportionate manner, into our risk management processes.

Early in 2022 we implemented a transition scenario covering the unexpected imposition of a carbon price that is higher than market expectations by multiple large economies. The Bank engaged Oxford Economics to produce a detailed scenario narrative together with a

set of macroeconomic data for both a baseline and the stress scenario.

Our scenario is thematically aligned to the Bank of England's late action scenario from the Climate Biennial Exploratory Scenario (CBES) exercise. The key difference to the CBES late action scenario is that the shock occurs in our scenario in 2022, rather than 2031 in the CBES scenario. This was chosen to make it immediately relevant to the Bank's shorter dated exposures. The severity of the shock in terms of the rate at which the carbon pricing hike is applied is the same as in the CBES Scenario.

Our scenario focuses on the first five years when the transition shock is applied. Future exercises will look to cover longer periods to help inform strategic direction, business planning and risk management.

In addition, the reverse stress testing programme is used to assess remote but plausible climate-related events.

The table below illustrates how we are embedding climate-related risk into our existing risk framework.

## Climate-related risk management

Risk type	Definition	Climate impact	Progress in 2022	Future enhancements
<b>Credit risk</b>	Risk of loss arising out of failure of counterparties to meet their financial or contractual obligations when due.	A counterparty could be exposed either through physical risks to its operations and assets or transition risk to its sector(s) of operation. Economic impacts may affect their cash flows, leading to a higher PD and/or LGD.	Scoring assessment of climate-related factors introduced into counterparty and transaction credit analysis. A climate-related stress test covering the counterparty credit risk portfolio has been developed.	Further development of the climate scoring link to the counterparty internal credit rating. Additional stress testing and scenario analysis.
<b>Market risk</b>	Risk associated with the change in market value, earnings (actual or effective) or future cash-flows of a standalone underlying financial instrument.	Market value loss due to societal, legal and technological response to climate change resulting in investor perception of profitability and a consequent revaluation. Physical risk channels can also result in market value loss due to weather impacts particularly affecting commodities and property.	Due to the largely short-term trading book, the principle tool for identifying climate-related market risk is through stress testing. Climate-related stress test implemented and run monthly alongside existing stress scenarios.	Additional stress testing. Consideration in exit risk analysis.
<b>Liquidity risk</b>	Risk that a firm, although solvent, does not have available sufficient financial resources to enable it to meet its obligations as they fall due.	Depositors impacted by climate-related risks may withdraw funding to meet their cash flow needs.	No impact expected given relatively short-term nature of balance sheet.	Consideration of whether appropriate to have climate-related factors in stress testing.
<b>Operational risk</b>	Risk of loss suffered as a result of inadequacy of, or a failure in, internal processes, people and systems or from external events.	Severe weather events affecting our own (or suppliers) operations and assets could lead to financial loss as assets are impacted or liabilities arise. Liability claims may increase from parties who have suffered climate-related losses and seek to recover those losses from those they deem responsible.	Physical commodities assurance process enhanced with climate-related considerations i.e. location on-boarding. Climate-related factors considered as part of the new products process and risk and control self-assessment. Assessments made as part of business continuity on the impact of power shortages.	Climate-related factors to be considered where relevant in scenario analysis.
<b>Supplier risk</b>	Risk of a supplier failing such that the group is impacted by no longer receiving the relevant service	Suppliers, and their chains, could be impacted or disrupted as a result of climate related events impacting their ability to provide the relevant services	The supplier risk methodology includes climate-related considerations as part of a wider environmental risk consideration during the supplier on-boarding process.	The analysis of suppliers approach and response to climate change will continuously evolve

## Metrics and Targets

We have not yet set any targets to manage climate-related risks and opportunities. This will be kept under annual review, and will be assisted with enhanced scenario analysis capabilities.

**Credit exposure at year end to sectors with elevated climate risk**

Sector	2022 (\$m)	2021 (\$m)	YoY % change
Agriculture	7.6	3.4	>100%
Airlines	7.2	100	-92.80%
Automobiles	157.8	138.6	13.90%
Chemicals	51.6	9.3	>100%
Coal <sup>1</sup>	39.5	88	-55.10%
Manufacturing <sup>2</sup>	31.9	24.9	28.10%
Metals <sup>3</sup>	200.1	228.3	-12.40%
Mining	120.7	197.3	-38.80%
Oil and Gas <sup>4</sup>	953.5	745.2	28.00%
Power Generation <sup>5</sup>	63.7	63.7	0.0%

Notes:

Credit exposure represents lending and derivative (measured as potential future exposure at 95% confidence interval) exposure.

<sup>1</sup> Represents exposure to power generation from coal-fired power plants

<sup>2</sup> Represents exposure to manufacturers other than automobiles and metals

<sup>3</sup> Represents exposure to manufacturing of metals including smelting. It does not include metal traders

<sup>4</sup> Represents exposure across the value chain i.e. upstream, midstream and downstream

<sup>5</sup> Represents exposure to all other forms of power generation excluding coal

## Directors' statement on Companies Act 2006 Section 172

Directors have performed their duty to promote the success of the company, including their engagement with stakeholders, and have taken account of the matters set out in section 172 (1) (a) to (f) of the Companies Act 2006.

Information on the work of the Board and Board Committees can be found in the Corporate Governance section in the Directors' Report. The information on stakeholder engagement is presented below:

### Stakeholder engagement

**Directors consider the relevant impacts on stakeholders in performing their duties**

We believe it is important to consider a broad range of stakeholders when undertaking our day to day business to ensure the best outcomes for all parties.

There were no changes to the Board's group of stakeholders during the year. A summary of the Board's stakeholder oversight and engagement during the year is set out below.

### Shareholder

**Shareholder Agreement and articles of association govern how we conduct business**

Our relationship with shareholders is governed through a Shareholder Agreement ('SHA'). The SHA is a key governance document that applies in conjunction with the articles of association and sets out specific matters that are reserved for shareholder decision. It covers which matters are reserved for Board decision and sets out other administrative procedures such as those governing the composition of the Board, shareholder appointed Board



**We engage with our shareholders regularly and integrate their feedback**

representatives, administration of Board meetings, preparation of the business plan and budget, capital requests, shareholder communications and other related matters.

Our ongoing shareholder engagement ensures that our strategy and annual business plan takes consideration of shareholder feedback and views on strategic direction. Specifically ensuring that the services and products ICBCS will provide over the life of the business plan are complementary and enhancing to the capabilities of the wider ICBC Group.

The presence of a number of shareholder representative Directors on the Board of ICBCS ensures that there is ongoing communication with, and input from, our shareholders at Board level on relevant transactional matters. In addition, our Chief Executive keeps the Board updated on communications and developments with shareholders.

**We continuously explore ways in which we can leverage our shareholders more in the alignment of business initiatives**

ICBCS continued to engage with ICBC for support in areas where ICBC has specific expertise. A particular area of focus was IT system development and we partnered with ICBC technology colleagues on the development and implementation of a new data system. The Board IT Committee has provided oversight of the project delivery.

ICBCS has historically co-located its office space with Standard Bank Group entities in London and New York. ICBCS is the main leaseholder with Standard Bank having a sub-lease arrangement. During 2022 our Shanghai office took up space in the ICBC Shanghai building. In considering our future office needs globally we have engaged with our Standard Bank colleagues to factor in their requirements, where possible, into our planning. During the year the Board has been updated on the ICBCS office location strategy across our geographic footprint.

**Clients**

The Board agrees that meeting the needs of clients is at the centre of what we do, and is committed to ensuring that we deliver the best solutions, services, and products.

**We are committed to clients being at the heart of our business and look to improve products and services to support them**

Our progress on the automation, digitalisation and enhancements of electronic trading of our metals platform continued at pace. This has the benefit of creating robust and scalable infrastructure, and improving the accessibility and efficiency of products for clients. The Board IT Committee has been kept up to date on the delivery of these enhancements during the year.

As part of the strategic discussions, the Board discussed how the group can assist clients with the energy transition towards a cleaner and lower carbon future. The outcome of these Board discussions was the continued inclusion, in the four-year business plan, of certain business lines such as metals which form a core component of electrification technologies and a focus on the growth of our Liquefied Natural Gas ("LNG") capabilities as part of the energy business.

**We focus on managing risk and ensuring compliance is thoroughly maintained**

To enable us to achieve positive client outcomes, we have embedded extensive policies and procedures within our client management activities, which are supported by a dedicated client management unit.

The focus on clients informs the compliance plan and compliance monitoring, which is regularly reviewed by BRMC. As a group we have policies and procedures embedded to support the right outcomes which include client communications and disclosures, trade and order execution, suitability and appropriateness, conflicts of interest, client assets, data protection, information security and financial crime. Our counterparty risk management committee, which includes Executive Board Director members, is responsible for ensuring that we have appropriate controls in place to consider the acceptability, and retention, of client relationships. Specifically, those that present heightened financial crime and reputational risks to ICBCS. The BRMC receives regular reports from the Head of Compliance in respect of financial crime risks and controls and the Board ensures that the Bank does not run unacceptable residual risks in this area.

To ensure we maintain an appropriate level of continuity of service for our clients, the Board reviewed and approved the operational resilience self-assessment in line with regulatory requirements. We formalised our operational resilience oversight and governance activities which includes regular management information provided to the Board to demonstrate that the identified important business services remain within impact tolerances.

### Regulators

**We believe in regular and transparent communication with our regulators**

The Board seeks to maintain an open and transparent dialogue with the Regulators, both in the UK and our overseas jurisdictions. Regulatory considerations are integral to the group's operations and the Board's discussions and decision making reflect this. The Chairman and Chief Executive have periodic meetings with UK regulators. During the year consideration is given to additional communications with regulators when significant developments impacting the group occur or are anticipated.

The Board proactively reviews key regulatory correspondence and acts to ensure that management address regulatory priorities and recommendations in a prompt and timely manner. In addition, there are various executive and non-executive director meetings held with the PRA throughout the year.

Executive management keep the Board apprised on the status and compliance with relevant regulations in the countries in which we operate. This includes updates and status with respect to current regulatory obligations, any material compliance incidents, future regulatory developments, and capital and liquidity positions.

Our Chief Risk Officer kept the PRA updated on a number of matters relating to market volatility and the impacts of geopolitical events during the year.

## Suppliers

Our approach to supplier management is designed to ensure fair and balanced relationships with suppliers.

In 2021 the Board approved the group's supplier risk appetite, and in 2022 they were updated on the implementation of financial due diligence enhancements to better assess the stability of companies.

**We have robust and transparent frameworks and policies to support fair supplier relationships**

Our internal supplier risk management framework and supplier risk management tool ensure that the Bank, as a regulated entity, not only complies with its regulatory obligations but also looks to ensure its suppliers meet the best practices and standards in the industry.

The Board and Board IT Committee reviewed, in detail, reports from the Chief Operating Officer on certain key supplier arrangements. We continued to meet our responsibilities regarding payment practices reporting during the year with the reports approved by our executive director with responsibility for finance and operational oversight.

## Employees

The Board is responsible for setting the group's culture and believes a diverse and engaged population will help to drive better outcomes for all stakeholders and achieve the ambitions of our business.

**The board maintains regular and consistent interest in the group's culture and employees**

The Board is provided with regular updates on headcount, culture related measures and initiatives, (including outcomes and actions from employee surveys) and scorecard metrics in relation to our people including breaches and risks.

In addition, a non-executive director of the Board is assigned with the role of overseeing the engagement with our employees. This ensures that employee considerations are factored into and discussed during our Board meetings.

**The Board has engaged with staff across the year**

As part of our ongoing efforts to engage in direct feedback from staff a number of our independent non-executive directors attended a breakfast meeting with new graduate level hires to understand their perspectives on recently joining the company at a junior level. The learnings from this session were included in Board and Remuneration Committee discussions with the human resources team. The Board opined on the Bank's EVP, specifically in relation to the employee recruitment and retention challenges experienced across various sectors during the year.

The Board, supported by a diversity forum, ensures that we continue to focus on gender diversity and wider inclusion characteristics. During the year it was mandated that specific metrics were to be included in future performance targets set for management.

**We have returned to a new hybrid way of working**

During 2022, we returned to the office under a new hybrid way of working. This provides an appropriate balance between employee flexibility and face to face collaboration. The Board were frequently

updated on the return to the office plans and provided challenge and oversight of management's overall hybrid working strategy.

The Chief Executive recommenced in-person staff town hall sessions, and summer events, which were held in London, New York and Singapore during the year to promote reconnection opportunities and to update colleagues on key business developments, employee initiatives, and progress against our strategic priorities. These sessions included updates from other executive directors and members of the senior management team. We continued in providing regular, effective and meaningful communications through a variety of channels. The events were well attended by employees and a number of our non-executive directors.

During the year a number of our Independent Non-Executive Directors have attended, in an observational capacity, some of our Executive Level Committees (including the Asset and Liability Committee, Credit Committee, Regulatory Compliance Committee, Client Risk Management Committee, Operational Risk Committee and the Transaction Approval Committee). This provides them with a broad insight into the interactions of staff at levels of the organisation below the Board.

### Community

#### **We continue to support community and charity causes**

The Board continued to support our contribution to society. During the year we proactively participated in various community initiatives. This included organising food and clothes drives, fundraising activities, donating meals, and contributing to local and national appeals.

In the UK, we continued our partnership with 'Spread a Smile', a local charity which supports the well-being of sick children and their families. In 2022, over £40,000 was raised for charity through various employee fundraising initiatives.

#### **We believe it is important to support education and accessible employment**

The Bank is committed to providing employees with additional qualifications and seeking to employ people that may not consider financial services an accessible career by leveraging the apprenticeship scheme operated by the UK government.

We continue to run a summer internship programme in order to provide valuable experience for those considering a career in financial services. Our Board members were updated on the program and activities.

### Environment

#### **We continue to develop and evolve our strategy as we further analyse, understand and consider the relevant impacts**

The Board understands the importance of considering our Environmental, Social and Governance impacts and recognises the need for sustainable practices that drive long term economic growth.

In 2021 the Board approved the firm's ESG vision and strategy. It is acknowledged that due to our business operations being in emerging

markets and commodities, there could be complex trade-offs between measures designed to alleviate environmental risks, and efforts to promote social and economic development.

We continue to develop and evolve our strategy as we further analyse, understand and consider the relevant impacts. The Board of Directors are updated on a quarterly basis on our progress.

## How we manage risk

**Our risks are managed through a multifaceted approach with clear boundaries and accountability**

Overall responsibility for risk management rests with the Board of Directors which approves our Risk Appetite Statement. Day-to-day responsibility is delegated to the Executive Committee and other Board sub-committees which review inter alia, summaries of market, liquidity, credit, operational, country, and regulatory risks.

Importantly, accountability for risk management resides at all levels across the organisation, as set out by our three lines of defence model. The first line includes business segment unit management where the assessment, evaluation and measurement of risk are integrated into day-to-day business activities. The second line is represented by our risk management and compliance functions which are independent of line management within the business units. The third line consists of internal audit which provides an independent assessment on the adequacy and effectiveness of the group's overall system of internal control and risk governance structures.

**We regularly assess our principal risks and ensure we have mitigation in place**

Frameworks, policies, and procedures are in place to manage each major risk type. These set out minimum requirements for management of risk, and promote consistency of risk management methods.

Our principal risks are detailed in note 37.3. This is not an exhaustive list of all potential risks facing the group, but rather those which management believes may have a significant impact on its business performance and future prospects.

Various external events such as the war in Ukraine, energy supply issues and ongoing Covid-19 lockdowns in China, resulted in market disruption at various points over the year.

### Covid-19

In line with the relaxation of UK government guidelines, by spring 2022 we fully transitioned into our new hybrid way of working. Training was undertaken for managers to help them lead teams through the transition back to the office. We also continued to monitor any other risk associated with the impact of Covid-19 to the Bank.

**Our business is in a strong position to build a sustainable future and deliver on our purpose**

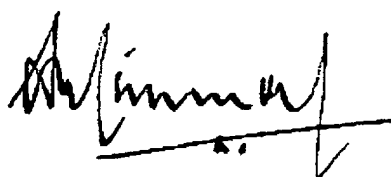
## Looking ahead

2022 was a year of volatile economic and business operating environments. ICBCS navigated the events through robust risk management, achieving the third consecutive year of over US\$100.0 million pre-tax profit. The capital base is strong and management remain committed on delivering against the group's strategic priorities.

During 2023, we will continue to monitor and adapt our business strategy in response to changes in the macro environment; grow collaboration with ICBC; increase the provision of our core products; and continue to invest in our architecture in line with our strategic ambitions. We commit to making further progress in embedding our ESG vision in how we undertake business. The group remains committed in its focus on delivering value to its stakeholders.

The ICBC Standard Bank Plc Strategic Report 2022 was approved by the Board of Directors and signed on its behalf by the Chairman.

By order of the Board



A W Simmonds  
Chairman  
2 March 2023  
20 Gresham Street  
London EC2V 7JE  
Public company limited by shares  
Registered in England and Wales No. 2130447

# Directors' report

The directors present their report and financial statements for the year ended 31 December 2022 for ICBC Standard Bank Plc ('the company' or 'ICBCS') 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 6 to 30 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.

The strategic report contains information on certain matters which would otherwise be required in the directors' report, including under schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, namely; financial instruments, future developments in the business of the company, charitable donations, engagement with employees, engagement with suppliers, customers and others in a business relationship with the company and the streamlined energy and carbon report.

## Going concern basis

The financial statements have been prepared on a going concern basis as the directors are satisfied that the company and group have the resources to continue in business for a period of at least 12 months from approval of the financial statements. In making this assessment, the directors have considered a wide range of information relating to present and future conditions, the business plan for the next and subsequent three years, which includes the impact of forthcoming regulatory changes, and the ability and willingness of the shareholders to provide support as and when required. This assessment also considered forecasts prepared by the group, which incorporated a combined stress on cash flows and counterbalancing capacity to stress test impacts on capital requirements and liquidity.

The company and group maintain a strong capital and liquidity position. The demonstrable ongoing support by the controlling shareholder is an important aspect supporting the going concern assessment. Industrial and Commercial Bank of China Limited ('ICBC') has issued a statement of support in favour of the company confirming its position as a long-term investment and as an integral part of the ICBC Group's overall operational strategy, which remains valid until ICBC ceases to be the controlling shareholder. ICBC Group's goal is to develop ICBCS into a major link in the Group's international network, and therefore, it undertakes to support the group's development and growth. ICBC confirms that it intends to financially support the group in ensuring that it meets all financial obligations as they fall due, including the maintenance of a minimum capital adequacy level. Specifically, ICBC intends to provide funding and capital support to the group and commits its intention to subscribe for certain 'qualifying instruments' as and when ICBC receives written notice from the group 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).

Further information about the future strategy and outlook, as well as the principal risks and uncertainties facing the group, is provided in the Strategic Report. Additionally, the group's policies and processes for managing credit, liquidity and market risk, and the group's approach to capital management and allocation, and stress testing, are described in note 37 to the financial statements.

ICBC has a controlling interest of 60% in the company with the balance of 40% owned by Standard Bank Group Limited.

Based on the above considerations, the directors have a reasonable expectation that the company and group have adequate resources to continue in operational existence for a period of least 12 months from the date of approval of these financial statements.

## Dividends

The directors do not recommend the payment of a dividend on ordinary shares.

## 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 2 March 2023, the date of approval of the consolidated annual report for the year ended 31 December 2022.

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 by the Board, in addition to which key business risks are identified, evaluated and managed 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. For the period under review, the Directors are satisfied that the group's risk management processes operated effectively and that the group has managed its risk in support of its strategy.

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. In reviewing the internal control system the Board also takes into account regulatory requirements and expectations.

#### **Transactions with directors and related parties**

There are no loans made to directors and details of related party transactions are included in note 33 to the financial statements.

#### **Directors' liability insurance and indemnities**

The group maintained directors' and officers' liability insurance during the twelve months ended 31 December 2022. 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.

#### **Directors and directors' interests**

The directors who held office during the course of 2022 or who hold office as at the date of this report are as follows:

##### *Current directors:*

Isabella da Costa Mendes	Independent non-executive director
Judith Eden	Independent non-executive director and Senior Independent Director
Andile Kenneth Fihla	Non-executive director
Ruixiang Han	Non-executive director
David Hodnett	Non-executive director
Yabing Hu	Non-executive director
Philip Hurley	Executive director
Binliang Jin	President and executive director
Garry Jones	Independent non-executive director
Li Li	Non-executive director
Andrew Simmonds	Chairman and Independent non-executive director
Shoujiang Wang	Executive director
Wenbin Wang	Chief executive and executive director

None of the directors held any beneficial interest in the ordinary share capital of the company during the year or at 31 December 2022.



**Branches**

The company has an operating branch in Singapore. The company branch in the Dubai International Finance Centre ('DIFC') had previously ceased trading and its final deregistration was confirmed by DIFC effective 7 January 2022.

**Political donations**

The group did not make any political donations or incur any political expenditure during the year.

**Auditor**

Deloitte LLP has indicated its willingness to continue as auditor of the group for the year ended 31 December 2023. Accordingly, a resolution is to be proposed at the next annual general meeting for the re-appointment of Deloitte LLP as auditor of the group.

**Employment of Disabled Persons**

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 disability or any other grounds. The group is committed to providing support to disabled employees to enable them to work to maximum effect within any limits imposed by their disability, including ensuring appropriate opportunities for training, career development and promotion. Should an employee become disabled during his or her career with the group, reasonable adjustments will be made where required.

**Corporate Governance**

The group has applied the Wates Corporate Governance Principles for Large Private Companies (published by the Financial Reporting Council ('FRC') in December 2018 and available on the FRC website), under The Companies (Miscellaneous Reporting) Regulations 2018, for the year ended 31 December 2022. Where appropriate the group additionally looks to follow corporate governance best practice in line with expectations of a regulated bank proportionate with its size and complexity.

The following describes how the principles of the Wates Corporate Governance Code have been met. Additional information on the governance structure and processes underpinning the group's capital and risk management can be found in the Pillar 3 disclosure document.

**Principle 1 – Purpose and Leadership**

The group's purpose, as set by the Board, is to serve our clients globally as the Commodities and Financial Markets hub of ICBC and is underpinned by values of; Integrity, Openness, Prudence, Innovation and Excellence.

The purpose and values align directly with the desire of the group to maintain a reputation for high standards of business conduct. Consistent with these values, the Board sets and oversees a culture, conduct and compliance agenda which supports the way that the group does business. In addition, the Board has approved the adoption of the ESG (Environment, Social and Governance) vision statement, which summarises the group's commitment to enabling our clients to pursue our shared goals of social and economic development, and environmental sustainability.

An annual detailed strategic review and planning session is factored into the Board timetable and provides the Board with an opportunity to assess and, if necessary, re-direct the group's strategic priorities. When making decisions on the strategic priorities, the Board considers the consequences in the long term with a view to growing and strengthening the sustainability of the business. The group has a rolling four-year business plan which is updated, reviewed, and approved, by the Board at least annually.

The Board receives a culture dashboard as part of the quarterly chief executive's report and progress on culture and conduct is factored into the balanced scorecard review of the bank's performance by the Remuneration Committee on an annual basis.

**Principle 2 – Board Composition**

The Board is led by an independent non-executive Chairman and there are a further eight non-executive directors, three of whom are also independent. The presence of four independent non-executive directors with extensive industry experience provides valuable independent challenge, which aids effective decision making. In addition, there are four executive directors including the chief executive. A list of the current Board directors who served during 2022 is provided above. The Board recognises the importance of diversity and that it is a much wider issue than gender. The Board agrees that its members should collectively possess the broad range of skills, expertise and industry knowledge, business and other experience necessary for the effective oversight of the group's business. Two of the four Board committees are chaired by female independent non-executive directors and four nationalities are represented on the Board.

The Board Remuneration Committee reviews proposed director appointments in accordance with suitability requirements and advises shareholders on proposed director appointments. There is a tailored induction programme for all new directors.

Periodic Board skills self-assessments are carried out, which assist with identifying Board training areas and also inform skills to be strengthened in future director appointments. In addition, periodic Board effectiveness evaluations are undertaken with the results used to inform discussions between the Chairman and individual directors, assisting the Chairman in strengthening effective performance of the Board.

### **Principle 3 – Director Responsibilities**

The Chairman is responsible for leading the development of and monitoring the effective implementation of policies and procedures for the induction, training and professional development of all members of the Board. In this regard, Board members have participated in internal training and briefings during the year. Directors also supplement formal meetings and training with regular executive engagement meetings relevant to their roles. Directors are also accountable for personal continued professional development planning, linked to their roles and specific portfolios and all directors have access to the advice and services of the Company Secretary and may, if they wish, take professional advice at the company's expense.

The Board's mandate, which is reviewed annually, includes the Board's purpose, its authority, powers of delegation and terms of reference and also details its operations. The Board's key responsibilities include to:

- agree the group's objectives and the strategies and plans for achieving these;
- ensure that an effective risk management process, including a robust and prudent risk appetite statement, exists and is maintained;
- ensure that an adequate budget and planning process exists, that performance is measured against budgets and plans, and approve annual budgets for the group;
- articulate and maintain a culture of risk awareness and ethical behaviour for the group to follow in pursuit of its business goals;
- ensure that reporting to the Board and/or Board committees is comprehensive across prudential requirements as well as conduct of business;
- assume ultimate responsibility for regulatory and legal compliance;
- assume ultimate responsibility for the integrity of accounting and financial reporting systems, the approval of financial statements, oversight of capital and liquidity adequacy including approval of Internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Adequacy Assessment Process (ILAAP) and Recovery and Resolution plans (RRP);
- review and approve the Operational Resilience self-assessment and provide oversight of operational performance against impact tolerances; and
- oversee the group's responsibilities and response to Environmental (including climate change), Social and Governance ("ESG") matters, such as reporting and disclosures, strategy development and setting risk appetite.

The Board met during 2022 for its scheduled quarterly Board and Board committee meetings. During the first half of 2022 the Board met frequently to be updated on, and oversee, Management's response to the impact of Russia sanctions (resulting from the invasion of Ukraine) and to the dislocations observed in the LME nickel market.

The Board also held its annual offsite Board strategy day in the fourth quarter of the year, where the Board reviewed Management's strategic plans from both a business line and corporate perspective for 2023 and beyond. These plans once finalised were incorporated into a 4-year Business and Financial Plan which the Board approved in November 2022.

During the year, the Board delegated certain specific oversight and decision making to the following sub-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 and to review the financial statements focusing in particular on accounting policies, and areas of management judgement and estimates. The committee has scheduled quarterly meetings plus ad-hoc meetings as required and met a total of five times during 2022.

During 2022 the work of the Committee included, amongst others, the following:

- A review and endorsement of the Consolidated Annual Report and Accounts for the year ended 31 December 2021, including consideration and challenge of the accounting treatment with respect to significant matters of judgement, major reporting items, significant transactions and accounting policy developments.
- A review of the effectiveness of the Finance function and mandating a detailed analysis of Finance related IT and data efficiencies.
- Approval of the internal audit plan, and reviewing and monitoring the closure of audit findings.
- Considered and confirmed the independence and effectiveness of Internal Audit.
- Consideration of quarterly reports from the external auditor including their approach to the audit of key areas, for example, physical commodities and IT systems and controls.
- Consideration of the external auditor's management letter following the completion of the annual audit and monitoring the completion of recommended actions.
- Considered an evaluation of the external audit process and recommended the re-appointment of the external auditors.
- The approval of non-audit services provided by the external auditors to ensure no conflicts of interest arise.
- A review of the external auditor's assurance report on Client Assets to the FCA for the year ended 31 December 2021.

Membership: Judith Eden (chair), Isabella da Costa Mendes, Garry Jones and Andrew Simmonds.

#### **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 including market, credit, country, liquidity, operational, business and reputational risks. The committee is kept apprised of the group's plans to implement the management of financial risks arising from climate change. The committee oversees the formulation of a robust and prudent risk appetite statement, its ongoing adherence and monitors the implementation of corrective actions in event of a breach. The committee is also responsible for providing independent 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 has scheduled quarterly meetings plus ad-hoc meetings as required and met a total of four times during 2022.

During the year the work of the Committee included, amongst others, the following:

- Overseeing the setting and monitoring of risk appetite (including recommending the risk appetite statement to the Board for approval) and the cascading of the risk appetite to the risk sub-types and limits.
- Review and endorsement of the Bank's whistle-blowing policies and procedures.
- Review of the Compliance Monitoring management information, including detailed analysis and discussions on the impact and implementation of sanctions on relevant jurisdictions.
- A review of the Bank's stress testing and reverse stress testing scenarios
- Review and challenge of the ICAAP and ILAAP documents, with the Committee recommending the documents to the Board for approval.
- A detailed review of the Bank's Operational Resilience Framework and Operational Resilience Self-Assessment, with the Committee recommending the Self-Assessment document to the Board for approval.
- Periodic reviews of the development of the Bank's climate risk framework.

Membership: Isabella da Costa Mendes (chair), Judith Eden, Andile Kenneth Fihla, David Hodnett, Yabing Hu, Garry Jones, Li Li and Andrew Simmonds.

**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. The committee normally meets at least four times a year and had five meetings during 2022.

During 2022 the work of the Committee included, amongst others, the following:

- The Committee responded to the impact of the tight labour market observed across certain functions during the year and authorised targeted action on remuneration where necessary to ensure the retention of certain key staff and to ensure vacant roles were sufficiently attractive in a competitive market place.
- A periodic review of deferred remuneration awards due to vest to ensure that any matters which could impact the requirement for deferral (or clawback) of payments are fully considered ahead of awards vesting.
- Review of the Bank's people strategy and equity, diversity and inclusion (E,D&I) plans, including the monitoring of progress against various metrics. During the year there was a continuing focus on improving the gender balance with a greater proportion of female staff at various levels of seniority targeted.
- On behalf of the Board, the Committee reviewed Executive succession plans and provided guidance to Management on additional actions to improve the plans.

Membership: Garry Jones (chair), Judith Eden, Andile Kenneth Fihla, Ruixiang Han, Li Li and Andrew Simmonds.

**Board IT Committee**

This Board committee was formed in February 2021 with the purpose of assisting the Board in discharging its duties in relation to oversight, at the strategic level, of the group IT environment across technology execution, governance and resilience; cyber security and cyber resilience; technology investment; enterprise data management; regulatory interactions; and digital transformation and e-commerce.

The committee compliments the Board Audit Committee and Board Risk Management Committee, and the latter continues to oversee IT Risk. The Committee met three times during the year.

Membership: Garry Jones (chair), Isabella da Costa Mendes, David Hodnett, Yabing Hu, Philip Hurley, Wenbin Wang and Shoujiang Wang.

**Executive 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 recommend business plans to the Board, monitor financial performance against budget, monitor risk, oversee key capital management and liquidity planning documents and all matters related to regulatory responsibilities. The committee reviews the viability early warning indicators on a monthly basis and ensures appropriate actions are taken. At its monthly meetings the committee also reviews the activities of its sub-committees.

The committee has scheduled monthly meetings and additional ad-hoc meetings take place as required.

Membership: The committee comprises executive directors and certain senior executives. The members of the committee at the date of this report were Wenbin Wang (Chair and Chief Executive), Philip Hurley (Chief Risk Officer), Binliang Jin (Alternate Chair, President and Head of Global Markets), Shoujiang Wang (Deputy General Manager), Bradley Duncan (Chief Finance Officer) and Pamela Hacker (Chief Operating Officer). Other key business and functional heads are also standing attendees.

The major sub-committees supporting the Executive Committee in fulfilling its responsibilities during the year were the asset and liability management committee, risk management committee, regulatory compliance committee, counterparty

risk management committee, new products and significant transactions approval committee, transaction acceptance committee, investment and change committee and Asia and New York regional management committees.

**Principle 4 – Opportunity and Risk**

Long term strategic opportunities are considered by the Board as part of its annual strategic review and planning cycle. The Board sets the group's risk appetite statement and delegates to the Chief Executive and executive management team responsibility for pursuing business opportunities in line with the agreed business strategy, within the risk appetite. Opportunities identified by executive management which are either extraordinary or outside of usual strategy and risk appetite are escalated to the attention of the Board.

New business opportunities are subject to rigorous internal governance and approval processes supported by specialist executive sub-committees such as the new products and significant transactions approval committee and the transaction acceptance committee, with oversight from the Executive Committee.

The Board has ultimate responsibility for the oversight of risk and capital planning and liquidity management and also regulatory and legal compliance (including conduct risk). The Board delegates certain responsibilities to the Board Risk Management Committee and Board Audit Committee, as summarised earlier in this report.

The principal risks to which the group is exposed together with the mitigating actions are set in note 37 to the group's annual financial statements. Also included in note 37 is further information on risk management, including the governance structure of the risk management framework, stress testing and detailed risk category descriptions and analysis.

**Principle 5 – Remuneration**

As described above, the Board delegates oversight of remuneration policy and practice to the Board remuneration committee. The group's remuneration policy statement is included within its consolidated annual report (see pages 38 to 39) and covers remuneration governance process, principles and strategy, and also the application of policies in relation to discretionary incentive awards, deferral and adjustment.

**Principle 6 – Stakeholder Relationships and Engagement**

In consideration of their responsibilities under section 172(1) of the Companies Act 2006 the Board has defined its key stakeholders as shareholders, employees, regulators, clients, suppliers, community and environment. Details on stakeholder relationships and engagement are included in the Strategic Report.

Approved by the Board and signed on its behalf by



R Otterson  
Secretary

2 March 2023

20 Gresham Street  
London EC2V 7JE

Public company limited by shares  
Registered in England and Wales No. 2130447

# Remuneration policy statement

## Introduction

This statement is intended to provide stakeholders with an understanding of the group's remuneration philosophy and practices as at March 2023.

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.

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.

## Principles that underpin the 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 and no remuneration schemes are linked by formula to revenue generation.
- Individual rewards are determined according to group, business unit and individual performance, based on financial and non-financial factors including behaviour. Wherever available and relevant, external market information is used to inform remuneration decisions.
- 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 intention is to provide both total compensation, and its composition, at market-competitive levels, drawing on relevant information from various sources, including external advisers.
- 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.
- The group does not discriminate between employees based on diversity or any protected characteristic. Gender pay gap reporting is submitted per legal requirements and the outputs are reviewed at Board level with any necessary action plans taken.
- Remuneration designs comply with all legal, regulatory and risk adjustment requirements (including the ability to apply positive adjustments for exceptional behaviours) and promote risk management in line with the group's stated strategy and risk tolerance. A robust risk adjustment policy is adhered to at an individual and pool level, discretionary incentive awards may be considered for risk and performance adjustment in the case of an adjustment event. This could include malus during the vesting period of a deferred portion of an award and, for MRTs, clawback after vesting of any portion of an award.

## Remuneration Governance

The Remuneration Committee is responsible for determining the broad policy for executive remuneration, and approving the entire individual remuneration packages for each of the executive directors and Senior Managers (excluding non-executive directors) as determined by the relevant regulatory criteria, and other senior executives, as appropriate.

The Committee oversee the remuneration policy and remuneration packages for executive remuneration for Material Risk Takers (as determined by the relevant regulatory criteria) and ensure that competitive reward strategies and programmes are in place to facilitate the recruitment, motivation and retention of high performance staff at all levels in support of realising corporate objectives and to safeguard shareholder interests.

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.

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.

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.

Remco includes representatives from Board Audit and Risk Management Committees who bring their relevant experience to the process including independent non-executive directors. Remco comprises executives who have experience in evaluating risk and the requirements of the group to operate commercially and sustainably in a competitive environment. Members of Remco attend the ICBCS Board meetings where the results of the Risk Committee are summarised and shared with the Board. Transparency on remuneration designs and processes is maintained with employees and with shareholders.

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 have prepared the group and company financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRSs) as adopted by the United Kingdom (UK).

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 UK;
- 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.

Approved by the Board and signed on its behalf by:



R Otterson

Secretary

2 March 2023

20 Gresham Street  
London EC2V 7JE

Public company limited by shares

Registered in England and Wales No. 2130447



# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ICBC STANDARD BANK PLC

## Report on the audit of the financial statements

### 1. Opinion

In our opinion:

- the financial statements of ICBC Standard Bank Plc (the 'Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2022 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB);
- the Company financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards 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.

We have audited the financial statements which comprise:

- the consolidated and company balance sheets;
- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and company statements of changes in equity;
- the consolidated and company statements of cash flows;
- the significant accounting policies; and
- the related notes 1 to 40.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law, United Kingdom adopted international accounting standards and IFRSs as issued by the IASB. The financial reporting framework that has been applied in the preparation of the Company financial statements is applicable law and United Kingdom adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006.

### 2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the Group and the Company for the year are disclosed in note 30.8 to the financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the Group or the Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### 3. Summary of our audit approach

Key audit matters	<p>The key audit matters that we identified in the current year were:</p> <ul style="list-style-type: none"> <li>• Valuation of level 3 financial instruments</li> <li>• Recognition of Day 1 profit and loss (P&amp;L) arising from significant trades; and</li> <li>• IT – Privileged Access;</li> </ul> <p>Within this report, key audit matters are identified as follows:</p> <ul style="list-style-type: none"> <li>⚠ Newly identified</li> <li>⬆ Increased level of risk</li> <li>↔ Similar level of risk</li> <li>⬇ Decreased level of risk</li> </ul>
Materiality	The materiality that we used for the Group financial statements was \$11.7m which was determined as 0.7% of net assets.
Scoping	Our audit was focused on the London entity of the Group, which accounts for 99% of the Group revenue and 96% of the Group net assets.
Significant changes in our approach	No significant changes were noted in our approach for the audit of the Group, for the year ended 31 December 2022 compared to the year ended 31 December 2021 except that we identified a new key audit matter related to Day 1 P&L arising from significant trades as noted in section 5 below.

### 4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the Group's and the Company's ability to continue to adopt the going concern basis of accounting included:

- understanding and evaluating the Group's current and forecast performance, and key assumptions, including the expected profitability during the going concern assessment period;
- assessing the consistency of assumptions used in forecasts with the assumptions used in other key estimates;
- testing of clerical accuracy of those forecasts and assessing historical accuracy of forecasts prepared by management;
- evaluating management's assessment of the Group's capital and liquidity position taking into account the willingness and ability of the ultimate holding company (ICBC) to provide support to the Group and the Company, if needed;
- assessing management's going concern assessment with involvement of our in-house prudential risk specialists to assess management's capital and liquidity projections and the results of management's capital reverse stress testing;

- performing other audit procedures including management enquiries and review of regulatory correspondence to test management's conclusions; and
- assessing the appropriateness of the going concern disclosures made in the financial statements in view of the FRC guidance.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

## 5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included 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.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

During our current year audit, we identified a new key audit matter related to Day 1 P&L arising from significant trades in order to reflect the additional work we performed in this area due to increased judgements arising from market volatility because of external factors such as Russian sanctions resulting from the invasion of Ukraine as discussed in the Directors' report on page 34, to reach a conclusion whether or not the Day 1 P&L has been recognised and/or deferred appropriately in line with the requirements of IFRS 9 'Financial Instruments' (please see section 5.2 below).

### 5.1. Valuation of level 3 financial instruments

Key audit matter description	<p>Financial assets and financial liabilities categorised as level 3 are those where significant unobservable inputs have been used in the valuation techniques to measure the fair value.</p> <p>The Group's and the Company's trading and financing activities result in certain positions where prices or inputs are not readily available due to market illiquidity and have limited price transparency. As at 31 December 2022, the Group as well as the Company had financial assets and financial liabilities measured at fair value amounting to \$10,628.7m (2021: \$11,451.8m) and \$9,787.8m (2021: \$9,125.1m) respectively, of which level 3 financial assets and financial liabilities were \$289.3m (2021: \$175.5m) and \$390.0m (2021: \$312.8m) respectively.</p> <p>Unlike other financial instruments whose values or inputs are readily observable and therefore more easily independently corroborated, the valuation of financial instruments classified as level 3 are inherently subjective and often involve the use of proprietary valuation models, whose underlying algorithms and valuation methodologies are complex, use of unobservable inputs and selection of proxy financial instruments, where needed. This degree of subjectivity may also give rise to potential fraud through management intentionally manipulating fair values or</p>
------------------------------	--

---

incorporating management bias in determining fair values. Auditing the Group's and the Company's valuation of level 3 financial instruments is therefore subjective and presents certain challenges in evaluating the appropriateness of the Group's and the Company's valuation judgements and estimates.

Significant judgements made by the Group include the derivation of key model inputs which are not observable in the marketplace; these are used by pricing models to determine an appropriate fair value. Performing our audit procedures to evaluate the appropriateness of these unobservable inputs involved a high degree of auditor's judgement, professionals with specialist skills and knowledge, and an increased extent of testing.

The valuation of Level 3 financial instruments is a key source of estimation uncertainty as disclosed in note 25.3 to the financial statements, with a wide range of reasonable outcomes. The financial statements (notes 23 and 25) disclose the sensitivity estimated by the Group.

---

How the scope of our audit responded to the key audit matter

We performed the following audit procedures, to address the complexities associated with the valuation of level 3 financial instruments with involvement of our in-house valuation specialists.

We obtained an understanding of and tested the Group's and the Company's relevant controls addressing the risk of material misstatement related to the valuation of level 3 financial instruments including:

- Model risk management controls, which are designed to review a model's theoretical soundness and the appropriateness of its valuation methodology and calibration techniques developed by business units;
- Independent price verification controls, which are designed to detect mispricing through independent repricing of transactions by a separate team, and comparison of those independent valuations to the fair values used in the Group's books and records; and
- Proxy evaluation control, which is designed to evaluate the adequacy of proxies selected by management in cases where observable inputs are not available.

We also performed the following substantive procedures on a sample of level 3 financial instruments:

- Developed independent valuation estimates with the involvement of our in-house valuation specialists, using externally sourced inputs wherever available and independent valuation models; and
- Evaluated the proxies selected by management in absence of externally sourced inputs, as applicable.

We evaluated the fair value levelling of the financial instruments measured at fair value to assess if they are appropriately classified.

---

	We also assessed financial statement disclosures related to financial instruments measured at fair value in accordance with relevant IFRSs, including information on the sensitivity of fair value measurements to key inputs and assumptions.
Key observations	We concluded that the valuation of level 3 financial instruments is appropriate.

## 5.2 Recognition of Day 1 profit and loss (P&L) arising from significant trades

Key audit matter description	<p>Day 1 P&amp;L arises when the fair value of a financial asset or financial liability, at initial recognition, differs from the transaction price.</p> <p>In accordance with the requirements of IFRS 9 'Financial Instruments', Day 1 P&amp;L is recognised at the initial recognition of a fair value financial asset or financial liability using observable pricing. When a fair value measurement includes some unobservable inputs and there is a difference between the transaction price and the valuation at the date of the transaction, judgement will be required to determine how this difference is to be recognised.</p> <p>The Group's and the Company's trading and financing activities result in certain trades where prices or inputs are not readily available due to market illiquidity and have limited price transparency. The risk arises where such trades have significant unobservable inputs and therefore the Day 1 P&amp;L does not meet the recognition criteria at initial recognition of the financial asset or financial liability.</p> <p>The level of judgement required increases, particularly, when there are trades involving complex valuation inputs. The risk is that the recognition of Day 1 P&amp;L arising from such trades is inappropriately recognised when it should be deferred.</p> <p>During 2022, the Group entered into certain Russian Rouble trades involving net Day 1 P&amp;L amounting to \$54.9m which has been recognised at initial recognition of the underlying financial instruments. This Day 1 P&amp;L is subject to judgements arising from increased market volatility due to external events such as Russian sanctions resulting from the invasion of Ukraine.</p> <p>As at 31 December 2022, the Group held reserves of \$41m (31 Dec 2021: \$30m) of Day 1 profits i.e. amounts that have not been recognised in revenue during the year ended 31 December 2022 but will be recognised in future periods.</p> <p>During the current year, Day 1 P&amp;L recognised and reserved by the Group on significant trades represent trades with maturity period of up to one year.</p> <p>Further details are included in our reporting to the Audit Committee and note 23 to the financial statements.</p>
How the scope of our audit responded to the key audit matter	<p>We performed the following audit procedures to address the complexities associated with assessment of unobservable inputs giving rise to the material Day 1 P&amp;L from significant trades:</p> <p>We obtained an understanding of the Group's and the Company's relevant controls</p>

---

addressing the risk of material misstatement related to the Recognition of Day 1 P&L arising from significant trades including:

- controls over the identification and recognition of Day 1 P&L; and
- controls over the completeness of Day 1 P&L;

We also performed the following substantive procedures for the significant trades giving rise to material Day 1 P&L:

- assessing the fair value of significant trades through independent valuation with the involvement of our in-house valuation specialists; and
- for the new Russian Rouble trades recorded during 2022 subject to increased market volatility, assessing the Group's judgements of observability and the existence of a liquid two-way market to determine whether the Day 1 P&L should be recognised upfront.

---

Key observations	We concluded that Recognition of Day 1 P&L arising from significant trades is appropriate.
------------------	--

---

### 5.3 IT – Privileged Access

---

Key audit matter description	The Group's and the Company's IT environment is inherently complex as it supports a broad range of trading and banking products and facilitates the processing of a significant volume of transactions.
------------------------------	---

The IT systems within the Group form a critical component of the Group's financial reporting activities and impact all account balances with a reliance on automated and IT dependent manual controls. Due to the significant reliance on IT systems, effective General IT Controls ('GITCs') are critical to allow reliance to be placed on the completeness and accuracy of financial data and the integrity of automated system functionality (e.g., system calculations).

We identified the IT systems that impact financial reporting as a key audit matter because of the:

- Pervasive reliance on complex technology that is integral to the operation of key business processes and financial reporting;
- Reliance on technology which continues to develop in line with the business strategy, such as the upgrade and migration of systems across the Group; and
- Importance of the IT controls in maintaining an effective control environment. A key interdependency exists between the ability to rely on IT controls and the ability to rely on financial data, system configured automated controls and system reports.

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.

IT controls, in the context of our audit scope, primarily relate to privileged access at the infrastructure level, user access security at the application level and change controls. The Group's IT environment is discussed on page 14 of the strategic report:

For IT control deficiencies in respect of privileged user access to IT infrastructure noted during the 2021 audit, new controls were implemented by the Group during 2022 to address those deficiencies.

---

How the scope of our audit responded to the key audit matter

Our IT audit scope tested the Group's IT controls over information systems deemed relevant to the audit based on the financial data, system configured automated controls and/or key financial reports that reside within it.

We involved our IT specialists to support our evaluation of the risks associated with IT in the following areas:

- General IT Controls, including user access and change management controls;
- Key financial reports and system configured automated controls; and
- Cyber security risk assessment.

Where deficiencies in the IT control environment were identified, our risk assessment procedures included an assessment of those deficiencies to determine the impact on our audit plan.

Where relevant, the audit plan was adjusted to mitigate unaddressed IT risks. Where we were able to identify and test appropriate mitigating controls over affected financial statement line items, our testing approach remained unchanged.

For IT control deficiencies in respect of privileged user access to IT infrastructure noted during the 2021 audit, we tested the new controls implemented by the Group during 2022.

---

Key observations

We concluded that we are satisfied with the operating effectiveness of the IT controls relating to privileged access.

---

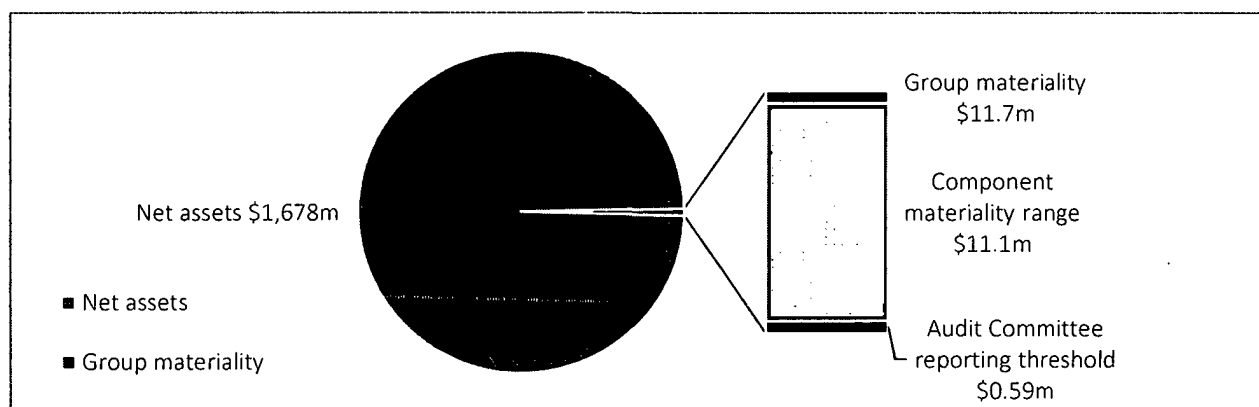
## 6 Our application of materiality

### 6.1 Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
Materiality	\$11.7m (2021: \$9.6m)	\$11.1m (2021: \$9.1m)
Basis for determining materiality	0.7% of net assets (2021: 0.7% of net assets)	0.7% of net assets (capped to 95% of the Group materiality) (2021: 0.7% of net assets)
Rationale for the benchmark applied	We have considered net assets to be the most appropriate benchmark as the Group is owned by ICBC Limited and Standard Bank Group and is a regulated entity where its capital position is of importance to the key users of the financial statements. These key users include regulators and shareholders. The benchmark selected is also consistent with that used for comparable entities in the Group's industry.	We considered it appropriate to maintain the same benchmark as that for the Group as the Company is the most significant member of the Group and its solo capital position is of importance to the key users of the financial statements, who are common with those for the Group. Additionally, we have capped the Company materiality to 95% of the Group materiality based on the proportion of net assets to those of the Group, which is consistent with our approach in 2021 audit.



## 6.2 Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Company financial statements
Performance materiality	70% (2021: 60%) of the Group materiality	70% (2021: 60%) of the Company materiality



Basis and rationale for determining performance materiality

In determining performance materiality, we considered the following factors:

- our risk assessment, including our assessment of the Group's overall control environment; please see section 7.3 where we summarise controls, we relied on for our 2022 audit;
- increase in our understanding of the Group's business processes based on the fact that this is our second year of audit; and
- our past experience of the audit, which has indicated a relatively low number of misstatements identified in prior period.

### 6.3 Error reporting threshold

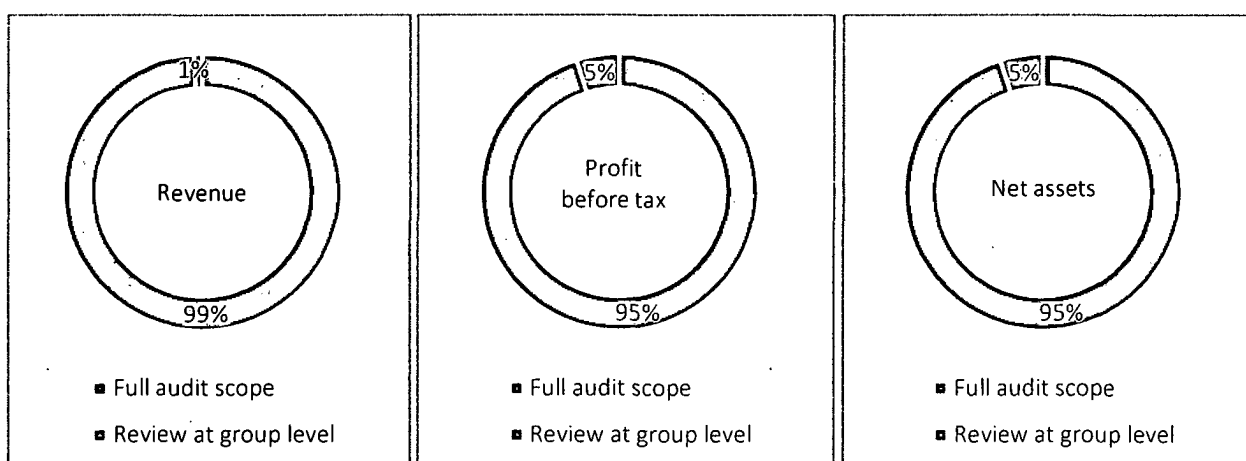
We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of \$0.59m (2021: \$0.48m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

## 7 An overview of the scope of our audit

### 7.1 Identification and scoping of components

ICBC Standard Bank Plc specialises in global markets traded products including commodities, fixed income, and currencies, with a focus on frontier and emerging market jurisdictions. The Group's operations are mainly based in London with a branch in Singapore, a wholly owned subsidiary in China, Standard Resources (China) Limited and a wholly owned subsidiary in New York, ICBC Standard NY Holdings Inc. We performed a full scope audit of the London entity, ICBC Standard Bank plc, which accounts for 99% (2021: 99%) of the Group's revenue, 95% (2021: 96%) of the Group's net assets and 95% (2021: 92%) of the Group's profit before tax. In addition, almost all the controls for the Group are performed in London. As regards other components including the branch in Singapore, we have performed analytical review procedures at the Group level. All the work was performed by the Group audit team.

We also audited the consolidation of the Group's results.



### 7.2 Our consideration of the control environment

In order to test controls, a combination of inquiry, observation, re-performance and inspection was performed on a sample basis, tailored to the nature and timing of each control. We tested relevant IT and manual controls related to the following areas of audit, addressing the related risks of material misstatements:

- valuation of financial instruments measured at fair value (please see section 5.1 in relation to valuation of level 3 financial instruments);
- recognition of trading revenue including Day 1 P&L (please see section 5.2 in relation to recognition of Day 1 P&L);
- existence and completeness of physical commodities; and
- existence and completeness of financial instruments.

Where deficiencies in the control environment were identified, our risk assessment procedures included an assessment of those deficiencies to determine the impact on our audit plan. Where relevant, the audit plan was adjusted to mitigate the unaddressed risk. Where we were able to identify and test appropriate mitigating controls over affected financial statement line items, our testing approach remained unchanged. During the current year audit, we expanded our control reliance strategy compared to the prior year, and tested and relied on internal controls related to existence and completeness of physical commodities and financial instruments and recognition of trading revenue including Day 1 P&L in addition to the valuation of fair value financial instruments.

Additionally, we obtained an understanding of the group's control environment for dealing with geopolitical risks and other significant events in the industry, through enquiries and inspection of relevant documents. As discussed on page 32 of the Directors' report, we understand that key risks identified by the directors are formally reviewed and assessed by the Board, in addition to which key business risks are identified, evaluated and managed on an ongoing basis by means of procedures such as physical controls, credit and other authorisation limits.

### 7.3 Our consideration of climate-related risks

During 2022, the Group has continued to develop its assessment of the potential impacts of climate change and its risk management. Whilst we understand that climate-related aspects of the Group's strategy are still in the early stages of development, as stated in Strategic report on page 15, the Group's focus is on the following areas:

- identifying and managing the climate risk profile of the Group's clients and the Group's own climate risks as it pertains to the particular physical assets owned by the Group;
- engaging with the Group's clients to understand, and where appropriate assist with, their approach and risks in transitioning to a lower carbon economy; and
- engaging with the Group's clients to understand and assess their approach to building their resilience and adapting to physical climate risks.

Based on the Group's ongoing assessment of the risks arising from climate change, we have performed our qualitative risk assessment based on enquiries of management and did not identify any additional risk of material misstatement. We also read the disclosures in the strategic report to consider whether they are materially consistent with the financial statements and our knowledge obtained during the audit.

## 8 Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## 9 Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the 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 the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

## 10 Auditor's responsibilities for the audit of the financial statements

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 error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## 11 Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

### 11.1 Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit, the compliance function and the directors and the audit committee about their own identification and assessment of the risks of irregularities, including those that are specific to the Group's sector;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, valuations, IT, and prudential risks specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: (1) valuation of level 3 financial instruments and (2) recognition of Day 1 P&L arising from significant trades. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act 2006.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included the Group's operating licence and regulatory solvency requirements.

#### 11.2 Audit response to risks identified

As a result of performing the above, we identified valuation of level 3 financial instruments and recognition of Day 1 P&L arising from significant trades as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and in-house and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC and other regulatory authorities including the PRA and FCA; and

- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

## Report on other legal and regulatory requirements

### 12 Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

### 13 Opinion of other matter prescribed by the Capital Requirements (Country by Country Reporting) Regulations 2013

In our opinion the information given in note 1 to the financial statements for the financial year ended 31 December 2022 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country by Country Reporting) Regulations 2013.

### 14 Matters on which we are required to report by exception

#### 14.1 Adequacy of explanations received and accounting records

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

#### 14.2 Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

## 15 Other matters which we are required to address

### 15.1 Auditor tenure

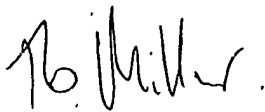
Following the recommendation of the audit committee, we were appointed by the shareholders on 26 April 2021 to audit the financial statements for the year ending 31 December 2021 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 2 years, covering the years ended 31 December 2021 to 31 December 2022.

### 15.2 Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

## 16 Use of our report

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.



Tom Millar, FCA (Senior statutory auditor)  
For and on behalf of Deloitte LLP  
Statutory Auditor  
London, United Kingdom  
2 March 2023

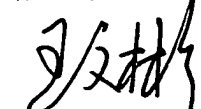
# Consolidated balance sheet

at 31 December 2022

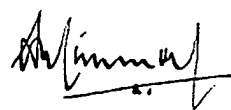
	Note	2022 \$m	2021 \$m
<b>Assets</b>			
Cash and balances with central banks	3	4,856.1	6,056.5
Due from banks and other financial institutions	4	2,182.3	2,306.7
Financial assets held for trading	5	702.7	2,455.7
Non-trading financial assets at fair value through profit or loss	6	2,193.7	1,972.1
Derivative financial assets	7	4,968.0	4,392.1
Reverse repurchase agreements	8	2,614.6	2,287.8
Loans and advances to customers	9	818.6	1,608.7
Financial investments	10	1,293.4	925.5
Property and equipment	11	34.6	47.4
Current tax assets		5.5	3.5
Deferred tax assets	12	0.6	0.7
Other assets	13	2,957.2	4,211.8
Non-financial assets held for trading - Commodities inventory		2,772.2	3,902.1
Other		185.0	309.7
<b>Total assets</b>		<b>22,627.3</b>	<b>26,268.5</b>
<b>Liabilities and equity</b>			
<b>Liabilities</b>		<b>20,945.3</b>	<b>24,898.5</b>
Financial liabilities held for trading	15	1,295.2	1,566.5
Non-trading financial liabilities at fair value through profit or loss	16	2,951.2	2,099.9
Derivative financial liabilities	7	5,352.8	5,050.7
Due to banks and other financial institutions	17	6,221.9	11,646.5
Repurchase agreements	18	530.1	693.6
Due to customers	19	1,736.5	1,235.8
Current tax liabilities		3.5	1.9
Subordinated debt	20	245.4	250.8
Other liabilities	21	2,608.7	2,352.8
Precious metal payables		2,395.5	2,057.9
Other		213.2	294.9
<b>Equity</b>		<b>1,682.0</b>	<b>1,370.0</b>
<b>Equity attributable to ordinary shareholders</b>		<b>1,682.0</b>	<b>1,370.0</b>
Share capital	27	1,083.5	1,083.5
Other equity instruments	28	160.0	160.0
Reserves		438.5	126.5
<b>Total liabilities and equity</b>		<b>22,627.3</b>	<b>26,268.5</b>

The accounting policies and notes on pages 63 to 155 should be read as part of the financial statements.

Approved by the Board of Directors and signed on its behalf on 2 March 2023.



W Wang, Chief Executive



A Simmonds, Chairman

## Consolidated income statement

for the year ended 31 December 2022

	Note	2022 \$m	2021 \$m
<b>Net Interest Income</b>		<b>98.5</b>	<b>112.0</b>
Interest income	30.1	254.8	135.1
Interest expense	30.2	(156.3)	(23.1)
<b>Non-Interest revenue</b>	30.3	<b>711.4</b>	<b>354.0</b>
Net fees and commission		25.4	32.9
Fees and commission income		43.2	52.0
Fees and commission expenses		(17.8)	(19.1)
Net trading revenue		400.6	260.6
Net gain on non-trading financial assets and liabilities at fair value through profit or loss		51.7	48.3
Recoveries on commodity inventory intermediation	30.5	233.7	8.8
Recoveries on commodity reverse repurchase agreements	30.4	-	3.4
<b>Total operating income</b>		<b>809.9</b>	<b>466.0</b>
Credit impairment (charges) / recoveries	30.6	(60.8)	2.8
<b>Income after credit impairments</b>		<b>749.1</b>	<b>468.8</b>
Operating expenses		(373.6)	(348.1)
Staff costs	30.7	(223.9)	(216.1)
Other operating expenses	30.8	(147.9)	(127.7)
Restructuring costs and other impairments	30.14	-	1.4
Indirect taxation	30.9	(1.8)	(5.7)
<b>Profit before taxation</b>		<b>375.5</b>	<b>120.7</b>
Income tax charge	31	(58.4)	(22.1)
<b>Profit attributable to equity shareholders</b>		<b>317.1</b>	<b>98.6</b>

The accounting policies and notes on pages 63 to 155 should be read as part of the financial statements.



# Consolidated statement of comprehensive income

for the year ended 31 December 2022

	2022	2021
	\$m	\$m
<b>Profit attributable to equity shareholders</b>	<b>317.1</b>	<b>98.6</b>
<b>Other comprehensive income:</b>		
<b>Items that may be reclassified subsequently to profit or loss<sup>1</sup></b>		
Foreign currency translation reserve	(2.6)	0.8
Cash flow hedging reserve	13.1	(19.3)
Effective portion of changes in fair value	(7.5)	(5.0)
Net amount transferred to profit or loss	20.6	(14.3)
Changes in fair value of debt instruments measured at FVOCI	(2.5)	0.6
<b>Items that will not be reclassified subsequently to profit or loss<sup>1</sup></b>		
Losses attributable to own credit risk	(0.9)	(0.1)
<b>Other comprehensive income for the year</b>	<b>7.1</b>	<b>(17.9)</b>
<b>Total comprehensive gains attributable to equity shareholders</b>	<b>324.2</b>	<b>80.7</b>

<sup>1</sup>No income tax is recognised in other comprehensive income.

## Consolidated statement of changes in shareholders' equity

for the year ended 31 December 2022

	Ordinary share capital and share premium \$m	Other equity instruments \$m	Cash flow hedging reserve \$m	FVOCI reserve \$m	Foreign currency translation reserve \$m	Net investment hedge reserve <sup>1</sup> \$m	Own credit reserve \$m	Retained earnings \$m	Total equity \$m
Balance at 1 January 2021	2,079.5	160.0	14.2	0.9	(0.7)	(1.7)	(0.3)	(950.4)	1,301.5
Total comprehensive gains / (losses) for the year	-	-	(19.3)	0.6	0.8	-	(0.1)	98.6	80.7
Share premium restructure <sup>2</sup>	(996.0)	-	-	-	-	-	-	996.0	-
Coupon payment on other equity instruments	-	-	-	-	-	-	-	(12.2)	(12.2)
<b>Balance at 31 December 2021</b>	<b>1,083.5</b>	<b>160.0</b>	<b>(5.1)</b>	<b>1.5</b>	<b>0.1</b>	<b>(1.7)</b>	<b>(0.4)</b>	<b>132.1</b>	<b>1,370.0</b>
Balance at 1 January 2022	1,083.5	160.0	(5.1)	1.5	0.1	(1.7)	(0.4)	132.1	1,370.0
Total comprehensive gains / (losses) for the year	-	-	13.1	(2.5)	(2.6)	-	(0.9)	317.1	324.2
Coupon payment on other equity instruments	-	-	-	-	-	-	-	(12.2)	(12.2)
<b>Balance at 31 December 2022</b>	<b>1,083.5</b>	<b>160.0</b>	<b>8.0</b>	<b>(1.0)</b>	<b>(2.5)</b>	<b>(1.7)</b>	<b>(1.3)</b>	<b>437.0</b>	<b>1,682.0</b>

<sup>1</sup>No net investment hedges were entered into during 2021 or 2022.

<sup>2</sup>The share premium restructure took effect in June 2021 involving cancellation of the share premium account and transfer of the balance on that account to retained earnings.

# Consolidated statement of cash flows

for the year ended 31 December 2022

	Note	2022 \$m	2021 \$m
<b>Cash flows (used in) / from operating activities</b>			
Profit before taxation		375.5	120.7
Adjusted for:			
Net interest income <sup>1</sup>		(98.5)	(112.0)
Amortisation of intangible assets		11.0	11.2
Depreciation of property and equipment		18.2	17.9
Non-cash flow movements on fair value hedges		0.9	-
Cash-settled incentive payments		64.6	10.1
Net credit impairment charges / (releases)		60.8	(2.8)
Impairment of property and equipment		-	(0.9)
Recoveries on commodity inventory intermediation costs		-	(7.0)
Restructuring provisions		-	(5.3)
Provisions for leave pay		(1.4)	(0.3)
		<b>431.1</b>	<b>31.6</b>
Changes in operating funds		(1,608.4)	2,129.0
Decrease in income-earning assets	32.1	<b>2,981.5</b>	<b>1,974.8</b>
(Decrease) / increase in interest bearing and non-interest bearing liabilities	32.2	<b>(4,589.9)</b>	<b>154.2</b>
Interest received		244.1	146.2
Interest paid		(149.5)	(24.0)
Corporation and withholding tax paid	32.3	(54.6)	(27.0)
<b>Cash flows (used in) / from operating activities</b>		<b>(1,137.3)</b>	<b>2,255.8</b>
<b>Cash flows used in investing activities</b>			
Capital expenditure on intangible assets		(11.4)	(9.4)
Capital expenditure on property and equipment		(4.1)	(3.1)
<b>Cash flows used in investing activities</b>		<b>(15.5)</b>	<b>(12.5)</b>
<b>Cash flows from / (used in) financing activities</b>			
Proceeds from issuance of subordinated floating rate notes	20	150.0	-
Repayment of subordinated floating rate notes	20	(150.0)	-
Coupon payment on other equity instruments	28	(12.2)	(12.2)
Principal payments on leasehold liabilities		(9.7)	(12.5)
<b>Cash flows used in financing activities</b>		<b>(21.9)</b>	<b>(24.7)</b>
<b>Net (decrease) / Increase in cash and cash equivalents</b>		<b>(1,174.7)</b>	<b>2,218.6</b>
Effects of exchange rate changes on cash and cash equivalents		42.6	(2.5)
<b>Cash and cash equivalents at beginning of the year</b>	32.4	<b>6,122.5</b>	<b>3,906.4</b>
<b>Cash and cash equivalents at end of the year</b>	32.4	<b>4,990.4</b>	<b>6,122.5</b>

<sup>1</sup>Includes interest paid on subordinated debt instruments and lease liabilities

## Company balance sheet


at 31 December 2022

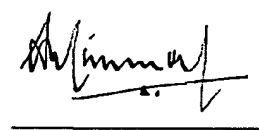
	Note	2022 \$m	2021 \$m
<b>Assets</b>			
Cash and balances with central banks	3	4,856.1	6,056.5
Due from banks and other financial institutions	4	2,121.1	2,249.0
Financial assets held for trading	5	702.7	2,455.7
Non-trading financial assets at fair value through profit or loss	6	2,193.7	1,972.1
Derivative financial assets	7	4,968.0	4,392.1
Reverse repurchase agreements	8	2,614.6	2,287.8
Loans and advances to customers	9	818.6	1,608.7
Financial investments	10	1,293.4	925.5
Property and equipment	11	28.5	40.0
Current tax assets		5.4	3.3
Other assets	13	2,957.0	4,210.9
Non-financial assets held for trading - Commodities inventory		2,772.2	3,902.1
Other		184.8	308.8
Investment in group companies	14	29.5	29.5
<b>Total assets</b>		<b>22,588.6</b>	<b>26,231.1</b>
<b>Liabilities and equity</b>			
<b>Liabilities</b>			
		20,934.6	24,885.8
Financial liabilities held for trading	15	1,295.2	1,566.5
Non-trading financial liabilities at fair value through profit or loss	16	2,951.2	2,099.9
Derivative financial liabilities	7	5,352.8	5,050.7
Due to banks and other financial institutions	17	6,221.9	11,646.5
Repurchase agreements	18	530.1	693.6
Due to customers	19	1,736.5	1,235.8
Current tax liabilities		2.7	1.9
Subordinated debt	20	245.4	250.8
Other liabilities	21	2,598.8	2,340.1
Precious metal payables		2,395.5	2,057.9
Other		203.3	282.2
<b>Equity</b>			
<b>Equity attributable to ordinary shareholders</b>			
		1,654.0	1,345.3
Share capital	27	1,083.5	1,083.5
Other equity instruments	28	160.0	160.0
Reserves <sup>1</sup>		410.5	101.8
<b>Total liabilities and equity</b>		<b>22,588.6</b>	<b>26,231.1</b>

<sup>1</sup> The parent company recorded a profit after tax for the year of \$311.2 million (2021: \$96.2 million) (see note 30.12).

The accounting policies and notes on pages 63 to 155 should be read as part of the financial statements.

Approved by the Board of Directors and signed on its behalf on 2 March 2023.

  
W Wang, Chief Executive

  
A Simmonds, Chairman

## Company statement of changes in shareholders' equity

for the year ended 31 December 2022

	Ordinary share capital and share premium \$m	Other equity instruments \$m	Cash flow hedging reserve \$m	FVOCI reserve \$m	Own credit reserve \$m	Retained earnings \$m	Total equity \$m
Balance at 1 January 2021	2,079.5	160.0	14.2	0.9	(0.3)	(974.2)	1,280.1
Total comprehensive gains / (losses) for the year	-	-	(19.3)	0.6	(0.1)	96.2	77.4
Share premium restructure <sup>1</sup>	(996.0)	-	-	-	-	996.0	-
Coupon payment on other equity instruments	-	-	-	-	-	(12.2)	(12.2)
<b>Balance at 31 December 2021</b>	<b>1,083.5</b>	<b>160.0</b>	<b>(5.1)</b>	<b>1.5</b>	<b>(0.4)</b>	<b>105.8</b>	<b>1,345.3</b>
Balance at 1 January 2022	1,083.5	160.0	(5.1)	1.5	(0.4)	105.8	1,345.3
Total comprehensive gains / (losses) for the year	-	-	13.1	(2.5)	(0.9)	311.2	320.9
Coupon payment on other equity instruments	-	-	-	-	-	(12.2)	(12.2)
<b>Balance at 31 December 2022</b>	<b>1,083.5</b>	<b>160.0</b>	<b>8.0</b>	<b>(1.0)</b>	<b>(1.3)</b>	<b>404.8</b>	<b>1,654.0</b>

<sup>1</sup>The share premium restructure took effect in June 2021 involving cancellation of the share premium account and transfer of the balance on that account to retained earnings.

# Company statement of cash flows

for the year ended 31 December 2022

	Note	2022 \$m	2021 \$m
<b>Cash flows (used in) / from operating activities</b>			
Profit before taxation		367.9	117.9
Adjusted for:			
Net interest income <sup>1</sup>		(98.0)	(111.5)
Amortisation of intangible assets		11.0	11.2
Depreciation of property and equipment		15.4	14.9
Non-cash flow movements on fair value hedges		0.9	-
Cash-settled incentive payments		59.5	7.0
Impairment of property and equipment		-	(0.9)
Recoveries on commodity inventory intermediation costs		-	(7.0)
Net credit impairment charges / (releases)		60.8	(2.8)
Restructuring provisions		-	(4.1)
Provisions for leave pay		(1.4)	(0.3)
		416.1	24.4
<b>Changes in operating funds</b>		(1,597.5)	2,149.3
Decrease in income-earning assets	32.1	2,984.5	1,990.1
(Decrease) / increase in interest bearing and non-interest bearing liabilities	32.2	(4,582.0)	159.2
Interest received		243.3	145.4
Interest paid		(149.1)	(23.7)
Corporation and withholding tax paid	32.3	(54.0)	(26.4)
<b>Cash flows (used in) / from operating activities</b>		(1,141.2)	2,269.0
<b>Cash flows used in investing activities</b>			
Capital expenditure on intangible assets		(11.4)	(9.4)
Capital expenditure on property and equipment		(3.7)	(2.9)
<b>Cash flows used in investing activities</b>		(15.1)	(12.3)
<b>Cash flows from / (used in) financing activities</b>			
Proceeds from issuance of subordinated floating rate notes	20	150.0	-
Repayment of subordinated floating rate notes	20	(150.0)	-
Coupon payment on other equity instruments	28	(12.2)	(12.2)
Principal payments on leasehold liabilities		(7.5)	(10.0)
<b>Cash flows used in financing activities</b>		(19.7)	(22.2)
<b>Net (decrease) / increase in cash and cash equivalents</b>		(1,176.0)	2,234.5
<b>Effects of exchange rate changes on cash and cash equivalents</b>		44.2	(19.0)
<b>Cash and cash equivalents at beginning of the year</b>	32.4	6,114.5	3,898.9
<b>Cash and cash equivalents at end of the year</b>	32.4	4,982.7	6,114.5

<sup>1</sup>Includes interest paid on subordinated debt instruments and lease liabilities

# 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 accounting standards in conformity with the requirements of the Companies Act 2006 and in accordance with International Financial Reporting Standards (IFRSs) and interpretations (IFRICs) as issued by the IASB and adopted in the United Kingdom (UK). 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 under the historical cost convention, except for certain financial instruments, and certain non-financial assets and liabilities measured at fair value, as further explained in the respective accounting policies below.

### ***Going concern***

The financial statements have been prepared on a going concern basis as the directors are satisfied that the company and group have the resources to continue in business for a period of at least 12 months from approval of the financial statements. In making this assessment, the directors have considered a wide range of information relating to present and future conditions, the business plan for the next and subsequent three years, which includes the impact of forthcoming regulatory changes, and the ability and willingness of the shareholders to provide support as and when required. This assessment also considered forecasts prepared by the group, which incorporated a combined stress on cash flows and counterbalancing capacity to stress test impacts on capital requirements and liquidity.

The company and group maintain a capital and liquidity position in excess of prudential requirements. The demonstrable ongoing support by the controlling shareholder is an important aspect supporting the going concern assessment. Industrial and Commercial Bank of China Limited (ICBC) has issued a statement of support in favour of the company confirming its position as a long-term investment and as an integral part of the ICBC Group's overall operational strategy, which remains valid until ICBC ceases to be the controlling shareholder. ICBC Group's goal is to develop ICBCS into a major link in the Group's international network, and therefore, it undertakes to support the group's development and growth. ICBC confirms that it intends to financially support the group in ensuring that it meets all financial obligations as they fall due, including the maintenance of a minimum capital adequacy level. Specifically, ICBC intends to provide funding and capital support to the group and commits its intention to subscribe for certain 'qualifying instruments' as and when ICBC receives written notice from the group 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).

Based on the above considerations, the directors have a reasonable expectation that the company and group have adequate resources to continue in operational existence for a period of least 12 months from the date of approval of these financial statements.

### ***Changes in accounting policies***

The accounting policies adopted are consistent with those of the previous year.

## **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 arising from intra-group transactions (except for foreign currency transaction gains and losses), 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 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.

### **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 (the 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, otherwise income and expenses are translated at the exchange rates ruling at the dates of the transactions.

All resulting foreign exchange differences are recognised in other comprehensive income (OCI) and accumulated in a separate component of equity, the foreign currency translation reserve.

When a foreign operation is disposed of or liquidated, 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 or liquidation.

#### ***Transactions and balances***

Foreign currency transactions are translated into the respective functional currencies of group entities at the 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 the income statement, 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 included in the income statement or OCI depending on where the gain or loss on the underlying item is recognised.

The group hedges the variability in cash flows attributable to foreign exchange risk 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 income statement. 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 budget



planning rate. Any differences between the costs translated at the budget planning rate and the rates achieved through hedging and spot translation of the sterling based costs are recognised in other expenses in the income statement.

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.

#### **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.

The group initially recognises loans and advances, repurchase and reverse repurchase agreements at amortised cost, deposits, and subordinated liabilities on the date on which they are originated. All other financial instruments, including regular way purchases and sales of financial assets, are recognised on the trade date, being the date that the group becomes a party to the contractual provisions of the instrument.

##### ***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***

IFRS 9 *Financial Instruments* (IFRS 9) has three classification categories for financial assets as follows:

- i. Amortised cost;
- ii. Fair value through other comprehensive income (FVOCI); and
- iii. 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) on the principal amount outstanding.

##### ***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 on the principal amount outstanding, 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.

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset at initial recognition and 'interest' is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

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:

- i. The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- ii. 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 is measured at FVOCI if both of the following conditions are met:

- i. The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- ii. 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.

**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 on the principal amount outstanding.

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 carried on the balance sheet as assets when their fair value is positive and as liabilities when their fair value is negative.

### **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.

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**

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. There have been no reclassifications of financial assets in the current or prior year.

Financial liabilities are not reclassified subsequent to their initial recognition.

### **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 an individual basis. However, in cases where the group manages a group of financial assets and liabilities according to its net market or credit risk exposure, the fair value of the group of financial instruments is measured on a net basis but the underlying financial assets and liabilities are presented separately in the financial statements, unless they satisfy the IFRS offsetting criteria.

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 observable market data for all significant 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. The fair values of derivative financial instruments are adjusted where appropriate to reflect credit risk (via credit valuation adjustments (CVAs), debit valuation adjustments (DVAs) and funding valuation adjustments (FVAs)), market liquidity and other risks.

#### ***Impairment of financial assets***

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 are integral to the contractual terms of the instrument, 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 12 months after the reporting date (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 consideration of the following:

- 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.

A significant increase in credit risk occurs when any of the following situations arise within the group's internal credit 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 and the credit risk on a financial asset is deemed to have increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the group has reasonable and supportable information that demonstrates otherwise.

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

When calculating the weighted average ECL, the optimistic, neutral and pessimistic scenarios and their weightings are taken into account by the group. These are updated on a six monthly basis, in June and December each year. The scenarios used covered a baseline scenario with 60% weighting, a 'consumer boom' in which the global economy recovers faster than expected but with overheating and inflationary risk with 20% weighting and a 'limited vaccine effectiveness' scenario with 20% weighting in which restrictions are in place longer than expected, delaying recovery.

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.

The construction of point-in-time ("PIT") PD curves involves adjusting S&P implied through-the-cycle (TTC) transition matrices into forward-looking probability of default curves using Moody's expected default frequency (EDF) data – a forward looking model. A mapping is required to move between EDFs (with an implied Moody's rating) and S&P ratings to construct the PIT PD curves consistently. This mapping is based on the Bank's internal "Master Rating Scale". 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.

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 since initial recognition 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 the income statement.

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 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 the income statement. 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 the income statement.

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;
- Entered into at the same time as, and in contemplation of, the debt instrument; or
- 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.

Purchased or originated credit-impaired (POCI) financial assets include financial assets that are purchased or originated at a deep discount that reflects incurred credit losses. This population includes the recognition of a new financial instrument following a renegotiation where concessions have been granted for economic or contractual reasons relating to the borrower's financial difficulty that otherwise would not have been considered, and exposures that arise from a forced close-out in accordance with regulatory requirements. At initial recognition, POCI assets do not carry an impairment allowance; instead, lifetime expected credit losses are incorporated into the calculation of the effective interest rate. All changes in lifetime expected credit losses subsequent to the assets' initial recognition are recognised as an impairment charge.

**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. Cash collateral on exchange traded derivative transactions is presented gross unless the collateral cash flows are always settled net with the derivative cash flows. In certain situations, even though master netting agreements exist, the lack of management intention to settle on a net basis results in the financial assets and liabilities being reported gross on the balance sheet.

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); or
- hedges of variability in cash flows attributable to a recognised asset or liability or a highly probable forecast transaction (cash flow hedges).

At 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 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 the income statement.

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 the income statement 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. The ineffective part of any changes in fair value is recognised immediately in the income statement. Amounts previously recognised in OCI and accumulated in equity are reclassified to the income statement in the periods in which the hedged item affects profit or loss.

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 the income statement. If the forecast transaction is no longer expected to occur, the cumulative gains and losses accumulated in equity are immediately reclassified to the income statement.

**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 the income statement.

**Financial guarantee contracts**

A financial guarantee contract is a contract that requires the group (as 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 issued are initially recognised at fair value, which is generally equal to the premium received. Subsequent to initial recognition, the financial guarantee liability is measured at the higher of the ECL allowance determined in accordance with IFRS 9 and the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.

**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 the income statement.

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 (see below).

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 of a financial asset 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. Other costs or fees incurred as part of the modification of a financial instrument are recognised in profit or loss as part of the gain or loss on extinguishment.

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 the income statement. 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 liability to the counterparty is included under repurchase agreements.

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.

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. For the latter, interest income and expense, and all gains and losses from changes in fair value are included in net gain/loss on non-trading financial assets and liabilities at fair value through profit or loss.

Contracts that are economically equivalent to reverse repurchase or repurchase agreements (such as sales or purchases of debt securities entered into together with total return swaps with the same counterparty) are accounted for similarly to, and presented together with, reverse repurchase or repurchase agreements.

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 the income statement. Income and expenses arising from the securities borrowing and lending business are recognised over the term 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 to the intended buyer 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 net trading revenue in the period of change.

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 net 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 trading assets. The difference between the purchase and sales price is treated as interest and is recognised in net trading revenue along with all other gains and losses from changes in fair value.

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 net 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 lending and borrowing business are recognised over the period of the transactions.

The group enters into prepayment agreements whereby it earns either a fixed return or a variable return linked to commodity prices. The former are recorded as loans and advances, initially recognised at fair value, and subsequently measured at amortised cost using the effective interest method. The latter are recorded as non-trading financial assets at fair value through profit or loss, initially recognised at fair value, and subsequently measured at fair value through profit or loss, with fair value changes recognised in net gain on non-trading financial assets and liabilities at fair value through profit or loss.

Precious metals can be held by the group on an allocated or unallocated basis. Commodities held by the group, which have been allocated to customers, are not recognised on the group's balance sheet.

## **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 day to day 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 5 years) from the date the assets are available for use, and are measured 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 appropriate.

## **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. Residual values, useful lives and the depreciation method applied are

reviewed at each financial year-end and adjusted, if appropriate,.

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**

### **As a lessee**

At the inception of a contract, the group assesses whether the contract is or contains a lease. A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the group uses the definition of a lease in IFRS 16 *Leases*.

The group recognises a right of use asset and a lease liability at the lease commencement date. The right of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset to its original condition, less any lease incentives received.

The right of use asset is subsequently measured at cost less any accumulated depreciation and impairment losses, and is adjusted for certain remeasurements of the lease liability. Depreciation is determined using the straight line method from the commencement date to the end of the lease term, and the group applies IAS 36 *Impairment of Assets* to determine whether the right of use asset is impaired and to account for any impairment loss identified.

The group presents the right of use asset in the balance sheet in the same line item within which the corresponding underlying assets would be presented if they were owned. The group's leases principally relate to properties and are accordingly included in property and equipment in the balance sheet.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, if that rate can be determined, or the group's incremental borrowing rate appropriate for the right-of-use asset arising from the lease.

The lease liability is subsequently measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, or a change in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The group presents the lease liability in other liabilities in the balance sheet.

The group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the group is reasonably certain to exercise such options impacts the lease term, which could significantly affect the amount of lease liabilities and right of use assets recognised.

The group has elected not to recognise right of use assets and lease liabilities for leases of low-value assets and short term leases, i.e. leases that, at the commencement date, have a lease term of 12-months or less. The group recognises the lease payments associated with these leases as an expense on a straight line basis over the lease term.

**As a lessor**

When the group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the group makes an overall assessment whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not then it is an operating lease. As part of this assessment, the group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right of use asset arising from the head lease, not with reference to the underlying asset.

The group is lessor in relation to sub-leases on certain of its properties. These are classified as operating leases under IFRS 16, with the lease asset recognised as part of the right of use asset for the related head lease. Lease payments received on these sub-leases are recognised in profit or loss on a straight line basis over the lease term.

**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.

A provision for restructuring is recognised when the group has approved a detailed and formal restructuring plan and the restructuring either has commenced or has been announced publicly. A restructuring provision includes only the direct expenditures arising from the restructuring, which are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity. Future operating losses are not provided for.

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. The tax consequences of the group's dividend payments (including distributions on other equity instruments), if any, are charged or credited to the statement in which the profit distributed originally arose.

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.

### ***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 the income statement 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. Deferred compensation**

The group operates an annual incentive arrangement that all eligible employees participate in, with a portion of that award being deferred for up to seven years through the quanto stock unit plan and quanto cash awards (together 'the quanto plan'), for employees with an incentive award above a set threshold or that meet certain other criteria. The quanto stock unit plan awards qualifying employees quanto stock units denominated in US dollars for nil consideration. The value of units is based on the ICBC ordinary share price as quoted on the Hong Kong Stock Exchange and the awards are cash settled upon vesting or after a further retention period of six or twelve months. The quanto cash awards provide a conditional right to a payout of a fixed cash amount set on the grant date of the award and are similarly paid upon vesting or after a further retention period of six or twelve months.

The awards, which are granted following Board remuneration committee approval subsequent to year end, vest annually over periods of up to seven years dependent on the employee remaining in service for the period concerned.

The period over which the expense for deferred cash and share awards is recognised is based upon the period employees consider their services contribute to the awards. For past awards, the group accrued the expense of the deferred cash and share awards over the period from the legal grant date to the date that the awards vest. In relation to awards granted from 1 January 2021, the group, taking into account the changing employee understanding surrounding the awards, considered it appropriate to include the relevant performance period before the legal grant date in the vesting period for recognising the expense related to such awards.

The amount of the accrued liability for the deferred cash and share awards is re-measured at the end of each reporting period, taking into account assumptions about potential leavers and the rights given to actual leavers during the year. Changes in the liability are accounted for through the income statement over the life of the quanto awards. Changes in the liability arising from share price movements have been hedged, applying cash flow hedging principles.

**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 the income statement 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 *Revenue from Contracts with Customers* (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.

**Net trading revenue**

Net 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 through profit or loss**

Gains/losses from non-trading financial instruments at fair value through profit or loss includes all gains and losses from changes in the fair value of non-trading financial instruments designated and otherwise mandatorily measured at fair value through profit or loss, 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.

**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 the income statement.

**18. New standards and interpretations not yet adopted**

The IASB has issued a number of new or amended standards and interpretations, which will be effective for

## **Significant accounting policies** continued

annual periods beginning on or after 1 January 2023. The group has not early adopted any of these new or amended standards 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 group's Executive Committee has been determined to be the chief operating decision maker for the group. The group's results comprise two reportable segments, namely Commodities and Fixed Income and Currencies (FIC). As described below, these divisions provide different products and services, and are managed and reported separately based on the group's management and internal reporting structure. Costs are allocated to business units based on relevant cost drivers (such as risk weighted assets and income generating headcount). Segment performance is evaluated based on operating profits or losses and is measured consistently with operating profits or losses in the group's financial statements. The central treasury balance sheet and items not allocable to the business segments are reflected in Other. Income taxes are allocated to segments to the extent they relate to specific transactions (e.g. withholding taxes, tax on recoveries on commodity inventory intermediation), but otherwise are managed on a group basis and included in Other. Information related to each reportable segment is set out below. The information is shown 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.
FIC	The FIC business unit provides a comprehensive range of foreign exchange, money markets, interest rate and credit products. The segment is largely focused on emerging and frontier markets.

2022	Commodities	FIC	Other	Total
Segment results	\$m	\$m	\$m	\$m
Net interest income	36.0	62.5	-	98.5
Net fees and commission	7.0	18.4	-	25.4
Net trading revenue	166.0	234.6	-	400.6
Net gain on non-trading financial assets and liabilities at fair value through profit or loss	5.9	45.8	-	51.7
Recoveries on commodity inventory intermediation	233.7	-	-	233.7
Recoveries on commodity reverse repurchase agreements	-	-	-	-
Total operating income	448.6	361.3	-	809.9
Credit impairment charges	(2.6)	(58.2)	-	(60.8)
Income after credit impairments	446.0	303.1	-	749.1
Operating expenses	(148.4)	(225.2)	0.0	(373.6)
Profit before taxation	297.6	77.9	0.0	375.5
Income tax charge	(34.6)	(10.2)	(13.6)	(58.4)
Profit / (loss) attributable to equity shareholders	263.0	67.7	(13.6)	317.1
Included in operating expenses:				
Depreciation	10.9	7.3	-	18.2
Amortisation of intangible assets	5.0	6.0	-	11.0

2021	Commodities	FIC	Other	Total
Segment results	\$m	\$m	\$m	\$m
Net interest income	23.5	88.5	-	112.0
Net fees and commission	5.4	27.5	-	32.9
Net trading revenue	135.6	125.0	-	260.6
Net gain / (loss) on non-trading financial assets and liabilities at fair value through profit or loss	(0.7)	49.0	-	48.3
Recoveries on commodity inventory intermediation	8.8	-	-	8.8
Recoveries on commodity reverse repurchase agreements	3.4	-	-	3.4
Total operating income	176.0	290.0	-	466.0
Credit impairment recoveries / (charges)	3.9	(1.1)	-	2.8
Income after credit impairments	179.9	288.9	-	468.8
Operating expenses	(139.0)	(210.5)	1.4	(348.1)
Profit before taxation	40.9	78.4	1.4	120.7
Income tax charge	-	(12.8)	(9.3)	(22.1)
Profit / (loss) attributable to equity shareholders	40.9	65.6	(7.9)	98.6
Included in operating expenses:				
Depreciation	10.7	7.2	-	17.9
Amortisation of intangible assets	5.3	5.9	-	11.2

Segment assets and liabilities				
2022				
Total assets	5,637.5	11,180.8	5,809.0	22,627.3
Total liabilities	5,637.5	11,180.8	4,127.0	20,945.3
2021				
Total assets	7,429.1	11,707.1	7,132.3	26,268.5
Total liabilities	7,429.1	11,707.1	5,762.3	24,898.5

**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 and has been prepared in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013, under the framework of the Capital Requirements Directive IV (CRD IV).

Name	Nature of activities	Geographical location	Turnover <sup>1</sup>	Profit / (loss) before tax	Corporation tax paid	Average number of employees
			\$m	\$m	\$m	
<b>2022</b>						
ICBC Standard Bank Plc	Banking	United Kingdom	743.1	356.5	42.1	686
ICBC Standard Bank Plc Hong Kong branch	Banking	Hong Kong	-	-	-	-
ICBC Standard Bank Plc Singapore branch	Banking	Singapore	37.2	11.3	1.2	84
ICBC Standard Resources (China) Limited	Trading	China	4.6	1.3	0.2	10
ICBC Standard NY Holdings, Inc. group	Broker/Dealer	USA	25.0	6.4	0.3	32
Other consolidation eliminations			-	-	-	-
<b>Total</b>			<b>809.9</b>	<b>375.5</b>	<b>43.8</b>	<b>812</b>
<b>2021</b>						
ICBC Standard Bank Plc	Banking	United Kingdom	410.2	111.4	11.4	685
ICBC Standard Bank Plc Hong Kong branch	Banking	Hong Kong	-	(0.1)	-	2
ICBC Standard Bank Plc Singapore branch	Banking	Singapore	30.6	6.7	1.6	81
ICBC Standard Resources (China) Limited	Trading	China	4.0	1.1	-	9
ICBC Standard NY Holdings, Inc. group	Broker/Dealer	USA	21.2	1.5	0.5	35
Other consolidation eliminations			-	0.1	-	-
<b>Total</b>			<b>466.0</b>	<b>120.7</b>	<b>13.5</b>	<b>812</b>

<sup>1</sup>Turnover is defined as accounting revenue, being total operating income, and at the entity level is recorded under the terms of the group's transfer pricing model for taxation.

Summary balance sheet	Total assets	Non-financial assets	Total liabilities	Non-financial liabilities
	\$m	\$m	\$m	\$m
<b>2022</b>				
ICBC Standard Bank Plc	22,541.8	2,987.9	20,930.6	2,597.5
ICBC Standard Bank Plc Singapore branch	54.7	10.9	11.9	11.9
ICBC Standard Resources (China) Limited	17.7	2.6	4.2	2.1
ICBC Standard NY Holdings, Inc. group	38.8	6.6	10.8	10.8
Other consolidation eliminations	(25.7)	(10.1)	(12.2)	(10.1)
<b>Total</b>	<b>22,627.3</b>	<b>2,997.9</b>	<b>20,945.3</b>	<b>2,612.2</b>
<b>2021</b>				
ICBC Standard Bank Plc	26,191.1	4,250.4	24,879.2	2,336.6
ICBC Standard Bank Plc Singapore branch	221.9	185.6	188.4	187.3
ICBC Standard Resources (China) Limited	18.4	1.7	3.2	1.1
ICBC Standard NY Holdings, Inc. group	35.3	8.2	12.3	12.3
Other consolidation eliminations	(198.2)	(182.5)	(184.6)	(182.6)
<b>Total</b>	<b>26,268.5</b>	<b>4,263.4</b>	<b>24,898.5</b>	<b>2,354.7</b>

During the year, the group received public subsidies of US\$94k from the Singapore government under its Jobs Growth Incentive, in relation to the Covid-19 pandemic, (2021: US\$43K)

## 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 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, including the related unrealised gains and losses recognised in income in the period. Additional disclosures on fair value measurements of financial instruments are set out in notes 23 to 25.

### 2.2 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, no provisions are required, in accordance with accounting policy 11. See note 29.3 for further details.

### 2.3 Deferred tax assets (judgement)

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. Recognition 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.

Recognition is based on the evidence available concerning conditions at the reporting date including significant management judgements with respect to 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.

Recent profits in the group are not deemed sufficient on their own to support the probability of future taxable profits and therefore recognise the majority of the deferred tax asset balances. The future remains uncertain given the macro-economic environment and market volatility created by the war in Ukraine, the worldwide energy and cost of living crises and other factors, all of which are expected to continue into the immediate future. As a result, deferred tax assets of US\$228.5 million (2021: US\$299.8 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.

## 3 Cash and balances with central banks

	Group		Company	
	2022	2021	2022	2021
	\$m	\$m	\$m	\$m
Reserve Account with Bank of England <sup>1</sup>	4,856.1	6,056.5	4,856.1	6,056.5

<sup>1</sup>This reserve account operates in the same way as a current account with an overnight contractual tenor.

Notes to the annual financial statements continued

	Group		Company	
	2022	2021	2022	2021
	\$m	\$m	\$m	\$m
<b>4 Due from banks and other financial institutions</b>				
Gross banks and other financial institutions <sup>1</sup>	2,191.3	2,308.3	2,130.1	2,250.6
Credit loss allowances	(9.0)	(1.6)	(9.0)	(1.6)
	<b>2,182.3</b>	<b>2,306.7</b>	<b>2,121.1</b>	<b>2,249.0</b>
<b>Segmental industry analysis</b>				
Due from banks	904.9	1,047.2	843.8	1,016.9
Other financial institutions	1,277.4	1,259.5	1,277.3	1,232.1
	<b>2,182.3</b>	<b>2,306.7</b>	<b>2,121.1</b>	<b>2,249.0</b>
<sup>1</sup> To manage interest rate volatility on certain term loans, the group entered into fair value hedges. Refer to note 7.4.2.				
<b>Included above are the following amounts with related parties:</b>				
Balances with ultimate holding company (ICBC Limited) and subsidiaries and branches	81.1	32.6	50.1	4.4
Balances with shareholder with significant influence (SBG) and subsidiaries and branches	13.3	131.8	13.3	131.8
	<b>94.4</b>	<b>164.4</b>	<b>63.4</b>	<b>136.2</b>
<b>5 Financial assets held for trading</b>				
Government, utility bonds and treasury bills	521.5	1,937.1	521.5	1,937.1
Corporate bonds and floating rate notes	120.4	81.9	120.4	81.9
Reverse repurchase agreements	60.8	436.7	60.8	436.7
	<b>702.7</b>	<b>2,455.7</b>	<b>702.7</b>	<b>2,455.7</b>
<b>6 Non-trading financial assets at fair value through profit or loss</b>				
Debt instruments	2,189.5	1,967.0	2,189.5	1,967.0
Unlisted equities	4.2	5.1	4.2	5.1
	<b>2,193.7</b>	<b>1,972.1</b>	<b>2,193.7</b>	<b>1,972.1</b>

## 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

2022

	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
<b>Gross derivatives held for trading</b>							
<b>Foreign exchange derivatives</b>	(33.5)	16.6	-	(16.9)	1,958.6	(1,975.5)	109,525.6
Forwards	(33.6)	17.0	-	(16.6)	1,939.2	(1,955.8)	106,644.4
Options	0.1	(0.4)	-	(0.3)	19.4	(19.7)	2,881.2
<b>Interest rate derivatives</b>	(90.3)	42.9	(83.8)	(131.2)	4,048.1	(4,179.3)	289,771.8
Caps and floors	(0.1)	-	(0.7)	(0.8)	0.3	(1.1)	333.3
Forwards	1.2	(0.2)	-	1.0	2.3	(1.3)	2,272.8
Futures options	(1.3)	0.9	-	(0.4)	8.2	(8.6)	75,984.0
Swaps	(92.2)	44.9	(83.1)	(130.4)	4,023.8	(4,154.2)	210,393.2
Swaptions	2.1	(2.7)	-	(0.6)	13.5	(14.1)	788.5
<b>Commodity derivatives</b>	(83.6)	(48.8)	-	(132.4)	2,633.4	(2,765.8)	114,090.1
Forwards	123.8	11.0	-	134.8	698.0	(563.2)	30,010.5
Futures	(0.7)	(7.0)	-	(7.7)	1,696.4	(1,704.1)	76,466.6
Options	(7.5)	10.1	-	2.6	27.4	(24.8)	1,540.1
Swaps	(199.2)	(62.9)	-	(262.1)	211.6	(473.7)	6,072.9
<b>Credit derivatives</b>	(5.8)	14.0	(119.8)	(111.6)	104.5	(216.1)	1,950.9
Credit default swaps	(5.3)	(2.4)	(6.5)	(14.2)	13.3	(27.5)	1,100.8
Total return swaps	(0.5)	16.4	(113.3)	(97.4)	91.2	(188.6)	850.1
<b>Total gross derivative assets / (liabilities) held for trading</b>	<b>(213.2)</b>	<b>24.7</b>	<b>(203.6)</b>	<b>(392.1)</b>	<b>8,744.6</b>	<b>(9,136.7)</b>	<b>515,338.4</b>
<b>Gross derivatives held for hedging</b>							
<b>Derivatives designated as cash flow hedges</b>	(0.7)	7.1	(0.1)	6.3	18.2	(11.9)	378.9
Foreign exchange forwards	0.3	8.6	-	8.9	18.2	(9.3)	361.3
Equity options	(1.0)	(1.5)	(0.1)	(2.6)	-	(2.6)	17.6
<b>Derivatives designated as fair value hedges</b>	2.8	(7.3)	5.5	1.0	8.5	(7.5)	274.2
Interest rate swaps	2.8	(7.3)	5.5	1.0	8.5	(7.5)	274.2
<b>Total gross derivative assets / (liabilities) held for hedging</b>	<b>2.1</b>	<b>(0.2)</b>	<b>5.4</b>	<b>7.3</b>	<b>26.7</b>	<b>(19.4)</b>	<b>653.1</b>
<b>Total gross derivative assets / (liabilities)</b>	<b>(211.1)</b>	<b>24.5</b>	<b>(198.2)</b>	<b>(384.8)</b>	<b>8,771.3</b>	<b>(9,156.1)</b>	<b>515,991.5</b>
<b>Offset (Note 26)</b>	-	-	-	-	(3,803.3)	3,803.3	-
<b>Total derivative assets / (liabilities)</b>	<b>(211.1)</b>	<b>24.5</b>	<b>(198.2)</b>	<b>(384.8)</b>	<b>4,968.0</b>	<b>(5,352.8)</b>	<b>515,991.5</b>
<b>Included above are the following amounts with related parties:</b>							
Balances with ultimate holding company (ICBC Limited) and subsidiaries and branches				61.1	511.5	(450.4)	
Balances with shareholder with significant influence (SBG) and subsidiaries and branches				5.2	441.0	(435.8)	

The contract/notional amounts of derivatives indicate the nominal value of transactions outstanding at the balance sheet date. They do not represent amounts at risk.

The company reported derivative assets of US\$4,968.0 million (2021: US\$4,392.1 million) and derivative liabilities of US\$5,352.8 million (2021: US\$5,050.7 million).

**7 Derivative instruments**  
**7.1 Derivative assets and liabilities**

Group

2021

	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
<b>Gross derivatives held for trading</b>							
<b>Foreign exchange derivatives</b>	(2.4)	(3.1)	-	(5.5)	1,269.1	(1,274.6)	95,462.7
Forwards	1.2	(1.9)	-	(0.7)	1,263.9	(1,264.6)	92,957.4
Options	(3.6)	(1.2)	-	(4.8)	5.2	(10.0)	2,505.3
<b>Interest rate derivatives</b>	(128.9)	103.1	3.3	(22.5)	1,869.1	(1,891.6)	124,868.8
Caps and floors	-	(0.2)	(0.8)	(1.0)	2.1	(3.1)	460.4
Forwards	(73.3)	67.0	7.3	1.0	1.0	(0.1)	5,125.5
Futures options	-	-	-	-	0.1	(0.1)	2,555.0
Swaps	(54.8)	36.0	(3.2)	(22.0)	1,853.7	(1,875.7)	115,873.5
Swaptions	(0.8)	0.3	-	(0.5)	12.3	(12.7)	854.4
<b>Commodity derivatives</b>	(428.5)	(43.1)	-	(471.6)	2,898.7	(3,370.3)	121,456.9
Forwards	26.7	(8.3)	-	18.4	648.0	(629.6)	28,014.2
Futures	(59.7)	0.3	-	(59.4)	2,060.3	(2,119.8)	90,834.0
Options	1.3	2.8	-	4.1	32.9	(28.8)	1,876.1
Swaps	(396.8)	(37.9)	-	(434.7)	157.5	(592.2)	732.6
<b>Credit derivatives</b>	18.3	(55.8)	(117.3)	(154.8)	105.9	(260.7)	2,927.7
Credit default swaps	5.7	(7.0)	(9.5)	(10.8)	44.2	(55.0)	1,686.2
Total return swaps	12.6	(48.8)	(107.8)	(144.0)	61.7	(205.7)	1,241.5
<b>Total gross derivative assets / (liabilities) held for trading</b>	(541.5)	1.1	(114.0)	(654.4)	6,142.8	(6,797.2)	344,716.1
<b>Gross derivatives held for hedging</b>							
<b>Derivatives designated as cash flow hedges</b>	(5.3)	(1.7)	(0.2)	(7.2)	-	(7.2)	205.7
Foreign exchange forwards	(4.5)	-	-	(4.5)	-	(4.5)	192.1
Equity options	(0.8)	(1.7)	(0.2)	(2.7)	-	(2.7)	13.6
<b>Derivatives designated as fair value hedges</b>	-	7.2	(4.2)	3.0	8.5	(5.5)	182.7
Interest rate swaps	-	7.2	(4.2)	3.0	8.5	(5.5)	182.7
<b>Total gross derivative assets / (liabilities) held for hedging</b>	(5.3)	5.5	(4.4)	(4.2)	8.5	(12.7)	388.4
<b>Total gross derivative assets / (liabilities)</b>	(546.8)	6.6	(118.4)	(658.6)	6,151.3	(6,809.9)	345,104.5
<b>Offset (Note 26)</b>	-	-	-	-	(1,759.2)	1,759.2	-
<b>Total derivative assets / (liabilities)</b>	(546.8)	6.6	(118.4)	(658.6)	4,392.1	(5,050.7)	345,104.5
<b>Included above are the following amounts with related parties:</b>							
Balances with ultimate holding company (ICBC Limited) and subsidiaries and branches				211.8	386.9	(175.1)	
Balances with shareholder with significant influence (SBG) and subsidiaries and branches				(100.4)	282.5	(382.9)	

Certain comparative amounts have been reclassified to conform to the current year's presentation.

**7 Derivative Instruments** (continued)**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 risks and rewards is effected 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 contracts and 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, swaps and swaptions.

**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, options and swaps.

**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 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 ICBC share price (note 30.10).

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 group's 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 budgeted 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.



## Notes to the annual financial statements continued

### 7 Derivative Instruments (continued)

#### 7.4 Derivatives held for hedging (continued)

##### 7.4.1 Derivatives designated as cash flow hedges (continued)

For cash flow hedges, the following table contains information related to items designated as hedging instruments, hedged items and hedge ineffectiveness:

Group and Company (US\$m/millions)	Hedging instrument					Hedged item		
	Carrying amount <sup>1</sup>		Hedge ineffectiveness					
Hedged risk	Assets	Liabilities	Change in fair value used to calculate hedge ineffectiveness	Change in value of hedging instrument recognised in OCI	Hedge ineffectiveness recognised in profit or loss <sup>2</sup>	Amount recycled from OCI due to hedged item affecting profit or loss <sup>3,4</sup>	Change in value used for calculating hedge ineffectiveness	Cash flow hedge reserve <sup>5</sup>
<b>2022</b>								
Foreign exchange risk	18.2	(9.4)	(7.1)	(7.1)	-	20.5	7.1	8.8
Equity price risk	-	(2.6)	0.1	(0.4)	0.5	0.1	0.4	(0.8)
<b>Total</b>	<b>18.2</b>	<b>(12.0)</b>	<b>(7.0)</b>	<b>(7.5)</b>	<b>0.5</b>	<b>20.6</b>	<b>7.5</b>	<b>8.0</b>
<b>2021</b>								
Foreign exchange risk	-	(4.6)	(3.3)	(3.3)	-	(16.0)	3.3	(4.6)
Equity price risk	-	(2.7)	(0.4)	(0.8)	0.4	1.6	0.8	(0.5)
<b>Total</b>	<b>-</b>	<b>(7.3)</b>	<b>(3.7)</b>	<b>(4.1)</b>	<b>0.4</b>	<b>(14.4)</b>	<b>4.1</b>	<b>(5.1)</b>

1. All hedging instruments are recorded in derivative financial assets or derivative financial liabilities in the balance sheet.

2. All hedge ineffectiveness is recorded in net trading revenue.

3. All amounts transferred from the cash flow hedging reserve into profit or loss are due to hedged items affecting profit or loss. No amounts have been recycled for items where hedge accounting had previously been applied for which hedged future cash flows are no longer expected to occur.

4. Reclassification adjustments are recognised in the income statement in operating expenses, with those relating to foreign exchange risk in other operating expenses and those relating to equity price risk in staff costs.

5. All amounts in the cash flow hedge reserve relate to continuing hedges. There are no amounts in the cash flow hedge reserve for hedging relationships for which hedge accounting is no longer applied.

At 31 December 2022, the group held forward foreign exchange contracts to hedge its budgeted sterling costs with a nominal amount of £306.0 million (US\$369.3 million) (2021: £139.5 million/US\$187.9 million), a maturity of less than two years and an average US Dollar/Sterling exchange rate of 1.18 (2021: 1.38).

The forecast cash flows subject to hedging have a maturity estimate as indicated below:

	Group		Company	
	2022	2021	2022	2021
	\$m	\$m	\$m	\$m
3 months or less	39.7	52.4	39.7	52.4
More than 3 months but less than 1 year	152.3	145.0	152.3	145.0
More than 1 year but less than 5 years	186.3	7.8	186.3	7.8
More than 5 years	0.6	0.6	0.6	0.6
	<b>378.9</b>	<b>205.8</b>	<b>378.9</b>	<b>205.8</b>

**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 and a cross currency swap that are used to mitigate the risk of changes in the fair value of financial instruments as a result of changes in market interest and foreign currency exchange rates.

The financial instruments designated by the group in fair value hedge relationships during the current year comprised certain term loan facilities and sub-ordinated debt issued in April 2022 (see note 20). Certain reverse repurchase agreements also designated in fair value hedge relationships in previous periods, matured during the prior year. 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 and foreign currency exchange rates with changes in the fair value of the interest rate and cross currency 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 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 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 risks being hedged are recognised in the income statement.

For fair value hedges, the following table contains information related to items designated as hedging instruments, hedged items and ineffectiveness:

Group and Company (US\$ millions)	Hedging instrument					Hedged item	
	Carrying amount of hedging instruments <sup>1</sup>		Hedge ineffectiveness <sup>2,3</sup>			Carrying amount of the hedged item <sup>4</sup>	Accumulated amount of fair value hedge adjustment gains/(losses) of hedged items <sup>5,6</sup>
Hedging instrument	Assets	Liabilities	Gains/(losses) on hedging instrument	Gains/(losses) on hedged item	Ineffectiveness	Assets	Liabilities
<b>2022</b>							
<b>Interest rate swaps</b>							
Reverse repurchase agreements	-	-	-	-	-	-	-
Loans and advances to customers	5.7	-	10.1	(9.9)	0.2	104.5	- (11.4)
Due from banks and other financial institutions <sup>7</sup>	2.8	-	(0.6)	0.5	(0.1)	14.9	- (0.2)
Subordinated debt	-	(7.5)	(7.2)	7.2	-	(144.1)	7.2 -
<b>Totals</b>	<b>8.5</b>	<b>(7.5)</b>	<b>2.3</b>	<b>(2.2)</b>	<b>0.1</b>	<b>(24.7)</b>	<b>7.2 (11.6)</b>
<b>2021</b>							
<b>Interest rate swaps</b>							
Reverse repurchase agreements	-	-	25.7	(24.9)	0.8	-	-
Loans and advances to customers	-	(5.5)	2.9	(2.8)	0.1	126.4	- (1.5)
Due from banks and other financial institutions <sup>7</sup>	8.5	-	(2.6)	2.8	0.2	61.9	- (0.7)
<b>Totals</b>	<b>8.5</b>	<b>(5.5)</b>	<b>26.0</b>	<b>(24.9)</b>	<b>1.1</b>	<b>188.3</b>	<b>- (2.2)</b>

1. All hedging instruments are recorded in derivative financial assets or derivative financial liabilities in the balance sheet.

2. All hedge ineffectiveness is recorded in net trading revenue.

3. Gains/(losses) on hedging instrument and hedged item are the amounts used to calculate hedge ineffectiveness.

4. This represents the carrying value on the consolidated balance sheet and comprises amortised cost before allowance for credit losses, plus fair value hedge adjustments.

5. This represents the accumulated fair value hedge adjustment and is a component of the carrying amount of the hedged item.

6. There were no hedges discontinued during the current or prior year.

7. Hedging instrument for item classified as due from banks and other financial institutions is a cross currency swap providing a hedge of interest rate and foreign currency risk.

**7 Derivative Instruments (continued)****7.5 IBOR reform transition**

Following the decision by global regulators to phase out certain benchmark interest rates (IBORs) and replace them with alternative near risk free rates (RFRs), the group established an IBOR implementation project to make the necessary infrastructure, contractual and procedural changes required to meet these IBOR reform requirements. The project is sponsored by the Head of Global Markets and has established a series of work-streams to remediate the group's IBOR trading capabilities and positions, and conversion to the new RFRs.

As at 31 December 2022, the group's LIBOR interest rate risk exposure was solely against USD LIBOR, with exposure to GBP, JPY and CHF LIBOR, and EONIA (Euro Overnight Index Average) having all transitioned to RFRs in 2021 in line with the regulatory cessation deadlines.

During 2022, the group successfully delivered RFR trading capabilities across credit default swaps, floating rate notes, repurchase and reverse repurchase agreements, swaptions, caps and floors.

Following the progress made during 2022, the group will continue to deliver technology and business process changes to ensure scalable operational readiness in preparation for the USD LIBOR cessation and transitions in June 2023 (for all tenors other than 1-week and 2-month USD LIBOR, which ceased from 31 December 2021). The amounts still to transition to alternative benchmarks at 31 December 2022 are summarised in the table below:

	USD LIBOR	
	2022	2021
	\$m	\$m
<b>At 31 December 2022</b>		
Non-derivative financial assets	1,366.0	1,320.0
Non-derivative financial liabilities	491.0	492.0
Derivative notional contract amount	30,775.0	26,032.0

The main risks to the group as a result of IBOR reform are operational and include renegotiation of loan contracts with customers, updating contractual terms, updating systems that use IBOR curves, e.g. valuation systems, and revision of operational controls related to the reform. Financial risk was predominantly limited to interest rate risk. Interest rate benchmark reform has not significantly changed the group's risk management approach and strategy.

# Notes to the annual financial statements continued

	Group		Company	
	2022	2021	2022	2021
	\$m	\$m	\$m	\$m
<b>8 Reverse repurchase agreements</b>				
Measured at amortised cost:	<b>1,143.7</b>	581.5	<b>1,143.7</b>	581.5
Banks and other financial institutions	<b>1,143.9</b>	581.7	<b>1,143.9</b>	581.7
Credit loss allowances	<b>(0.2)</b>	(0.2)	<b>(0.2)</b>	(0.2)
Measured at FVTPL:	<b>1,470.9</b>	1,706.3	<b>1,470.9</b>	1,706.3
Banks and other financial institutions	<b>1,205.4</b>	1,705.1	<b>1,205.4</b>	1,705.1
General governments and non-financial institutions	<b>265.5</b>	1.2	<b>265.5</b>	1.2
	<b>2,614.6</b>	2,287.8	<b>2,614.6</b>	2,287.8

Included above are the following amounts with related parties:

Balances with ultimate holding company (ICBC Limited) and subsidiaries and branches	<b>376.2</b>	-	<b>376.2</b>	-
Balances with shareholder with significant influence (SBG) and subsidiaries and branches	<b>151.2</b>	135.1	<b>151.2</b>	135.1
	<b>527.4</b>	135.1	<b>527.4</b>	135.1

## 9 Loans and advances to customers

Gross loans and advances to customers	<b>822.6</b>	1,611.3	<b>822.6</b>	1,611.3
Demand loans and advances	<b>38.2</b>	38.9	<b>38.2</b>	38.9
Debt securities	-	-	-	-
Term loans <sup>1</sup>	<b>784.4</b>	1,572.4	<b>784.4</b>	1,572.4
Credit loss allowances	<b>(4.0)</b>	(2.6)	<b>(4.0)</b>	(2.6)
	<b>818.6</b>	1,608.7	<b>818.6</b>	1,608.7

## Segmental industry analysis

Governments and public sector organisations	<b>104.5</b>	126.4	<b>104.5</b>	126.4
Manufacturing	<b>9.5</b>	2.0	<b>9.5</b>	2.0
Mining and gas extraction	<b>406.2</b>	346.8	<b>406.2</b>	346.8
Transport	-	100.2	-	100.2
Wholesale	<b>289.7</b>	974.9	<b>289.7</b>	974.9
Other	<b>12.7</b>	61.0	<b>12.7</b>	61.0
	<b>822.6</b>	1,611.3	<b>822.6</b>	1,611.3

<sup>1</sup>To manage interest rate volatility on certain term loans, the group entered into fair value hedges. Refer to note 7.4.2.

## 10 Financial investments

Fair value through other comprehensive income:

Debt securities	<b>1,293.4</b>	925.5	<b>1,293.4</b>	925.5
	<b>1,293.4</b>	925.5	<b>1,293.4</b>	925.5

## 11 Property and equipment

	2022				2021			
	Cost	Accumulated depreciation	Accumulated impairment	Carrying value	Cost	Accumulated depreciation	Accumulated impairment	Carrying value
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Group</b>								
<b>11.1 Summary</b>								
Computer equipment	31.4	(25.1)	-	6.3	28.7	(21.6)	-	7.1
Office equipment	5.6	(5.0)	-	0.6	5.6	(4.7)	-	0.9
Furniture and fittings	18.0	(12.8)	-	5.2	17.8	(11.8)	-	6.0
Right of use lease assets <sup>1</sup>	74.3	(46.8)	(5.0)	22.5	73.4	(35.0)	(5.0)	33.4
	129.3	(89.7)	(5.0)	34.6	125.5	(73.1)	(5.0)	47.4

	2021					2022
	Carrying value	Additions	Disposals	Depreciation charge	Impairment	Carrying value
	\$m	\$m	\$m	\$m	\$m	\$m
<b>11.2 Movement</b>						
Computer equipment	7.1	3.3	(0.2)	(3.9)	-	6.3
Office equipment	0.9	0.1	-	(0.4)	-	0.6
Furniture and fittings	6.0	0.8	-	(1.6)	-	5.2
Right of use lease assets	33.4	1.4	-	(12.3)	-	22.5
	47.4	5.6	(0.2)	(18.2)	-	34.6

	2020					2021
	Carrying value	Additions	Disposals	Depreciation charge	Impairment <sup>2</sup>	Carrying value
	\$m	\$m	\$m	\$m	\$m	\$m
Computer equipment	7.9	2.9	-	(3.7)	-	7.1
Office equipment	1.1	0.2	-	(0.4)	-	0.9
Furniture and fittings	7.8	-	-	(1.8)	-	6.0
Right of use lease assets	41.1	3.4	-	(12.0)	0.9	33.4
	57.9	6.5	-	(17.9)	0.9	47.4

Notes to the annual financial statements continued

	2022				2021			
	Cost	Accumulated depreciation	Accumulated impairment	Carrying value	Cost	Accumulated depreciation	Accumulated impairment	Carrying value
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Company</b>								
<b>11.3 Summary</b>								
Computer equipment	29.5	(23.6)	-	5.9	26.8	(20.0)	-	6.8
Office equipment	4.9	(4.3)	-	0.6	4.9	(4.0)	-	0.9
Furniture and fittings	9.3	(5.7)	-	3.6	8.8	(5.0)	-	3.8
Right of use lease assets <sup>1</sup>	63.4	(40.0)	(5.0)	18.4	63.1	(29.6)	(5.0)	28.5
	107.1	(73.6)	(5.0)	28.5	103.6	(58.6)	(5.0)	40.0
	2021				2022			
	Carrying value	Additions	Disposals	Depreciation charge	Carrying value	Impairment		
	\$m	\$m	\$m	\$m	\$m	\$m		\$m
<b>11.4 Movement</b>								
Computer equipment	6.8	2.9	(0.1)	(3.7)	-	-	-	5.9
Office equipment	0.9	0.1	-	(0.4)	-	-	-	0.6
Furniture and fittings	3.8	0.7	-	(0.9)	-	-	-	3.6
Right of use lease assets	28.5	0.3	-	(10.4)	-	-	-	18.4
	40.0	4.0	(0.1)	(15.4)	-	-	-	28.5
	2020				2021			
	Carrying value	Additions	Disposals	Depreciation charge	Carrying value	Impairment <sup>2</sup>		
	\$m	\$m	\$m	\$m	\$m	\$m		\$m
Computer equipment	7.7	2.7	-	(3.6)	-	-	-	6.8
Office equipment	1.1	0.1	-	(0.3)	-	-	-	0.9
Furniture and fittings	4.7	-	-	(0.9)	-	-	-	3.8
Right of use lease assets	34.3	3.4	-	(10.1)	0.9	0.9	-	28.5
	47.8	6.2	-	(14.9)	0.9	0.9	-	40.0

<sup>1</sup> Right of use lease assets principally relate to leased properties.

<sup>2</sup> During 2021, US\$0.9 million was released from the impairment provision on the group's right of use asset in respect of its London office premises following agreement of a new sub-lease on a portion of the vacant space in those premises.

## Notes to the annual financial statements continued

	Group		Company	
	2022	2021	2022	2021
	\$m	\$m	\$m	\$m
<b>12 Deferred tax assets</b>				
Deferred tax asset recognised	0.6	0.7	-	-
Deferred tax asset not recognised	228.5	299.8	228.5	299.8
<b>12.1 Movements in deferred tax balances</b>				
Group	Opening balance	Recognised in profit or loss	Asset not recognised <sup>1</sup>	Closing balance
	\$m	\$m	\$m	\$m
<b>2022</b>				
Capital allowances	0.2	-	-	0.2
Share-based payments	0.2	0.1	-	0.3
Other short-term temporary differences	0.3	(0.2)	-	0.1
Unused tax losses	-	-	-	-
Total recognised deferred tax	0.7	(0.1)	-	0.6
Total unrecognised deferred tax <sup>2</sup>	299.8	-	(71.3)	228.5
Temporary differences not recognised	37.4	-	(13.3)	24.1
Unused tax losses not recognised <sup>3</sup>	262.4	-	(58.0)	204.4
	300.5	(0.1)	(71.3)	229.1
<b>2021</b>				
Capital allowances	0.2	-	-	0.2
Share-based payments	0.1	0.1	-	0.2
Other short-term temporary differences	0.4	(0.1)	-	0.3
Unused tax losses	-	-	-	-
Total recognised deferred tax	0.7	-	-	0.7
Total unrecognised deferred tax <sup>2</sup>	245.8	-	54.0	299.8
Temporary differences not recognised	31.8	-	5.6	37.4
Unused tax losses not recognised	214.0	-	48.4	262.4
	246.5	-	54.0	300.5

## Notes to the annual financial statements continued

### 12 Deferred tax assets (continued)

#### 12.1 Movements in deferred tax balances (continued)

Company	Opening balance	Recognised in profit or loss	Asset not recognised <sup>1</sup>	Closing balance
2022	\$m	\$m	\$m	\$m
Total recognised deferred tax	-	-	-	-
Total unrecognised deferred tax <sup>2</sup>	299.8	-	(71.3)	228.5
Temporary differences not recognised	37.4	-	(13.3)	24.1
Unused tax losses not recognised	262.4	-	(58.0)	204.4
	299.8	-	(71.3)	228.5
2021	\$m	\$m	\$m	\$m
Total recognised deferred tax	-	-	-	-
Total unrecognised deferred tax <sup>2</sup>	245.5	-	54.3	299.8
Temporary differences not recognised	31.8	-	5.6	37.4
Unused tax losses not recognised	213.7	-	48.7	262.4
	245.5	-	54.3	299.8

<sup>1</sup>Asset not recognised in 2022 is reduced by US\$23.7 million as a result of the change in surcharge rate on banking companies from 8% to 3% (and increase in the surcharge allowance from £25 million to £100 million) with effect from 1 April 2023 which was enacted on 24 February 2022. US\$14.4 million of the change relates to UK tax losses and US\$9.3 million relates to UK temporary differences.

<sup>2</sup>Deferred tax assets have not been recognised by the group in respect of UK gross deductible temporary differences of US\$96.3 million (2021: US\$113.4 million) and gross UK tax losses of US\$817.5 million (2021: \$991.3 million) which can be carried forward indefinitely.



Notes to the annual financial statements continued

	Group		Company	
	2022	2021	2022	2021
	\$m	\$m	\$m	\$m
<b>13 Other assets</b>				
Non-financial assets held for trading - Commodities inventory <sup>1,2</sup>	2,772.2	3,902.1	2,772.2	3,902.1
Precious metals <sup>3</sup>	2,398.4	2,057.6	2,398.4	2,057.6
Allocated inventories	1,311.3	751.9	1,311.3	751.9
Unallocated inventories	1,087.1	1,305.7	1,087.1	1,305.7
Base metals	351.7	1,255.6	351.7	1,255.6
Energy	22.1	588.9	22.1	588.9
Other	185.0	309.7	184.8	308.8
Unsettled dealing balances	45.3	178.2	45.3	178.2
Other receivables	106.3	98.5	106.1	97.6
Intangible assets	33.4	33.0	33.4	33.0
	2,957.2	4,211.8	2,957.0	4,210.9

<sup>1</sup> Non-financial assets held for trading form part of the group's commodities business and are integral to the group's strategy. Commodity inventories include holdings in facilities operated by authorised third parties.

<sup>2</sup> Fair value measurements of commodities inventories comprise US\$2,284.1 million (2021: US\$1,951.5 million) in level 1 of the fair value hierarchy, valued using quoted prices for identical instruments in active markets, and US\$498.1 million (2021: US\$1,950.6 million) in level 2, valued using observable market prices or models where all significant inputs are observable. There are no significant unobservable inputs in the fair value measurement of commodities inventories.

<sup>3</sup> Precious metals inventories consist of the group's own allocated inventories, as well as unallocated inventories, which are a combination of the group's own unallocated inventories and unallocated balances held by the group on behalf of customers, for which there is a corresponding precious metal payables balance reported within other liabilities (see note 21).

Included above are the following amounts due from related parties:

Balances with ultimate holding company (ICBC Limited) and subsidiaries and branches	4.1	34.5	4.1	34.5
Balances with shareholder with significant influence (SBG) and subsidiaries and branches	8.0	95.4	8.0	95.4
	12.1	129.9	12.1	129.9

Precious metals stored by the group for customers are not recognised on the group's balance sheet. The value stored at year end was:

Precious metals - Stored for customers	33,252.0	15,157.9	33,252.0	15,157.9
--	----------	----------	----------	----------

Intangible assets				2022				2021			
				Cost	Accumulated amortisation	Accumulated impairment	Carrying value	Cost	Accumulated amortisation	Accumulated impairment	Carrying value
				\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Group and company											
13.1 Summary											
Computer software				76.2	(44.8)	(5.4)	26.0	57.2	(33.8)	(5.4)	18.0
Work in progress <sup>1</sup>				7.4	-	-	7.4	15.0	-	-	15.0
				83.6	(44.8)	(5.4)	33.4	72.2	(33.8)	(5.4)	33.0
2020				2021				2022			
Carrying value				Amortisation charge (Note 30.8)	Impairment charge	Carrying value	Amortisation charge (Note 30.8)	Impairment charge	Carrying value	Amortisation charge (Note 30.8)	Impairment charge
\$m				\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
13.2 Movement											
Computer software				29.1	-	(11.2)	18.0	19.0	(11.0)	-	26.0
Work in progress <sup>1</sup>				5.7	9.3	-	15.0	11.4	(19.0)	-	7.4
				34.8	9.3	(11.2)	33.0	30.4	(19.0)	(11.0)	33.4

<sup>1</sup> Work in progress relates to strategic software systems currently being developed, which are not amortised as they are not yet available for use.

**14 Investment in group companies**

<b>Company</b>		
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 <sup>2</sup>	% Interest in ordinary shares
ICBC Standard NY Holdings Inc.	Holding company	United States of America	100
ICBC Standard Securities Inc. <sup>1</sup>	Broker / dealer	United States of America	100
ICBC Standard Resources (America) Inc. <sup>1</sup>	Trading company	United States of America	100
ICBC Standard Resources (China) Limited	Trading company	The People's Republic of China	100

<sup>1</sup> Indirectly held - the immediate parent of these entities is ICBC Standard NY Holdings Inc.

<sup>2</sup> Refer to registered address information on page 157.

Notes to the annual financial statements continued

	Group		Company	
	2022	2021	2022	2021
	\$m	\$m	\$m	\$m
<b>15 Financial liabilities held for trading</b>				
Government and utility bonds	238.5	505.0	238.5	505.0
Corporate bonds	1.5	0.5	1.5	0.5
Credit-linked notes	367.0	1,061.0	367.0	1,061.0
Deposits by banks	688.2	-	688.2	-
	<b>1,295.2</b>	<b>1,566.5</b>	<b>1,295.2</b>	<b>1,566.5</b>
<b>Included above are the following amounts with related parties:</b>				
Balances with ultimate holding company (ICBC Limited) and subsidiaries and branches	649.8	-	649.8	-
Balances with shareholder with significant influence (SBG) and subsidiaries and branches	-	-	-	-
	<b>649.8</b>	<b>-</b>	<b>649.8</b>	<b>-</b>
<b>16 Non-trading financial liabilities at fair value through profit or loss</b>				
Debt instruments	2,058.4	2,099.9	2,058.4	2,099.9
Deposits by banks	892.8	-	892.8	-
	<b>2,951.2</b>	<b>2,099.9</b>	<b>2,951.2</b>	<b>2,099.9</b>
<b>Included above are the following amounts with related parties:</b>				
Balances with ultimate holding company (ICBC Limited) and subsidiaries and branches	2,800.1	2,099.9	2,800.1	2,099.9
Balances with shareholder with significant influence (SBG) and subsidiaries and branches	-	-	-	-
	<b>2,800.1</b>	<b>2,099.9</b>	<b>2,800.1</b>	<b>2,099.9</b>
The amount contractually payable on maturity of the debt instruments held at fair value through profit or loss at 31 December 2022 was US\$2,935.7 million, which was US\$15.6 million lower than the balance sheet carrying value (2021: US\$2,098.1 million, which was US\$1.8 million lower than the balance sheet carrying value). The cumulative amount of change in fair value attributable to changes in the group's own credit risk was a loss of US\$1.3 million (2021: US\$0.4 million loss).				
<b>17 Due to banks and other financial institutions</b>				
Due to banks	5,412.9	10,536.6	5,412.9	10,536.6
Other financial institutions	809.0	1,109.9	809.0	1,109.9
	<b>6,221.9</b>	<b>11,646.5</b>	<b>6,221.9</b>	<b>11,646.5</b>
<b>Included above are the following amounts with related parties:</b>				
Balances with ultimate holding company (ICBC Limited) and subsidiaries and branches	3,691.9	6,002.7	3,691.9	6,002.7
Balances with shareholder with significant influence (SBG) and subsidiaries and branches	265.6	370.5	265.6	370.5
	<b>3,957.5</b>	<b>6,373.2</b>	<b>3,957.5</b>	<b>6,373.2</b>
<b>18 Repurchase agreements</b>				
Measured at amortised cost:				
Banks and other financial institutions	341.5	285.5	341.5	285.5
Measured at FVTPL:				
Banks and other financial institutions	188.6	408.1	188.6	408.1
	<b>530.1</b>	<b>693.6</b>	<b>530.1</b>	<b>693.6</b>
<b>Included above are the following amounts with related parties:</b>				
Balances with ultimate holding company (ICBC Limited) and subsidiaries and branches	121.4	150.6	121.4	150.6
Balances with shareholder with significant influence (SBG) and subsidiaries and branches	-	-	-	-
	<b>121.4</b>	<b>150.6</b>	<b>121.4</b>	<b>150.6</b>

Notes to the annual financial statements continued

	Group		Company	
	2022	2021	2022	2021
	\$m	\$m	\$m	\$m
<b>19 Due to customers</b>				
Call deposits	1,149.3	509.4	1,149.3	509.4
Term deposits	587.2	726.4	587.2	726.4
	<b>1,736.5</b>	<b>1,235.8</b>	<b>1,736.5</b>	<b>1,235.8</b>

<b>20 Subordinated debt</b>				
Subordinated floating rate notes 2027 <sup>1</sup>	-	150.0	-	150.0
Subordinated floating rate notes 2029 <sup>2</sup>	100.0	100.0	100.0	100.0
Subordinated fixed rate notes 2032 <sup>3</sup>	142.8	-	142.8	-
Accrued interest	2.6	0.8	2.6	0.8
	<b>245.4</b>	<b>250.8</b>	<b>245.4</b>	<b>250.8</b>
Balances with ultimate holding company (ICBC Limited) and subsidiaries and branches	<b>245.4</b>	<b>250.8</b>	<b>245.4</b>	<b>250.8</b>

<sup>1</sup>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 were fully redeemed on 30 September 2022.

<sup>2</sup>Subordinated bonds with a principal amount of US\$100.0 million and a floating interest rate of 3 month USD Libor plus 2.75% per annum were issued in July 2019. These bonds mature on 31 July 2029.

<sup>3</sup>Subordinated bonds with a principal amount of US\$150.0 million and an initial fixed interest rate of 4.961% per annum for the first five years were issued in April 2022. These bonds mature on 27 April 2032. To manage interest rate volatility, the group entered into a fair value hedge. Refer to note 7.4.2.

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.

<b>21 Other liabilities</b>				
Precious metal payables <sup>1</sup>	2,395.5	2,057.9	2,395.5	2,057.9
Unsettled dealing balances	32.6	120.0	32.2	120.5
Long-term incentive schemes	24.3	21.7	23.1	21.7
Leasehold liabilities	26.3	41.1	21.1	34.7
Restructuring provision	1.6	3.0	1.6	3.0
Other	128.4	109.1	125.3	102.3
	<b>2,608.7</b>	<b>2,352.8</b>	<b>2,598.8</b>	<b>2,340.1</b>

<sup>1</sup> This represents unallocated precious metal balances owed to customers in level 3 of the fair value hierarchy.

Balances with ultimate holding company (ICBC Limited) and subsidiaries and branches	<b>572.0</b>	<b>148.2</b>	<b>571.9</b>	<b>150.5</b>
Balances with shareholder with significant influence (SBG) and subsidiaries and branches	<b>1.3</b>	<b>21.4</b>	<b>1.3</b>	<b>21.4</b>
	<b>573.3</b>	<b>169.6</b>	<b>573.2</b>	<b>171.9</b>

## Notes to the annual financial statements continued

### 22 Leases

The group's leases principally relate to properties occupied by group companies as office space in the various locations in which it operates. For certain properties, the group sub-leases some space to third parties and to other companies within its shareholders' groups. These are all classified as operating leases.

Right of use assets and lease liabilities recognised for leases for which the group is lessee are presented in property and equipment (see note 11) and other liabilities (see note 21) respectively. The amounts recognised in profit or loss in respect of these leases is shown in the table below and the total cash outflow recognised in the statement of cash flows was US\$11.0 million (2021: US\$14.4 million), comprising US\$9.7 million (2021: US\$12.5 million) principal repayments recognised as cash flows from financing activities and US\$1.3 million (2021: US\$1.9 million) interest expense recognised as cash flows from operating activities.

	2022	2021
	\$m	\$m
Depreciation charge of right of use assets (Note 30.8)	12.3	12.0
Interest expense on lease liabilities (Note 30.2)	1.3	1.9
Income from sub-leasing right of use assets	(4.0)	(2.9)

The table below shows the maturity profile of the group's leasehold liabilities based on contractual undiscounted payments:

	2022	2021
	\$m	\$m
Less than one year	13.6	14.8
Between one and five years	11.5	25.9
	25.1	40.7

The undiscounted lease payments to be received for the group's sub-leases are as follows:

	2022	2021
	\$m	\$m
Less than one year	3.4	3.2
One to two years	2.4	3.3
Two to three years	-	2.3
	5.8	8.8

### 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 and credit risk) are hedged against some of the risks, leaving the other risks unhedged. 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.

**23 Estimation of fair values (continued)**

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

The methodology for estimating CVA and DVA as at 31 December 2022 was consistent with that used at 31 December 2021, 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 and negative 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 (including adjustments for 'gap risk' where it is deemed necessary).

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.

## Notes to the annual financial statements continued

### 23 Estimation of fair values (continued)

A summary of the group's valuation adjustments at year end is provided below:

Type of adjustment	2022 \$'m	2021 \$'m
Credit valuation adjustment	10.6	30.7
Debit valuation adjustment	(3.1)	(1.8)
Funding valuation adjustment	(5.2)	1.3
<b>Total valuation adjustments</b>	<b>2.3</b>	<b>30.2</b>
Day-1 profit or loss reserves	41.1	30.0
<b>Total</b>	<b>43.4</b>	<b>60.2</b>

Brackets represents an asset and credit to the income statement

Day-1 profit or loss reserves arise when the fair value estimated by a valuation model is based on one or more significant unobservable inputs. The accounting for day-1 profits or losses is set out in accounting policy 5. The day-1 profit or loss reserve represents the amount that has yet to be recognised in income that relates to the difference between the fair value at initial recognition (the transaction price) and the amount that has arisen due to the valuation models containing unobservable inputs on initial recognition, less amounts subsequently recognised.

### 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.

Notes to the annual financial statements continued

Group <sup>5</sup>	Note	Held-for-trading <sup>1</sup> \$m	Other financial instruments 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 <sup>2</sup> \$m	Total fair value \$m
<b>31 December 2022</b>													
<b>Financial assets measured at fair value</b>													
Financial assets held for trading	5	702.7	-	-	-	-	-	702.7	79.6	471.6	151.5	-	702.7
Non-trading financial assets at fair value through profit or loss <sup>4</sup>	6	-	2,193.7	-	-	-	-	2,193.7	-	2,173.7	20.0	-	2,193.7
Derivative financial assets	7	4,968.0	-	-	-	-	-	4,968.0	544.9	4,306.3	117.8	-	4,968.0
Reverse repurchase agreements	8	-	1,470.9	-	-	-	-	1,470.9	-	1,470.9	-	-	1,470.9
Financial investments	10	-	-	-	1,293.4	-	-	1,293.4	1,293.4	-	-	-	1,293.4
		5,670.7	3,664.6	-	1,293.4	-	-	10,628.7	1,917.9	8,421.5	289.3	-	10,628.7
<b>Financial assets carried at amortised cost<sup>3</sup></b>													
Cash and balances with central banks <sup>2</sup>	3	-	-	4,856.1	-	-	-	4,856.1	-	-	-	4,856.1	4,856.1
Due from banks and other financial institutions	4	-	-	2,182.3	-	-	-	2,182.3	-	-	2,047.6	134.3	2,181.9
Reverse repurchase agreements	8	-	-	1,143.7	-	-	-	1,143.7	-	1,143.4	-	-	1,143.4
Loans and advances to customers	9	-	-	818.6	-	-	-	818.6	-	-	818.2	-	818.2
Other financial assets		-	-	44.0	-	-	-	44.0	-	-	44.0	-	44.0
		-	-	9,044.7	-	-	-	9,044.7	-	1,143.4	2,909.8	4,990.4	9,043.6
Other non-financial assets		2,772.2	-	-	-	-	181.7	2,953.9	-	-	-	-	-
<b>Total assets</b>		<b>8,442.9</b>	<b>3,664.6</b>	<b>9,044.7</b>	<b>1,293.4</b>	<b>-</b>	<b>181.7</b>	<b>22,627.3</b>					
<b>Financial liabilities measured at fair value</b>													
Financial liabilities held for trading	15	1,295.2	-	-	-	-	-	1,295.2	109.6	997.0	188.6	-	1,295.2
Non-trading financial liabilities at fair value through profit or loss	16	-	2,951.2	-	-	-	-	2,951.2	-	2,951.2	-	-	2,951.2
Derivative financial liabilities	7	5,352.8	-	-	-	-	-	5,352.8	658.6	4,492.8	201.4	-	5,352.8
Repurchase agreements	18	-	188.6	-	-	-	-	188.6	-	188.6	-	-	188.6
		6,648.0	3,139.8	-	-	-	-	9,787.8	768.2	8,629.6	390.0	-	9,787.8
<b>Financial liabilities carried at amortised cost<sup>3</sup></b>													
Due to banks and other financial institutions	17	-	-	-	-	6,221.9	-	6,221.9	-	-	6,232.1	-	6,232.1
Repurchase agreements	18	-	-	-	-	341.5	-	341.5	-	342.0	-	-	342.0
Due to customers	19	-	-	-	-	1,736.5	-	1,736.5	-	-	1,736.4	-	1,736.4
Subordinated debt	20	-	-	-	-	245.4	-	245.4	-	-	252.5	-	252.5
		-	-	-	-	8,545.3	-	8,545.3	-	342.0	8,221.0	-	8,563.0
Other non-financial liabilities	21	2,395.5	-	-	-	-	216.7	2,612.2	-	-	-	-	-
<b>Total liabilities</b>		<b>9,043.5</b>	<b>3,139.8</b>	<b>-</b>	<b>-</b>	<b>8,545.3</b>	<b>216.7</b>	<b>20,945.3</b>					

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

<sup>1</sup>Includes derivative assets and liabilities held for hedging. Refer to note 7.4.

<sup>2</sup>Represents cash and cash equivalents.

<sup>3</sup>The fair value of financial instruments carried on the balance sheet at amortised cost is generally estimated by discounting the expected cash flows at a market discount rate adjusted for the credit spread of the obligor or, where not observable, the credit spread of borrowers of similar credit quality. In most cases, fair value approximates carrying value as instruments are short term, have interest rates that reprice frequently and/or are fully or substantially collateralised.

<sup>4</sup>All non-trading financial assets at fair value through profit or loss are mandatorily measured at fair value through profit or loss in accordance with IFRS 9.

<sup>5</sup>There are no material differences between group and company.

Group <sup>5</sup>	Note	Held-for-trading <sup>1</sup> \$m	Other financial instruments 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 <sup>2</sup> \$m	Total fair value \$m
<b>31 December 2021</b>													
Financial assets measured at fair value													
Financial assets held for trading	5	2,455.7	-	-	-	-	-	2,455.7	440.6	2,014.8	0.3	-	2,455.7
Non-trading financial assets at fair value through profit or loss <sup>4</sup>	6	-	1,972.1	-	-	-	-	1,972.1	-	1,967.0	5.1	-	1,972.1
Derivative financial assets	7	4,392.1	-	-	-	-	-	4,392.1	697.6	3,524.4	170.1	-	4,392.1
Reverse repurchase agreements	8	-	1,706.4	-	-	-	-	1,706.4	-	1,706.4	-	-	1,706.4
Financial investments	10	-	-	-	925.5	-	-	925.5	925.5	-	-	-	925.5
		8,554.2	1,972.1	-	925.5	-	-	11,451.8	2,063.7	9,212.6	175.5	-	11,451.8
Financial assets carried at amortised cost <sup>3</sup>													
Cash and balances with central banks <sup>2</sup>	3	-	-	6,056.5	-	-	-	6,056.5	-	-	-	6,056.5	6,056.5
Due from banks and other financial institutions	4	-	-	2,306.7	-	-	-	2,306.7	-	-	2,240.8	65.9	2,306.7
Reverse repurchase agreements	8	-	-	581.4	-	-	-	581.4	-	582.2	-	-	582.2
Loans and advances to customers	9	-	-	1,608.7	-	-	-	1,608.7	-	-	1,608.7	-	1,608.7
Other financial assets		-	-	1.0	-	-	-	1.0	-	-	1.0	-	1.0
		-	-	10,554.3	-	-	-	10,554.3	-	582.2	3,850.5	6,122.4	10,555.1
Other non-financial assets		3,902.1	-	-	-	-	360.3	4,262.4	-	-	-	-	-
<b>Total assets</b>		<b>12,456.3</b>	<b>1,972.1</b>	<b>10,554.3</b>	<b>925.5</b>	<b>-</b>	<b>360.3</b>	<b>26,268.5</b>					
Financial liabilities measured at fair value													
Financial liabilities held for trading	15	1,566.5	-	-	-	-	-	1,566.5	2.4	1,474.9	89.2	-	1,566.5
Non-trading financial liabilities at fair value through profit or loss	16	-	2,099.9	-	-	-	-	2,099.9	-	2,099.9	-	-	2,099.9
Derivative financial liabilities	7	5,050.7	-	-	-	-	-	5,050.7	757.8	4,069.3	223.6	-	5,050.7
Repurchase agreements	18	-	408.0	-	-	-	-	408.0	-	408.0	-	-	408.0
		6,617.2	2,507.9	-	-	-	-	9,125.1	760.2	8,052.1	312.8	-	9,125.1
Financial liabilities carried at amortised cost <sup>3</sup>													
Due to banks and other financial institutions	17	-	-	-	-	11,646.5	-	11,646.5	-	-	11,666.7	-	11,666.7
Repurchase agreements	18	-	-	-	-	285.6	-	285.6	-	285.6	-	-	285.6
Due to customers	19	-	-	-	-	1,235.8	-	1,235.8	-	-	1,235.8	-	1,235.8
Subordinated debt	20	-	-	-	-	250.8	-	250.8	-	-	266.0	-	266.0
		-	-	-	-	13,418.7	-	13,418.7	-	285.6	13,168.5	-	13,454.1
Other non-financial liabilities	21	2,057.9	-	-	-	-	296.8	2,354.7	-	-	-	-	-
<b>Total liabilities</b>		<b>8,675.1</b>	<b>2,507.9</b>	<b>-</b>	<b>-</b>	<b>13,418.7</b>	<b>296.8</b>	<b>24,898.5</b>					

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

<sup>1</sup>Includes derivative assets and liabilities held for hedging. Refer to note 7.4.

<sup>2</sup>Represents cash and cash equivalents.

<sup>3</sup>The fair value of financial instruments carried on the balance sheet at amortised cost is generally estimated by discounting the expected cash flows at a market discount rate adjusted for the credit spread of the obligor or, where not observable, the credit spread of borrowers of similar credit quality. In most cases, fair value approximates carrying value as instruments are short term, have interest rates that reprice frequently and/or are fully or substantially collateralised.

<sup>4</sup>All non-trading financial assets at fair value through profit or loss are mandatorily measured at fair value through profit or loss in accordance with IFRS 9.

<sup>5</sup>There are no material differences between group and company.



## 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		Level 3	
			2022 \$m	2021 \$m	2022 \$m	2021 \$m
Net derivative instruments	Discounted cash flow model (DCF)	Interest rate curve, credit curve, repurchase curve, recovery level, bond price, gap risk, exit cost, FX rate	(196.9)	(541.6)	(80.1)	(52.7)
	Black Scholes model	Equity volatility, FX volatility, interest rate curve, credit curve	9.4 (187.5)	(3.3) (544.9)	(3.5) (83.6)	(0.8) (53.5)
Financial assets held for trading	DCF	Bond Price, recovery level, interest rate curve, credit curve	471.6	2,014.8	151.5	0.3
Non-trading financial assets at fair value through profit or loss	DCF	Bond Price, recovery level, interest rate curve, credit curve	2,173.7	1,967.0	15.7	-
	Other	Share price, net asset value	-	-	4.3	5.1
			2,173.7	1,967.0	20.0	5.1
Reverse repurchase agreements	DCF	Repurchase curve, interest rate curve	1,470.9	1,706.4	-	-
Financial liabilities held for trading	DCF	Interest rate curve, credit curve, bond price	(997.0)	(1,474.9)	(188.6)	(89.2)
Non-trading financial liabilities at fair value through profit or loss	DCF	Interest rate curve, credit curve	(2,951.2)	(2,099.9)	-	-
Repurchase agreements	DCF	Repurchase curve, interest rate curve	(188.6)	(408.0)	-	-
			(208.1)	1,160.5	(100.7)	(137.3)

## 25.2 Reconciliation of level 3 financial instruments

2022 Group <sup>1</sup>	Net derivative instruments \$m	Financial assets held for trading \$m	Non-trading financial assets at fair value through profit or loss \$m	Financial liabilities held for trading \$m	Total \$m
Balance at beginning of the year	(53.5)	0.3	5.1	(89.2)	(137.3)
Total gains / (losses) included in net trading revenue	(211.0)	1.6	0.3	(3.1)	(212.2)
- Realised	5.2	55.3	-	(8.3)	52.2
- Unrealised	(216.2)	(53.7)	0.3	5.2	(264.4)
Purchases	10.3	129.1	14.6	(48.9)	105.1
Issues	-	-	-	-	-
Sales	(9.1)	(55.3)	-	24.0	(40.4)
Settlements	-	-	-	-	-
Transfers into level 3 <sup>2</sup>	(1.0)	75.8	-	(71.4)	3.4
Transfers out of level 3 <sup>3</sup>	180.7	-	-	-	180.7
Balance at end of the year	(83.6)	151.5	20.0	(188.6)	(100.7)

2021 Group <sup>1</sup>	Net derivative instruments \$m	Financial assets held for trading \$m	Non-trading financial assets at fair value through profit or loss \$m	Financial liabilities held for trading \$m	Total \$m
Balance at beginning of the year	22.7	38.4	5.6	(94.0)	(27.3)
Total gains / (losses) included in net trading revenue	(46.3)	(14.3)	(0.5)	4.8	(56.3)
- Realised	34.7	(14.0)	(0.8)	-	19.9
- Unrealised	(81.0)	(0.3)	0.3	4.8	(76.2)
Purchases	3.7	(2.1)	-	-	1.6
Issues	-	-	-	-	-
Sales	(61.6)	(4.9)	-	-	(66.5)
Settlements	-	-	-	-	-
Transfers into level 3 <sup>2</sup>	16.1	-	-	-	16.1
Transfers out of level 3 <sup>3</sup>	11.9	(16.8)	-	-	(4.9)
Balance at end of the year	(53.5)	0.3	5.1	(89.2)	(137.3)

<sup>1</sup> There are no material differences between group and company.

<sup>2</sup> The inputs of certain valuation models became unobservable and consequently the fair values were transferred into level 3.

<sup>3</sup> The inputs of certain valuation models became observable and consequently the fair values were transferred out of level 3.

## 25 Financial instruments measured at fair value (continued)

## 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:

Group <sup>1</sup>	Main assumptions	Range of estimates for unobservable input	
		2022	2021
Net derivative instruments	Interest rate curve, credit curve, repurchase curve, recovery level, bond price, gap risk, exit cost, FX rate	Less than 1% to 27.3%	Less than 1% to 13.4%
Financial assets held for trading	Bond Price, recovery level	0 to 103.9	0 to 80
Non-trading financial assets at fair value through profit or loss	Bond Price, recovery level	0 to 5.4	0 to 80
	Credit curve	2.9% to 3.1%	N/A
	Share price, net asset value	10%	10%
Financial liabilities held for trading	Credit curve, interest rate curve, correlation	2.9% to 8.8%	Less than 1% to 12.2%
	Bond price	96.5 to 103.9	N/A
	Net asset value	10%	10%

<sup>1</sup>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.

Group <sup>1</sup>	Main assumptions	Effect recorded in profit or loss			
		2022		2021	
		Favourable \$m	(Adverse) \$m	Favourable \$m	(Adverse) \$m
Net derivative instruments	Interest rate curve, credit curve, repurchase curve, recovery level, bond price, gap risk, exit cost, FX rate, interest rate curve, credit curve	1.9	(1.9)	30.3	(30.3)
Financial assets held for trading	Bond Price, recovery level	12.1	(12.1)	0.1	(0.1)
Non-trading financial assets at fair value through profit or loss	Bond price, recovery level, credit curve, share price, net asset value	0.9	(0.9)	0.5	(0.5)
Financial liabilities held for trading	Credit curve, interest rate curve, correlation, bond price, net asset value	13.4	(13.4)	4.2	(4.2)

<sup>1</sup>There are no material differences between group and company.

**26 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\$3,803.3 million was offset in the current year (2021: US\$1,759.2 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	Amounts offset in the balance sheet		Amounts that could be offset in the event of counterparty default <sup>1</sup>			Net amount
	Gross \$m	\$m	Net amounts included in the balance sheet \$m	Non-cash collateral received / pledged \$m	Cash collateral received / pledged \$m	
<b>2022</b>						
<b>Assets in scope</b>						
Derivative financial assets	8,771.3	(3,803.3)	4,968.0	(3,892.2)	(666.4)	409.4
Commodity reverse repurchase agreements	60.8	-	60.8	(60.8)	-	-
Reverse repurchase agreements	2,614.6	-	2,614.6	(2,614.6)	-	-
<b>Total financial assets in scope</b>	<b>11,446.7</b>	<b>(3,803.3)</b>	<b>7,643.4</b>	<b>(6,567.6)</b>	<b>(666.4)</b>	<b>409.4</b>
<b>Liabilities in scope</b>						
Derivative financial liabilities	9,156.1	(3,803.3)	5,352.8	(3,892.2)	(613.2)	847.4
Repurchase agreements	530.1	-	530.1	(530.1)	-	-
<b>Total financial liabilities in scope</b>	<b>9,686.2</b>	<b>(3,803.3)</b>	<b>5,882.9</b>	<b>(4,422.3)</b>	<b>(613.2)</b>	<b>847.4</b>

Financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements	Amounts offset in the balance sheet		Amounts that could be offset in the event of counterparty default <sup>1</sup>			Net amount
	Gross \$m	\$m	Net amounts presented in the balance sheet \$m	Non-cash collateral received / pledged \$m	Cash collateral received / pledged \$m	
<b>2021</b>						
<b>Assets in scope</b>						
Derivative financial assets	6,151.3	(1,759.2)	4,392.1	(1,907.8)	(494.3)	1,990.0
Commodity reverse repurchase agreements	436.7	-	436.7	(436.7)	-	-
Reverse repurchase agreements	2,287.8	-	2,287.8	(2,287.8)	-	-
<b>Total financial assets in scope</b>	<b>8,875.8</b>	<b>(1,759.2)</b>	<b>7,116.6</b>	<b>(4,632.3)</b>	<b>(494.3)</b>	<b>1,990.0</b>
<b>Liabilities in scope</b>						
Derivative financial liabilities	6,809.9	(1,759.2)	5,050.7	(1,907.8)	(661.6)	2,481.3
Repurchase agreements	693.6	-	693.6	(693.6)	-	-
<b>Total financial liabilities in scope</b>	<b>7,503.5</b>	<b>(1,759.2)</b>	<b>5,744.3</b>	<b>(2,601.4)</b>	<b>(661.6)</b>	<b>2,481.3</b>

<sup>1</sup>Represents netting arrangements that can be applied in the event of default, together with collateral held against exposures.

## Notes to the annual financial statements continued

	2022	2021
	\$m	\$m
<b>27 Ordinary share capital and share premium</b>		
<b>Issued and fully paid</b>		
1,083,458,378 ordinary shares of US\$1 each (2021: 1,083,458,378)	<b>1,083.5</b>	1,083.5

## 28 Other Equity instruments

The additional tier 1 (AT1) securities (Notes) issued in December 2019 are perpetual, with no fixed redemption date, callable by the issuer in its sole and absolute discretion (in whole, but not in part) after five-years or any date thereafter at their par value plus accrued but unpaid interest. The Notes are subordinate to any existing tier 2 instruments issued by ICBCS and senior to its ordinary shares. They pay interest annually for five-years at a fixed rate of 7.617 per cent and subsequently pay interest quarterly in perpetuity at a floating rate of three-month US dollar Libor plus 436 basis points. Interest payments are non-cumulative, payable at the sole and absolute discretion of the issuer and will be mandatorily cancelled to the extent required if there are insufficient distributable reserves to make payment. The Notes include a write down feature, whereby their full principal amount and all accrued but unpaid interest will be written down to zero if ICBCS's fully loaded common equity tier 1 ratio falls below 7.0 per cent. The company paid a coupon on the AT1 securities of US\$12.2 million in December 2022 (2021: US\$12.2 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.

### 29.2 Restructuring provision

The restructuring provision was created in 2019 with the commencement of the reorganisation of the group's activities and operations as described in note 30.14. The restructuring was completed during 2020, with the exception of the closure of the Hong Kong branch, which was completed in August 2021. The movement in the provision is summarised below.

	Restructuring provision
	\$m
1 January 2022	<b>3.0</b>
Arising during the year	-
Utilised	<b>(1.4)</b>
<b>31 December 2022</b>	<b>1.6</b>

The remaining provision at 31 December 2022 relates to property related costs in relation to rates and service charges for the vacant space in the group's London office premises, which will be utilised over the remaining term of the lease for that property, which expires in September 2024.

### 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 its business operations. While there is inherent uncertainty in predicting the outcome of these matters, management believe that based upon current knowledge, no provisions are required for such matters in accordance with accounting policy 11. The key legal proceedings currently being pursued against the group are summarised below:

- The group is defending a putative class action lawsuit filed in New York in November 2014 against it and a number of other institutions for unquantified damages arising from an alleged conspiracy to manipulate and rig the global benchmark prices for physical platinum and palladium, and related derivative financial products.
- In February 2017, the South African Competition Commission filed a referral affidavit with the South African Competition Tribunal alleging collusive behaviour in the trading of foreign currency pairs involving the Rand between 2007 and 2013. The allegations are made against over twenty institutions, including ICBCS's US subsidiaries.
- In August 2021, a putative class action lawsuit was filed in New York against ViacomCBS Inc (Viacom) and the 21 underwriters to its common and mandatory convertible preferred stock offerings in March 2021. ICBCS was an underwriter to the mandatory convertible preferred stock offering. The complaint alleges a failure to disclose the risk posed to Viacom's stock price by a portfolio of total return swaps held by Archegos Capital Management (Archegos), which had collapsed in March 2021. ICBCS had no relationship with Archegos.

## Notes to the annual financial statements continued

	2022	2021
	\$m	\$m
<b>Group</b>		
<b>30 Supplementary income statement information</b>		
<b>30.1 Interest income<sup>1</sup></b>		
Interest on loans and advances and short-term funds	237.3	131.6
Interest on FVOCI instruments	17.5	3.5
	<b>254.8</b>	<b>135.1</b>
<sup>1</sup> All interest income reported above relates to financial assets not carried at fair value through profit or loss.		
<b>Included above are the following amounts receivable from related parties:</b>		
Transactions with ultimate holding company (ICBC Limited) and subsidiaries and branches	1.0	-
Transactions with shareholder with significant influence (SBG) and subsidiaries and branches	1.4	0.5
	<b>2.4</b>	<b>0.5</b>
<b>30.2 Interest expense<sup>1</sup></b>		
Subordinated debt	15.2	8.8
Other interest-bearing liabilities <sup>2</sup>	141.1	14.3
	<b>156.3</b>	<b>23.1</b>
<sup>1</sup> All interest expense reported above relates to financial liabilities not carried at fair value through profit or loss, and leasehold liabilities.		
<sup>2</sup> Interest expense net of charge to net trading revenue as per accounting policy 15.		
<b>Included above are the following amounts payable to related parties:</b>		
Transactions with ultimate holding company (ICBC Limited) and subsidiaries and branches	90.9	16.3
Transactions with shareholder with significant influence (SBG) and subsidiaries and branches	7.1	3.2
	<b>98.0</b>	<b>19.5</b>

## Notes to the annual financial statements continued

### 30 Supplementary income statement information (continued)

	2022	2021
	\$m	\$m
<b>30.3 Non-interest revenue</b>		
Net fees and commission <sup>1</sup>	25.4	32.9
Net trading revenue	400.6	260.6
- Commodities	166.0	135.6
- FIC	234.6	125.0
Net gain on non-trading financial assets and liabilities at fair value through profit or loss	51.7	48.3
Recoveries on commodity inventory intermediation (note 30.5)	233.7	8.8
Recoveries on commodity reverse repurchase agreements (note 30.4)	-	3.4
	<b>711.4</b>	<b>354.0</b>

<sup>1</sup>Includes revenue sharing arrangements on transactions with ICBC companies include receipts of US\$5.0 million (2021: US\$6.1 million), and payments of US\$5.1 million (2021: US\$7.7 million). Revenue sharing arrangements on transactions with SBG companies include receipts of US\$12.9 million (2021: US\$8.9 million). There were no payments to SBG companies in 2022 (2021: US\$nil).

#### Included above are the following amounts with related parties:<sup>2</sup>

Transactions with ultimate holding company (ICBC Limited) and subsidiaries and branches	(11.0)	1.8
Transactions with shareholder with significant influence (SBG) and subsidiaries and branches	21.6	16.8
	<b>10.6</b>	<b>18.6</b>

<sup>2</sup>Comparatives have been restated to conform to the current year's presentation.

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
<b>Commodities</b>	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 leased 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.
<b>FIC</b>	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.

**30 Supplementary income statement information (continued)**

The group's debt capital markets (DCM) business provides various finance related services, including debt underwriting and other advisory services. Fees received for these services are transaction based.

Revenue related to transactions in the group's DCM 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.

The following table provides information about receivables and contract liabilities from contracts with customers:

	2022	2021
	\$m	\$m
Receivables, included in other assets	21.1	8.0
Contract liabilities, included in other liabilities	(3.8)	(3.5)

The contract receivables principally relate to vaulting and clearing services provided by the group and sales credits due to the group on revenue sharing arrangements on certain transactions with ICBC and SBG group companies. All amounts due at year end had been recognised in revenue. The contract liabilities primarily relate to fees payable to other ICBC group companies under revenue sharing arrangements relating to transactions undertaken by the group's debt capital markets business and fees payable for vaulting and clearing services received by the group.



**30 Supplementary income statement information (continued)****30.4 Recoveries on commodity reverse repurchase agreements**

In 2014, the group recognised a loss on a series of commodity financing transactions (reverse repurchase agreements) due to fraudulent activities in respect of physical aluminium held as collateral in bonded warehouses in China. During 2021, the group received its final recoveries from this incident of US\$3.4 million. There were no further recoveries in 2022.

**30.5 Recoveries on commodity inventory intermediation**

In 2019, the group incurred material losses on its commodity inventory intermediation activities following a fire at a client's oil refinery site and their subsequent bankruptcy. In January 2022, the US Bankruptcy Court approved a settlement agreement with the client's insurers in respect of the business interruption insurance claims. The approval of this settlement accounted for the majority of the US\$233.7 million compensation received in the year for the losses incurred as a result of this incident.

**30.6 Credit impairment (charges) / recoveries**

	2022 \$m	2021 \$m
<b>Stage 1: 12-month ECL</b>	<b>(2.4)</b>	<b>(0.7)</b>
Reverse repurchase agreements	-	-
Due from banks and other financial institutions	0.1	(0.6)
Loans and advances to customers	(1.4)	0.4
Commitments and financial guarantees given	(1.1)	(0.5)
<b>Stage 2: Lifetime ECL - not credit-impaired</b>	<b>(3.5)</b>	<b>(0.2)</b>
Loans and advances to customers	-	0.1
Due from banks and other financial institutions	(3.5)	(0.3)
<b>Stage 3: Lifetime ECL - credit-impaired</b>	<b>(4.1)</b>	<b>3.7</b>
Loans and advances to customers	-	3.7
Due from banks and other financial institutions	(4.1)	-
<b>Purchased or Originated Credit Impaired (POCI)</b>	<b>(50.8)</b>	<b>-</b>
Other assets	(50.8)	-
<b>Net credit impairment (charges) / recoveries</b>	<b>(60.8)</b>	<b>2.8</b>
<b>30.7 Staff costs</b>		
Salaries and allowances	186.7	178.3
Other direct staff costs	21.2	19.4
Long-term incentive schemes	7.0	9.7
Retirement benefit costs	9.0	8.7
	<b>223.9</b>	<b>216.1</b>

## Notes to the annual financial statements continued

### 30 Supplementary income statement information (continued)

	2022	2021
	\$m	\$m
<b>30.8 Other operating expenses</b>		
<b>Auditors' remuneration</b>	<b>4.4</b>	<b>3.8</b>
Audit of ICBC Standard Bank Plc company	3.7	2.9
Audit of subsidiaries <sup>1</sup>	0.4	0.3
Audit related assurance services	0.3	0.6
<b>Depreciation</b>	<b>18.2</b>	<b>17.9</b>
Computer equipment	3.9	3.7
Office equipment	0.4	0.4
Furniture and fittings	1.6	1.8
Right of use lease assets	12.3	12.0
<b>Information technology and communication</b>	<b>47.4</b>	<b>33.7</b>
<b>Infrastructure and IT development costs</b>	<b>27.8</b>	<b>35.0</b>
Resource Costs	17.5	12.9
Amortisation of intangible assets	11.0	11.2
Technology, communication and market data	0.3	9.3
Other expenses (incl. R&D tax reclaim)	(1.0)	1.6
<b>Premises</b>	<b>6.8</b>	<b>6.4</b>
<b>Other expenses</b>	<b>43.3</b>	<b>31.0</b>
	<b>147.9</b>	<b>127.7</b>

<sup>1</sup>Includes US\$0.3 million (2021: US\$0.2 million) in respect of fees for audit services to firms other than Deloitte.

### 30.9 Indirect taxation

Value added tax	0.5	5.7
Excise duty	1.3	-
	<b>1.8</b>	<b>5.7</b>

**30 Supplementary income statement information (continued)****30.10 Deferred compensation**

The provision in respect of liabilities under the group's deferred compensation scheme amounts to US\$29.6 million (quanto stock units US\$14.0 million, deferred cash US\$15.6 million) at 31 December 2022 (2021: US\$26.6 million), and the charge for the year is US\$12.3 million (quanto stock units US\$6.2 million, deferred cash US\$6.1 million; 2021: US\$14.6million, quanto stock units US\$6.1 million and deferred cash US\$8.5 million). The change in liability due to changes in the ICBC share price is hedged through the use of equity options designated as cash flow hedges (see note 7.4.1).

The provision amount at 31 December 2022 related to fully vested quanto stock unit awards was US\$3.7 million (2021: US\$3.8 million). There were no fully vested deferred cash awards that were unpaid at 31 December 2022 (2021: nil).

	2022	2021
ICBC quanto stock units	Units	Units
Units outstanding at beginning of the year	2,570,189	1,575,939
Granted	2,692,874	2,193,352
Exercised	(1,523,613)	(1,194,263)
Leavers / lapses	(34,079)	(4,839)
<b>Units outstanding at end of the year</b>	<b>3,705,371</b>	<b>2,570,189</b>
Of which relates to key management	552,167	403,688

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

	2022	2021
Expiry year <sup>1</sup>	Units <sup>2</sup>	Units <sup>3</sup>
2021	-	634,941
2022	795,487	594,514
2023	803,536	466,397
2024	811,391	448,095
2025	559,617	188,984
2026	421,805	170,820
2027	215,945	34,218
2028	64,905	32,220
2029	32,685	-
	<b>3,705,371</b>	<b>2,570,189</b>

<sup>1</sup>The units vest at various intervals between the reporting date and the expiry date, the above table does not include units awarded on 1 March 2023.

<sup>2</sup>Excludes units awarded on 1 March 2023 for the performance period ended 31 December 2022.

<sup>3</sup>Excludes units awarded on 1 March 2022 for the performance period ended 31 December 2021.

**30 Supplementary income statement information (continued)****30.10 Deferred compensation**

Deferred awards of US\$17.8 million (2021: US\$15.1 million) have been approved for issue in March 2023. This is split into quanto stock unit awards of US\$8.9 million (2021: US\$7.5 million) and deferred cash awards of US\$8.9 million (2021: US\$7.6 million).

The unrecognised compensation cost related to all unvested awards amounts to US\$21.1 million (2021: US\$17.2 million). The quanto stock units element of this is US\$10.5 million (2021: US\$8.2 million), with US\$10.6 million being deferred cash awards (2021: US\$9.0 million). These represent the accumulated amount deferred on awards issued and approved. The vesting of these awards in the income statement is expected to occur as follows:

	2022	2021
	\$m	\$m
Year ending 31 December 2022	-	8.0
Year ending 31 December 2023	9.6	4.8
Year ending 31 December 2024	5.9	2.5
Year ending 31 December 2025	3.3	1.3
Year ending 31 December 2026	1.5	0.5
Year ending 31 December 2027	0.6	0.1
Year ending 31 December 2028	0.2	-
Year ending 31 December 2029	0.0	-
	<b>21.1</b>	<b>17.2</b>

## Notes to the annual financial statements continued

### 30 Supplementary income statement information (continued)

#### 30.11 Directors' emoluments

Directors <sup>1,2,3</sup>	2022	2021
	\$m	\$m
Emoluments of directors in respect of services rendered		
Emoluments <sup>4</sup>	3.5	3.8
Proceeds from exercise of share-based incentives	0.5	0.1
Highest paid director		
Emoluments	1.1	1.1
Proceeds from exercise of share-based incentives	0.1	-

<sup>1</sup> Compensation relates to services rendered to the group. In addition, US\$ nil was paid on the group's behalf by entities consolidated into the ultimate holding company (ICBC Limited) and the shareholder with significant influence (SBG) (2021: nil).

<sup>2</sup> No pension contributions were paid on behalf of directors for 2022 and 2021.

<sup>3</sup> The number of directors to whom retirement benefits were accruing under defined contribution plans in respect of qualifying services for 2022

<sup>4</sup> Directors' emoluments are paid in sterling and totalled £3.0 million for 2022 (2021: £2.7 million).

	2022	2021
Long-term benefits under the ICBC quanto stock unit plan	Units	Units
Number of units brought forward	220,483	36,994
Issued during the year	163,368	193,689
Exercised	(100,745)	(10,200)
As at 31 December	283,106	220,483

#### 30.12 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 profit of US\$311.2 million (2021: US\$96.2 million) has been included in the consolidated income statement.

#### 30.13 Dividends

No dividends on ordinary shares were declared in 2022 (2021: US\$ nil).

**30.14 Restructuring costs**

In 2019, the group commenced a restructuring of its business activities and associated operations, which involved closure of its equities and investment banking businesses (excluding DCM), and overseas branches in Hong Kong, Tokyo and Dubai. A broader review of the group's overall headcount was also undertaken to align with its revised strategic objectives following the restructuring. The restructuring programme was completed in 2020, except for the closure of the Hong Kong branch which was completed in August 2021. As detailed in note 29.2, previously provided restructuring costs of US\$1.4 million were utilised during 2022, principally in relation to property related costs.

## Notes to the annual financial statements continued

	2022	2021
	\$m	\$m
<b>31 Income tax charge</b>		
<b>Current year tax charge</b>	<b>(58.1)</b>	<b>(22.2)</b>
- UK current tax	<b>(44.1)</b>	<b>(7.8)</b>
- Overseas withholding tax	<b>(10.2)</b>	<b>(12.9)</b>
- Overseas current tax	<b>(3.5)</b>	<b>(1.4)</b>
- Overseas deferred tax	<b>(0.3)</b>	<b>(0.1)</b>
<b>Prior years</b>	<b>(0.3)</b>	<b>0.1</b>
- UK current tax	<b>(0.2)</b>	<b>0.1</b>
- Overseas tax	<b>(0.3)</b>	<b>(0.1)</b>
- Overseas deferred tax	<b>0.2</b>	<b>0.1</b>
<b>Total tax charge</b>	<b>(58.4)</b>	<b>(22.1)</b>

### UK tax rate reconciliation

The UK corporation tax rate for the year ended 31 December 2022 was 19% (2021: 19%). The difference between the actual tax charge and the tax that would result from applying the standard UK corporation tax rate to the group's profit before tax is explained below.

	2022	2021
	\$m	\$m
<b>Profit before taxation</b>	<b>375.5</b>	<b>120.7</b>
Tax charge at the standard rate of 19% (2021: 19%)	<b>(71.3)</b>	<b>(22.9)</b>
<b>Effects of:</b>		
Banking surcharge	<b>(11.6)</b>	<b>(2.0)</b>
Net impact of overseas tax <sup>1</sup>	<b>(8.3)</b>	<b>(10.5)</b>
Impact of changes in foreign exchange rates	<b>(3.2)</b>	<b>(0.1)</b>
Adjustment to tax in respect of prior years	<b>(0.3)</b>	<b>0.1</b>
Non-deductible expenses	<b>(0.2)</b>	<b>(0.5)</b>
Different tax rates in other countries	<b>(0.2)</b>	<b>-</b>
Tax relief on payments made under AT1 instruments <sup>2</sup>	<b>2.3</b>	<b>2.3</b>
Origination / reversal of temporary differences not recognised	<b>1.8</b>	<b>3.1</b>
Utilisation of tax losses for which no deferred tax was recognised	<b>32.6</b>	<b>8.4</b>
<b>Tax (charge) / credit included in the income statement</b>	<b>(58.4)</b>	<b>(22.1)</b>
<b>Effective tax rate (%)</b>	<b>15.6</b>	<b>18.3</b>

<sup>1</sup> Mostly relates to interest income received by the company which 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.

<sup>2</sup> The Company's AT1 coupon payments are tax deductible. Following an amendment to IAS 12 effective 1 January 2019, the income tax consequences of tax deductible distributions, including AT1 coupon payments, are recorded in the income statement tax expense.

An increase in the standard rate of UK corporation tax from 19% to 25% with effect from 1 April 2023 was enacted on 10 June 2021. A reduction in the rate of bank surcharge from 8% to 3% (and an increase in the surcharge allowance from £25 million to £100 million) with effect from 1 April 2023 was enacted on 24 February 2022. These changes will impact the current tax charge for the group in future periods.

**32 Notes to the cash flow statement**

	Group		Company	
	2022	2021	2022	2021
	\$m	\$m	\$m	\$m
<b>32.1 Decrease in income-earning assets</b>				
Financial assets held for trading	1,753.0	(268.1)	1,753.0	(268.1)
Non-trading financial assets at fair value through profit or loss	(221.6)	(0.6)	(221.6)	(0.6)
Loans and advances <sup>1</sup>	627.9	467.2	631.6	469.7
Other assets	1,192.6	1,131.7	1,191.9	1,144.5
Financial investments	(370.4)	644.6	(370.4)	644.6
	2,981.5	1,974.8	2,984.5	1,990.1

<sup>1</sup>Consists of Due from banks and other financial institutions, Reverse repurchase agreements and Loans and advances to customers.

<b>32.2 (Decrease) / Increase in interest bearing and non-interest bearing liabilities</b>				
Deposits <sup>1</sup>	(5,080.5)	(181.2)	(5,080.5)	(181.2)
Net derivative instruments	(281.3)	179.6	(281.3)	179.6
Financial liabilities held for trading	(271.3)	(49.3)	(271.3)	(49.3)
Non-trading financial liabilities at fair value through profit or loss	850.4	31.6	850.4	31.6
Other liabilities	192.8	173.5	200.7	178.5
	(4,589.9)	154.2	(4,582.0)	159.2

<sup>1</sup>Consists of Due to banks and other financial institutions, Repurchase agreements and Due to customers.

<b>32.3 Corporation and withholding tax paid</b>				
Amounts unpaid at beginning of the year	1.6	(3.6)	1.4	(3.6)
Income tax charge	(58.4)	(22.1)	(56.6)	(21.7)
Non-cash movements	4.2	0.3	3.9	0.3
Amounts unpaid / (receivable) at end of the year	(2.0)	(1.6)	(2.7)	(1.4)
	(54.6)	(27.0)	(54.0)	(26.4)

<b>32.4 Cash and cash equivalents</b>				
Balances with central banks	4,856.1	6,056.5	4,856.1	6,056.5
Other cash equivalents <sup>1</sup>	134.3	66.0	126.6	58.0
<b>Cash and cash equivalents at end of the year</b>	<b>4,990.4</b>	<b>6,122.5</b>	<b>4,982.7</b>	<b>6,114.5</b>

<sup>1</sup>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.

<b>32.5 Reconciliation of liabilities arising from financing activities</b>				<b>2022</b>
	Opening	Cash flow	Non-cash flow	Closing
	balance	movements	movements	balance
<b>Group and company</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>
Subordinated debt	250.8	-	(5.4)	245.4
<b>Total</b>	<b>250.8</b>	<b>-</b>	<b>(5.4)</b>	<b>245.4</b>
				<b>2021</b>
	Opening	Cash flow	Non-cash flow	Closing
	balance	movements	movements	balance
<b>Group and company</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>	<b>\$m</b>
Subordinated debt	250.8	-	-	250.8
<b>Total</b>	<b>250.8</b>	<b>-</b>	<b>-</b>	<b>250.8</b>



**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, and on substantially the same terms, including interest rates and security, as for comparable transactions with third party counterparties. 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 deposits of precious metal holdings, as well as the deposit of excess liquidity by other entities within the group. The extent of these activities is presented in notes 15, 16, 17, 18, 20 and 21. 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 and 8. Balances arising from derivative transactions are shown in note 7.1.

**33.3 Risk mitigation transactions**

The group has entered into certain equity risk mitigation transactions with Standard Bank of South Africa Limited (SBSA), whereby SBSA provides risk mitigation to the group. Under IFRS, the equity exposures are not derecognised and the related liabilities to SBSA are accordingly recognised on balance sheet. The equity asset outstanding at 31 December 2022 was US\$2.2 million (2021: US\$2.3 million) and is included in non-trading financial assets at fair value through profit or loss as part of the unlisted equities balance (see note 6).

**33.4 Key management compensation**

Key management comprises directors of ICBCS and members of the executive committee.

	2022	2021
	\$m	\$m
Salaries and other short-term benefits	5.8	5.5
Long-term incentives recognised in the income statement	1.7	1.7
<b>Amounts included in the income statement</b>	<b>7.5</b>	<b>7.2</b>
<b>Proceeds on exercise of long-term incentives</b>	<b>0.9</b>	<b>0.4</b>

There were no other transactions with key management in 2022 (2021: nil).

The average key management consists of 15 employees (2021: 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\$9.0 million (2021: US\$8.7 million). There were no outstanding contributions at the end of the reporting period (2021: 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, which would require disclosure in the group's financial statements.

Notes to the annual financial statements continued

36 Maturity analysis

The group assesses the maturity of its assets and liabilities at 31 December each year. This gives an indication of the remaining life of these assets and liabilities at that point in time. The following table illustrates the maturities based on a contractual discounted basis. For the maturity analysis of financial liabilities on a contractual undiscounted basis, refer to the 'Structural Requirements' section, within the Liquidity Risk section (note 37.6).

Group - 31 December 2022

	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
<b>Assets</b>									
Cash and balances with central banks	4,856.1	-	-	-	-	-	-	-	4,856.1
Due from banks and other financial institutions	1,441.3	60.0	15.1	63.5	114.1	488.3	-	-	2,182.3
Financial assets held for trading	11.1	38.3	44.6	62.9	61.7	220.5	263.6	-	702.7
Non-trading financial assets at fair value through profit or loss	-	107.4	78.1	-	1,988.2	15.7	-	4.3	2,193.7
Derivative financial assets	50.0	997.4	1,136.5	638.5	752.1	1,041.5	352.0	-	4,968.0
Reverse repurchase agreements	256.0	644.5	1,286.3	88.7	192.7	146.4	-	-	2,614.6
Loans and advances to customers	259.2	-	-	-	42.6	372.0	144.8	-	818.6
Financial investments	5.2	-	85.2	199.5	374.4	582.5	46.6	-	1,293.4
Property and equipment	-	-	-	-	-	-	-	34.6	34.6
Current tax assets	-	-	-	-	-	-	-	5.5	5.5
Deferred tax assets	-	-	-	-	-	-	-	0.6	0.6
Other assets	141.0	4.2	0.2	-	-	-	0.6	2,811.2	2,957.2
<b>Total assets</b>	<b>7,019.9</b>	<b>1,851.8</b>	<b>2,646.0</b>	<b>1,053.1</b>	<b>3,525.8</b>	<b>2,866.9</b>	<b>807.6</b>	<b>2,856.2</b>	<b>22,627.3</b>
<b>Liabilities</b>									
Financial liabilities held for trading	2.2	60.7	280.1	286.5	260.5	315.9	89.3	-	1,295.2
Non-trading financial liabilities at fair value through profit or loss	-	-	-	-	2,061.3	889.9	-	-	2,951.2
Derivative financial liabilities	21.4	1,004.5	1,079.5	831.0	849.3	1,017.0	550.1	-	5,352.8
Due to banks and other financial institutions	1,743.7	988.8	234.0	56.4	79.5	3,115.9	3.6	-	6,221.9
Repurchase agreements	-	188.5	278.8	-	-	62.8	-	-	530.1
Due to customers	1,359.5	344.9	10.1	22.0	-	-	-	-	1,736.5
Current tax liabilities	-	-	-	-	-	-	-	3.5	3.5
Subordinated debt	-	-	-	-	-	-	245.4	-	245.4
Other liabilities	2,543.9	2.5	-	-	-	0.2	1.6	60.5	2,608.7
<b>Total liabilities</b>	<b>5,670.7</b>	<b>2,589.9</b>	<b>1,882.5</b>	<b>1,195.9</b>	<b>3,250.6</b>	<b>5,401.7</b>	<b>890.0</b>	<b>64.0</b>	<b>20,945.3</b>

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

Notes to the annual financial statements continued

36 Maturity analysis

Company - 31 December 2022

	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
<b>Assets</b>									
Cash and balances with central banks	4,856.1	-	-	-	-	-	-	-	4,856.1
Due from banks and other financial institutions	1,380.1	60.0	15.1	63.5	114.1	488.3	-	-	2,121.1
Financial assets held for trading	11.1	38.3	44.6	62.9	61.7	220.5	263.6	-	702.7
Non-trading financial assets at fair value through profit or loss	-	107.4	78.1	-	1,988.2	15.7	-	4.3	2,193.7
Derivative financial assets	50.0	997.4	1,136.5	638.5	752.1	1,041.5	352.0	-	4,968.0
Reverse repurchase agreements	256.0	644.5	1,286.3	88.7	192.7	146.4	-	-	2,614.6
Loans and advances to customers	259.2	-	-	-	42.6	372.0	144.8	-	818.6
Financial investments	5.2	-	85.2	199.5	374.4	582.5	46.6	-	1,293.4
Property and equipment	-	-	-	-	-	-	-	28.5	28.5
Current tax assets	-	-	-	-	-	-	-	5.4	5.4
Deferred tax assets	-	-	-	-	-	-	-	-	-
Other assets	141.0	4.2	0.2	-	-	-	0.6	2,811.0	2,957.0
Investment in group companies	-	-	-	-	-	-	-	29.5	29.5
<b>Total assets</b>	<b>6,958.7</b>	<b>1,851.8</b>	<b>2,646.0</b>	<b>1,053.1</b>	<b>3,525.8</b>	<b>2,866.9</b>	<b>807.6</b>	<b>2,878.7</b>	<b>22,588.6</b>
<b>Liabilities</b>									
Financial liabilities held for trading	2.2	60.7	280.1	286.5	260.5	315.9	89.3	-	1,295.2
Non-trading financial liabilities at fair value through profit or loss	-	-	-	-	2,061.3	889.9	-	-	2,951.2
Derivative financial liabilities	21.4	1,004.5	1,079.5	831.0	849.3	1,017.0	550.1	-	5,352.8
Due to banks and other financial institutions	1,743.7	988.8	234.0	56.4	79.5	3,115.9	3.6	-	6,221.9
Repurchase agreements	-	188.5	278.8	-	-	62.8	-	-	530.1
Due to customers	1,359.5	344.9	10.1	22.0	-	-	-	-	1,736.5
Current tax liabilities	-	-	-	-	-	-	-	2.7	2.7
Subordinated debt	-	-	-	-	-	-	245.4	-	245.4
Other liabilities	2,536.1	2.5	-	-	-	0.2	1.6	58.4	2,598.8
<b>Total liabilities</b>	<b>5,662.9</b>	<b>2,589.9</b>	<b>1,882.5</b>	<b>1,195.9</b>	<b>3,250.6</b>	<b>5,401.7</b>	<b>890.0</b>	<b>61.1</b>	<b>20,934.6</b>

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

Notes to the annual financial statements continued

36 Maturity analysis

Group - 31 December 2021

	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
<b>Assets</b>									
Cash and balances with central banks	6,056.5	-	-	-	-	-	-	-	6,056.5
Due from banks and other financial institutions	1,454.0	56.4	162.3	116.6	50.3	467.1	-	-	2,306.7
Financial assets held for trading	19.1	445.2	113.4	39.1	192.7	762.9	883.3	-	2,455.7
Non-trading financial assets at fair value through profit or loss	-	-	-	-	1,967.1	-	-	5.0	1,972.1
Derivative financial assets	60.2	628.6	770.4	480.3	687.3	1,182.1	583.2	-	4,392.1
Reverse repurchase agreements	724.7	787.1	638.2	56.5	9.0	72.3	-	-	2,287.8
Loans and advances to customers	518.6	323.4	172.6	114.5	37.8	343.2	98.6	-	1,608.7
Financial investments	5.2	157.0	50.0	-	101.1	612.2	-	-	925.5
Property and equipment	-	-	-	-	-	-	-	47.4	47.4
Current tax assets	-	-	-	-	-	-	-	3.5	3.5
Deferred tax assets	-	-	-	-	-	-	-	0.7	0.7
Other assets	272.9	-	-	-	-	0.1	0.2	3,938.6	4,211.8
<b>Total assets</b>	<b>9,111.2</b>	<b>2,397.7</b>	<b>1,906.9</b>	<b>807.0</b>	<b>3,045.3</b>	<b>3,439.9</b>	<b>1,565.3</b>	<b>3,995.2</b>	<b>26,268.5</b>
<b>Liabilities</b>									
Financial liabilities held for trading	2.3	2.2	205.1	142.8	134.8	412.3	667.0	-	1,566.5
Non-trading financial liabilities at fair value through profit or loss	-	-	-	-	2,099.9	-	-	-	2,099.9
Derivative financial liabilities	55.9	721.2	815.6	646.7	812.3	1,267.2	731.8	-	5,050.7
Due to banks and other financial institutions	1,721.0	4,559.1	754.6	202.2	828.0	3,577.2	4.4	-	11,646.5
Repurchase agreements	37.3	179.3	414.5	-	-	62.5	-	-	693.6
Due to customers	509.5	453.1	273.2	-	-	-	-	-	1,235.8
Current tax liabilities	-	-	-	-	-	-	-	1.9	1.9
Subordinated debt	-	-	-	-	-	-	250.8	-	250.8
Other liabilities	2,218.0	66.4	2.0	-	0.1	0.2	0.2	65.9	2,352.8
<b>Total liabilities</b>	<b>4,544.0</b>	<b>5,981.3</b>	<b>2,465.0</b>	<b>991.7</b>	<b>3,875.1</b>	<b>5,319.4</b>	<b>1,654.2</b>	<b>67.8</b>	<b>24,898.5</b>

Notes to the annual financial statements continued

36 Maturity analysis

Company - 31 December 2021

	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
<b>Assets</b>									
Cash and balances with central banks	6,056.5	-	-	-	-	-	-	-	6,056.5
Due from banks and other financial institutions	1,396.3	56.4	162.3	116.6	50.3	467.1	-	-	2,249.0
Financial assets held for trading	19.1	445.2	113.4	39.1	192.7	762.9	883.3	-	2,455.7
Non-trading financial assets at fair value through profit or loss	-	-	-	-	1,967.1	-	-	5.0	1,972.1
Derivative financial assets	60.2	628.6	770.4	480.3	687.3	1,182.1	583.2	-	4,392.1
Reverse repurchase agreements	724.7	787.1	638.2	56.5	9.0	72.3	-	-	2,287.8
Loans and advances to customers	518.6	323.4	172.6	114.5	37.8	343.2	98.6	-	1,608.7
Financial investments	5.2	157.0	50.0	-	101.1	612.2	-	-	925.5
Property and equipment	-	-	-	-	-	-	-	40.0	40.0
Current tax assets	-	-	-	-	-	-	-	3.3	3.3
Deferred tax assets	-	-	-	-	-	-	-	-	-
Other assets	272.2	-	-	-	-	0.1	0.2	3,938.4	4,210.9
Investment in group companies	-	-	-	-	-	-	-	29.5	29.5
<b>Total assets</b>	<b>9,052.8</b>	<b>2,397.7</b>	<b>1,906.9</b>	<b>807.0</b>	<b>3,045.3</b>	<b>3,439.9</b>	<b>1,565.3</b>	<b>4,016.2</b>	<b>26,231.1</b>
<b>Liabilities</b>									
Financial liabilities held for trading	2.3	2.2	205.1	142.8	134.8	412.3	667.0	-	1,566.5
Non-trading financial liabilities at fair value through profit or loss	-	-	-	-	2,099.9	-	-	-	2,099.9
Derivative financial liabilities	55.9	721.2	815.6	646.7	812.3	1,267.2	731.8	-	5,050.7
Due to banks and other financial institutions	1,721.0	4,559.1	754.6	202.2	828.0	3,577.2	4.4	-	11,646.5
Repurchase agreements	37.3	179.3	414.5	-	-	62.5	-	-	693.6
Due to customers	509.5	453.1	273.2	-	-	-	-	-	1,235.8
Current tax liabilities	-	-	-	-	-	-	-	1.9	1.9
Subordinated debt	-	-	-	-	-	-	250.8	-	250.8
Other liabilities	2,207.2	66.4	2.0	-	0.1	0.2	0.2	64.0	2,340.1
<b>Total liabilities</b>	<b>4,533.2</b>	<b>5,981.3</b>	<b>2,465.0</b>	<b>991.7</b>	<b>3,875.1</b>	<b>5,319.4</b>	<b>1,654.2</b>	<b>65.9</b>	<b>24,885.8</b>

## 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.

### 37.2 Risk management framework

#### **Governance structure**

Overall responsibility for risk management within the group rests with the Board of Directors (the Board). Day-to-day responsibility is delegated to the Executive Committee and other Board sub-committees.

Accountability for risk management resides at all levels across the organisation, as set out by the 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 risk management and compliance functions, which are independent of line management within the business units. The third line consists of internal audit, which provides an independent assessment on the adequacy and effectiveness of the group's overall system of internal control and risk governance structures.

#### **Risk policies and procedures**

Frameworks, policies, and procedures are in place to manage each major risk type. These set out minimum requirements for management of risk, and promote consistency of risk management methods.

#### **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.

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;
- regularly reviewing and monitoring performance in relation to risk through quarterly Board reports; and
- conducting forward-looking analysis of risk measures compared with risk appetite under 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 in relation to the following metrics: earnings at risk; economic capital; regulatory capital; liquidity; and unacceptable risk. These metrics are converted into limits and triggers appropriate to the relevant risk types.

#### **Stress testing (unaudited)**

The group's stress testing framework supports the regular execution of stress tests at the business unit and legal entity levels. The overall stress testing programme, incorporating credit, market, operational and liquidity risk, is a key management tool facilitating a forward-looking perspective of risk in relation to business performance.

Stress tests are used to manage the group's risk profile proactively, to plan and manage capital and liquidity, and as an input into the strategic business planning process. They are an integral component of the group's internal capital adequacy assessment process (ICAAP), and are used to assess and manage the adequacy of regulatory and economic capital.

Management conducts stress testing on a daily basis to assess the impact on the group's funding and liquidity position. Internal stress testing is used to model severe idiosyncratic, market-wide and combined stress scenarios and 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 and reviewed at least annually. Management reviews the results of the stress tests and evaluates the need for mitigating actions, including modifications to risk limits, reducing levels of business, and limiting exposures through hedging activities.

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;
- communication with internal and external stakeholders; and
- assessment of the impact of changes in short-term macroeconomic factors on the group's performance.

During 2022 the group performed stress tests based on internal group defined scenarios with the most severe scenario comparable, to the January 2021 Bank of England Solvency Stress Test. The scenarios used by ICBCS were an "Emerging Market Sovereign Debt Crisis", "Global Financial Crisis – Solvency Stress test", and a "Carbon Tax". The "Emerging Market Sovereign Debt Crisis" examined the impact of a developed market inflationary surge with consequent Emerging Market risk-off event. The "Global Financial Crisis" was based on the Bank of England's solvency stress test in severity and theme, but applied against an updated baseline, and explored a synchronised global economic shock. The "Carbon Tax" explores the impact of an accelerated transition to net-zero emissions through a coordinated implementation of a carbon import tax by advanced economies.

The stress test scenarios will be updated in early 2023 in line with the normal annual process, with additional scenarios considered should there be material change in the global economic outlook.

The group also conducts reverse stress testing to complement the stress testing programme described above. Reverse stress testing identifies those scenarios that could threaten the ongoing stability of the group, and inform what action should be taken to mitigate this risk.

### **Risk profile**

The group's trading activities comprise both own account and customer related business. These 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 include loans and advances, deposits and debt securities.

### **37.3 Risk categories**

The principal risks to which the group is exposed and which it manages are described in the table that follows. This is not an exhaustive list of all potential risks facing the group, but rather those which management believes may have a significant impact on its business performance and future prospects.

Risk Type	Mitigating Actions
<p><b>Credit Risk</b></p> <p>Credit risk is the risk of loss from failure of counterparties to meet their financial or contractual obligations when due.</p> <ul style="list-style-type: none"> <li>Counterparty risk – loss arising from a counterparty being unwilling or unable to meet its financial or contractual obligations when due. This includes primary (lending) risk, pre-settlement (trading) risk and issuer risk in the banking book.</li> <li>Credit concentration – loss arising from an excessive concentration of exposure, inter alia, to a single counterparty, counterparty segment, industry, country or geography.</li> <li>Contingent risk is the risk that approved credit risk mitigation techniques applied prove to be less effective than expected. Exit (in relation to physical commodities), gap and credit insurance risk are components of contingent risk, although gap risk is largely a “hybrid” between market and credit risk.</li> </ul> <p>A counterparty could be exposed to climate-related risk either through physical or transition risks.</p>	<p>The group manages credit risk by:</p> <ul style="list-style-type: none"> <li>maintaining a culture of responsible risk taking and an established risk policy and control framework;</li> <li>identifying, assessing and measuring credit risk clearly and accurately across the group;</li> <li>defining, implementing and re-evaluating risk appetite under actual and stress conditions;</li> <li>monitoring credit risk relative to limits;</li> <li>ensuring expert scrutiny and independent approval of credit risks and their mitigation;</li> <li>the Credit Limit Appetite Guideline (‘CLAG’) which links the amounts of unsecured credit risk the group is willing to accept against any single entity consistent with the group’s underlying risk appetite statement; and</li> <li>operating the Notional Inventory Risk Framework (‘NIRF’) - a set of commodity product/grade triggers that are a measurement of the quantum of exchange liquidity available for hedging and/or physical delivery of commodity inventories against their respective hedging benchmarks. The framework includes single counterparty triggers per underlying commodity.</li> <li>Additionally, the group has developed key vulnerability stress tests for specific concentrations. Work will continue to enhance and expand the scope of these stress tests.</li> </ul> <p>For more information on Credit Risk, please refer to note 37.4.</p>
<p><b>Country Risk</b></p> <p>Cross-border country risk is the uncertainty that obligors (including the relevant sovereign and obligations of the group’s branches and subsidiaries in a country) may not be able to fulfil their obligations to the group because of political or economic conditions in the host country.</p> <p>The definition includes group equity investments and physical inventories owned by the group in a host country.</p>	<p>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:</p> <ul style="list-style-type: none"> <li>maintaining a culture of responsible risk taking and an established risk policy and control framework;</li> <li>identifying, assessing and measuring country risk clearly and accurately across the group;</li> <li>monitoring country risk relative to limits;</li> <li>political and commercial risk insurance;</li> <li>co-financing with multilateral institutions; and</li> <li>structures to mitigate transferability and convertibility risk such as collection, collateral and margining deposits outside the jurisdiction in question.</li> <li>The group has higher appetite for certain key jurisdictions such as Nigeria and Turkey. Country limit requests are notified to ICBC Group to ensure ICBCS does not exceed ICBC Group appetite for a specific country. Country limits are approved for use through the ICBCS governance structure and exposures are managed to these limits. Regular stress tests are run to ensure exposures remain within risk appetite with results reviewed by senior management, including at Board level.</li> </ul> <p>For more information on Country Risk, please refer to note 37.5.</p>



Market Risk	<p>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 bond, commodity and equity prices, currency exchange rates, interest rates, credit spreads and recovery rates, and correlations and implied volatilities in all of these variables.</p> <p>Climate-related risks can manifest through market value loss due to societal, legal and technological response to climate change. Assets could be subject to a change in investor perception of profitability and a consequent revaluation. Physical risk channels can also result in market value loss due to weather impacts particularly affecting commodities and property.</p>	<p>The group seeks to manage market risk by:</p> <ul style="list-style-type: none"> <li>measuring the group's market risk portfolios under both normal market conditions (Value at Risk ('VAR') at 99% confidence one-day and ten-day holding periods) and stressed market conditions (VAR at 99% confidence ten-day holding period);</li> <li>the measurement of market risk is supplemented by the monitoring of material risk factor sensitivities such as Delta, Gamma, Vega and other risk metrics where appropriate;</li> <li>taking actions to keep exposures within approved risk appetite limit tolerances. Where breaches in limits occur, they will be dealt in accordance with the breach management and escalation section of the market risk policy; and</li> <li>applying risk controls to all portfolio and concentration limits i.e. stress testing, back testing, stop loss monitoring and front office supervisory controls associated with the trading mandates.</li> </ul> <p>For more information on Market Risk, please refer to note 37.7.</p>
Operational Risk	<p>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 physical commodities.</p> <p>Operational risk sub-types include:</p> <ul style="list-style-type: none"> <li>Business disruption and system failures, including cyber incidents</li> <li>Damage to physical assets</li> <li>Execution and process management</li> <li>Internal and external fraud</li> <li>Clients, products, and business practices</li> <li>Employment practices and workplace safety</li> <li>Access and security controls to key systems</li> </ul> <p>Climate-related impact due to physical risks</p>	<p>The group manages operational risks by:</p> <ul style="list-style-type: none"> <li>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;</li> <li>monitoring and challenging the management of the business and IT operational risk profile;</li> <li>analysing incident root causes, trends and emerging threats, advising on the remediation of potential control weaknesses and recommending best practice solutions; and</li> <li>maintaining a minimal physical presence with single offices located in London, New York, Singapore and Shanghai. These offices may be supported by a disaster recovery site and data centres in separate locations.</li> </ul> <p>For more information on Operational Risk, please refer to note 37.8.</p>

Liquidity and Funding Risk	<p>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.</p> <p>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 as they fall due, either at all or only at excessive cost.</p> <p>Specific liquidity and funding risks include:</p> <ol style="list-style-type: none"> <li>1. Reliance on shareholder funding</li> <li>2. Depositor concentration</li> <li>3. Dependency on management actions in stress</li> </ol>	<ul style="list-style-type: none"> <li>• The group operates a liquidity stress testing framework based on regulatory and internal stress scenarios. The group has a forecasting process, to assist with management of the funding profile and ensure compliance with the liquidity risk appetite statement limits. The group also has a number of tailored early warning indicators that are monitored daily with escalation procedures.</li> <li>• To mitigate risks associated with reliance on shareholder funding, the majority of shareholder deposits are placed on a 370-day notice structure.</li> <li>• To mitigate external depositor concentration, deposit maturities are staggered to minimise the funding risk arising from single large maturities or single counterparties. The group's stress tests contain prudent rollover assumptions.</li> <li>• Management actions available to the group in the event of a liquidity stress are updated annually and their quantification is reported monthly to executive forums.</li> <li>• The group has past experience of being able to monetise assets in stress conditions. Management actions available to the group are updated annually and their quantification is reported monthly to executive forums.</li> <li>• To ensure on-going NSFR compliance, desk level NSFR limits are monitored daily and feed into the early warning indicator framework. In addition, a regulatory waiver is in place for precious metals clearing balances, term funding has been raised to match fund term assets, and regulatory engagement on potential future rule modifications of the punitively treated Base and Energy commodity businesses.</li> </ul> <p>For more information on the group's maturity profile as at 31 December 2022, please refer to note 36, Maturity analysis and note 37.6, Structural requirements.</p>
Business Risk	<p>Business risk is the residual earnings variability after taking into account the effects of market risk, credit risk, structural interest rate risk, and operational risk. It covers the risk that the group fails to meet its financial objectives as a result of factors such as:</p> <ul style="list-style-type: none"> <li>• Competition and margin reduction</li> <li>• Failed client / financing strategies</li> <li>• Unplanned increase in costs</li> <li>• Delays in further integration/co-operation with ICBC group</li> <li>• Changes in the GBP/USD FX rates</li> </ul>	<p>Business risk is managed through:</p> <ul style="list-style-type: none"> <li>• regular review of MI relating to business performance;</li> <li>• rigorous annual budget and business planning cycles;</li> <li>• co-operation with ICBC group on new revenue sharing opportunities and systems/infrastructure initiatives designed to create longer term value;</li> <li>• improving profitability through a strong focus on cost control while continuing to invest to grow the franchise;</li> <li>• managing regulatory change deliverables to strict budgets while not compromising on requirements; and</li> <li>• a short-term hedging programme with regard to the cost base.</li> </ul>
Conduct Risk	<p>The risk that intentional or unintentional business practices and behaviours will lead to poor outcomes for clients, counterparties or the markets operated in by the group.</p> <p>Conduct risk may arise from, for example, selling products which may not meet client needs, entering into finance arrangements that fund activities that do not align with the group's values or from exhibiting behaviours that may distort the market or not meet regulatory standards.</p>	<p>The group manages conduct risk through:</p> <ul style="list-style-type: none"> <li>• a conduct risk framework which sets the standard of behaviour expected of all staff;</li> <li>• monitoring conduct risk metrics and providing senior managers with metrics relevant for their function;</li> <li>• taking appropriate and proportionate action when an issue or incident arises and learning from these incidents through root cause analysis; and</li> <li>• reviewing all significant new products and transactions, assessing the intended outcome and end to end life cycle of the product/transaction.</li> </ul> <p>During 2022 conduct risk has remained a key focus for the group, learning from both internal and external industry developments and events. In particular external events, such as Russia's invasion of Ukraine, led to unprecedented Nickel market volatility in the first quarter. During this period, including subsequent reviews, the organisation has been proactive in developing approach and governance to effectively manage volatile and challenging market events.</p>

Reputational Risk	<p>The potential or actual damage to the group's image which may impair the profitability and/or sustainability of its business.</p> <p>Such damage may result from a breakdown of trust, confidence, or business relationships with stakeholders that can adversely affect the group's ability to manage business relationships, and continue having access to funding.</p>	<p>The group has an established governance framework 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 level, action will be taken to mitigate the impact to the group including:</p> <ul style="list-style-type: none"> <li>terminating a client relationship; or</li> <li>declining participation in a transaction.</li> </ul> <p>The group continued to manage reputational risk through its established governance model during 2022.</p> <p>For more information on Reputational Risk, please refer to note 37.9.</p>
Regulatory and Legal Risk	<p>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.</p>	<p>The group seeks to manage these risks by:</p> <ul style="list-style-type: none"> <li>working closely with UK and local regulators in all relevant jurisdictions;</li> <li>developing compliance and financial crime risk assessments to assess areas of weakness in the group's business model;</li> <li>conducting horizon scanning and impact analysis on regulatory change initiatives;</li> <li>responding to new and ongoing regulatory prudential and conduct requirements;</li> <li>continued investment in training, systems and processes; and</li> <li>having an established governance and control framework with responsibility for the approval of new products and transactions.</li> </ul> <p>The group continues implementation to comply with key market regulations including: UK Markets in Financial Instruments Directive; UK European Market Infrastructure Regulation; UK collateral requirements (IOSCO initial margin reforms phase 6), and the UK implementation of the amended Capital Requirements Regulation (UK CRR) and associated PRA regulations.</p> <p>The group continues to implement its transition plans for US Dollar Libor products to alternative risk-free-rates. The group's US Dollar LIBOR exposure is heavily linked to secondary market hedging products, as well as a small number of primary issuance loans. Further details are included in note 7.5.</p> <p>The group is continuing to monitor the UK's Edinburgh Reform proposals for wholesale markets and the implementation of the UK wholesale markets review.</p> <p>Legal proceedings currently being pursued against the group are summarised in note 29.3.</p>
Environmental Risk	<p>Environmental- risk refers to risks that may arise due to the exposure of the group or financial sector to activities that may cause or be affected by environmental degradation.</p> <p>Climate-related risk is part of environmental risk and refers to risks posed by the exposure of the group or financial sector to physical and transition risks caused by or related to climate change.</p> <p>Environmental risk is considered to be cross-cutting risk as it can arise through, or impact on, other risk types such as credit, market and operational risk.</p>	<p>During 2022 the group has completed the following:</p> <ul style="list-style-type: none"> <li>Implemented an environmental risk policy <ul style="list-style-type: none"> <li>Implemented a process to consider environmental (and sustainability) risk in bond transactions where the group acts as bookrunner or distribution agent</li> </ul> </li> <li>Considered environmental risk in the Risk and Control Self-Assessment</li> <li>Provided external training to relationship managers, KYC and EDD</li> <li>Introduced specific climate and environment-related management information to management committees</li> <li>Enhanced the client on-boarding process with environmental, social and governance considerations, due to go live in 2023</li> </ul>
Financial Crime Risk	<p>Financial crime risk consists of:</p> <ul style="list-style-type: none"> <li>The risk that criminal parties will abuse the products and services of the group;</li> <li>The risk that the group transacts or facilitates business involving sanctioned or restricted parties or products;</li> <li>The risk that regulators/law enforcement authorities will apply civil and/or criminal sanctions and penalties for failure to comply with anti-money laundering, counter terrorist financing, anti-bribery</li> </ul>	<p>The group has an established financial crime risk management framework. This consists of a suite of systems and controls as follows:</p> <ul style="list-style-type: none"> <li>Board mandated financial crime risk appetite statement;</li> <li>the application of a three lines of defence model;</li> <li>ongoing screening of all counterparties and payments for sanctions-related and other financial crime risks;</li> <li>robust client onboarding and periodic review standards and processes;</li> <li>enhanced due diligence measures to assess sanctions and other financial crime touchpoints in transactions and across the group's counterparty population;</li> </ul>

	<p>and corruption, tax evasion, fraud, modern slavery and sanctions laws, regulations, codes of conduct and regulatory/industry standards of good practice; and</p> <p>The risk that through the markets and/or media outlets, the group's reputation is harmed by unfavourable media or market word-of-mouth, due to financial crime risk events, allegations, or the actions of regulators/law enforcement authorities.</p>	<ul style="list-style-type: none"> <li>• periodic risk assessments, monitoring and assurance reviews;</li> <li>• monitoring regulatory, enforcement and geopolitical developments;</li> <li>• suspicious activity monitoring and reporting; and</li> <li>• staff training and breaches reporting and management.</li> </ul> <p>The wide-ranging Sanctions imposed on Russia by the international community during 2022 had a significant impact on business, requiring the rapid provision of analysis and guidance as well as the application of compensating controls. Despite the disruption the Financial Crime Framework performed effectively with no breaches reported.</p>
<b>People Risk</b>	<p>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.</p>	<p>The group manages people risk by:</p> <ul style="list-style-type: none"> <li>• investing in training and development;</li> <li>• focused initiatives to attract and retain talent;</li> <li>• reinforcing behaviours that drive the best outcomes for clients and employees; and</li> <li>• effective remuneration structures to support performance-based reward.</li> </ul>

### 37.4 Credit risk

Credit risk principally comprises 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 exposures relative to limits; and
- ensuring that there is expert scrutiny and independent approval of exposures and their mitigation.

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

#### Structure and organisation of credit risk management function

The head of credit has functional responsibility for credit risk across the group and reports to the CRO.

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 for 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 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 probability of default (PD), loss given default (LGD), exposure at default (EAD), unexpected loss (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. 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 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 stressed credit migration 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

The following table sets out information about the credit quality of financial assets measured at amortised cost and FVOCI debt investments without taking into account collateral or other credit enhancement. The amounts in the table represent gross carrying amounts.

#### Credit quality analysis of gross loans & advances (notes 4, 8 and 9) and debt securities held at FVOCI (note 10)

	Amortised Cost		Fair value through other comprehensive income	
	2022 \$m	2021 \$m	2022 \$m	2021 \$m
<b>Grades 1-21: Pass</b>	<b>4,080.3</b>	<b>4,475.0</b>	<b>1,293.4</b>	<b>925.5</b>
Stage 1	4,080.3	4,408.2	1,293.4	925.5
Stage 2	-	66.8	-	-
Stage 3	-	-	-	-
<b>Grades 22-25: Special Mention</b>	<b>49.2</b>	<b>26.3</b>	<b>-</b>	<b>-</b>
Stage 1	39.4	26.3	-	-
Stage 2	9.8	-	-	-
Stage 3	-	-	-	-
<b>Grade D1: Sub-standard</b>	<b>78.0</b>	<b>-</b>	<b>-</b>	<b>-</b>
Stage 1	-	-	-	-
Stage 2	-	-	-	-
Stage 3	-	-	-	-
POCI <sup>1</sup>	78.0	-	-	-
<b>Grade D2: Doubtful</b>	<b>45.4</b>	<b>1.0</b>	<b>-</b>	<b>-</b>
Stage 1	-	-	-	-
Stage 2	-	-	-	-
Stage 3	28.3	-	-	-
POCI <sup>1</sup>	17.1	1.0	-	-
<b>Grade D3: Loss</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Stage 1	-	-	-	-
Stage 2	-	-	-	-
Stage 3	-	-	-	-
POCI <sup>1</sup>	-	-	-	-
	<b>4,252.9</b>	<b>4,502.3</b>	<b>1,293.4</b>	<b>925.5</b>

<sup>1</sup> Amortised cost balances include POCI exposures reported in other assets on the balance sheet.

Certain comparative amounts have been reclassified to conform to the current year's presentation.

There are four counterparties that have a credit rating of D1: Sub-standard, D2: Doubtful, or D3: Default, in 2022 (one counterparty was D2 in 2021).

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.

Specifically impaired exposures are further analysed into the following categories:

## Notes to the annual financial statements continued

- **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 (Group master ratings: 1-25)		Non-performing (Group master rating: Default)		Gross credit exposure \$m
	Neither past due nor Impaired	Past due but not specifically Impaired		Specifically Impaired	
		\$m	\$m		
<b>2022</b>					
Cash and balances with central banks <sup>1</sup>	4,856.1	-	-	-	4,856.1
Gross due from banks and other financial institutions	2,163.0	-	-	28.3	2,191.3
Financial assets held for trading	702.7	-	-	-	702.7
Non-trading financial assets at fair value through profit or loss	2,189.5	-	-	-	2,189.5
Derivative financial assets	4,967.8	-	-	0.2	4,968.0
Gross reverse repurchase agreements	2,614.8	-	-	-	2,614.8
Gross loans and advances to customers	822.6	-	-	-	822.6
Gross financial investments	1,293.4	-	-	-	1,293.4
Gross POCI exposures	-	-	-	95.1	95.1
Total balance sheet exposure to credit risk	19,609.9	-	-	123.6	19,733.5
Guarantees					112.4
Irrevocable unutilised facilities					235.9
Commodity leases					765.6
Total off-balance sheet exposure to credit risk					1,113.9
Total exposure to credit risk					20,847.4
Reconciliation to the balance sheet					
Add: Equity instruments (disclosed in note 6)					4.2
Add: Non-financial assets					2,954.3
Less: Credit loss allowance					(64.7)
Less: Off-balance sheet exposure					(1,113.9)
Total assets					22,627.3

**Notes to the annual financial statements** continued

	Performing (Group master ratings: 1-25)		Non-performing (Group master rating: Default)		Gross credit exposure \$m
	Neither past due nor impaired	Past due but not specifically impaired	Specifically impaired		
	\$m	\$m	\$m	\$m	
<b>2021</b>					
Cash and balances with central banks <sup>1</sup>	6,056.5	-	-	-	6,056.5
Gross due from banks and other financial institutions	2,308.3	-	-	-	2,308.3
Financial assets held for trading	2,455.7	-	-	-	2,455.7
Non-trading financial assets at fair value through profit or loss	1,967.0	-	-	-	1,967.0
Derivative financial assets	4,389.6	-	-	2.5	4,392.1
Gross reverse repurchase agreements	2,288.0	-	-	-	2,288.0
Gross loans and advances to customers	1,611.3	-	-	-	1,611.3
Gross financial investments	925.5	-	-	-	925.5
Gross POCI exposures	-	-	-	1.0	1.0
<b>Total balance sheet exposure to credit risk</b>	<b>22,001.9</b>	<b>-</b>	<b>-</b>	<b>3.5</b>	<b>22,005.4</b>
Guarantees					62.4
Irrevocable unutilised facilities					107.6
Commodity leases					957.2
<b>Total off-balance sheet exposure to credit risk</b>					<b>1,127.2</b>
<b>Total exposure to credit risk</b>					<b>23,132.6</b>
<b>Reconciliation to the balance sheet</b>					
Add: Equity instruments (disclosed in note 6)					5.0
Add: Non-financial assets					4,262.5
Less: Credit loss allowance					(4.4)
Less: Off-balance sheet exposure					(1,127.2)
<b>Total assets</b>					<b>26,268.5</b>

<sup>1</sup> Reserve account with the Bank of England (see note 3)

Certain comparative amounts have been reclassified to conform to the current year's presentation.



## Analysis of gross balances subject to three stage expected credit loss (ECL) model

	Stage 1	Stage 2	Stage 3			POCI	Total
			Sub-standard	Doubtful	Loss		
2022	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Cash and balances with central banks	4,856.1	-	-	-	-	-	4,856.1
Due from banks and other financial institutions	2,153.2	9.8	-	28.3	-	-	2,191.3
Reverse repurchase agreements	1,143.9	-	-	-	-	-	1,143.9
Loans and advances to customers	822.6	-	-	-	-	-	822.6
Financial investments	1,293.4	-	-	-	-	-	1,293.4
Commitments and financial guarantees given	348.3	-	-	-	-	-	348.3
Other assets	-	-	-	-	-	95.1	95.1
<b>Total</b>	<b>10,617.5</b>	<b>9.8</b>	<b>-</b>	<b>28.3</b>	<b>-</b>	<b>95.1</b>	<b>10,750.7</b>

	Stage 1	Stage 2	Stage 3			POCI	Total
			Sub-standard	Doubtful	Loss		
2021	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Cash and balances with central banks	6,056.5	-	-	-	-	-	6,056.5
Due from banks and other financial institutions	2,241.6	66.8	-	-	-	-	2,308.4
Reverse repurchase agreements	581.7	-	-	-	-	-	581.7
Loans and advances to customers	1,611.3	-	-	-	-	-	1,611.3
Financial investments	925.5	-	-	-	-	-	925.5
Commitments and financial guarantees given	170.0	-	-	-	-	-	170.0
Other assets	-	-	-	-	-	1.0	1.0
<b>Total</b>	<b>11,586.6</b>	<b>66.8</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>11,654.4</b>

Certain comparative amounts have been reclassified to conform to the current year's presentation.

**Movements in credit loss allowances**

	Stage 1 12-month ECL	Stage 2 Lifetime ECL - not credit-impaired	Stage 3 Lifetime ECL - credit-impaired	POCI Lifetime ECL - credit-impaired	Total
	\$m	\$m	\$m	\$m	\$m
<b>Credit loss allowance at 1 January 2022</b>	<b>(5.0)</b>	<b>(0.3)</b>	<b>-</b>	<b>-</b>	<b>(5.3)</b>
Transfer:					
to stage 1	-	-	-	-	-
to stage 2	-	0.3	-	-	0.3
to Stage 3	-	-	(0.3)	-	(0.3)
Increases due to origination and acquisition	(5.1)	(3.8)	-	-	(8.9)
Changes due to change in credit risk	0.0	-	(3.8)	-	(3.8)
Financial assets derecognised during the period	2.8	-	-	-	2.8
Write-offs of allowances against exposures	-	-	-	-	-
Other Adjustments	-	-	-	(51.4)	(51.4)
<b>Credit loss allowance at 31 December 2022</b>	<b>(7.3)</b>	<b>(3.8)</b>	<b>(4.1)</b>	<b>(51.4)</b>	<b>(66.6)</b>

	Stage 1 12-month ECL	Stage 2 Lifetime ECL - not credit-impaired	Stage 3 Lifetime ECL - credit-impaired	POCI Lifetime ECL - credit-impaired	Total
	\$m	\$m	\$m	\$m	\$m
<b>Credit loss allowance at 1 January 2021</b>	<b>(4.2)</b>	<b>(0.1)</b>	<b>(4.8)</b>	<b>-</b>	<b>(9.0)</b>
Transfer:					
to stage 1	0.2	-	-	-	0.2
to Stage 2	-	(0.2)	-	-	(0.2)
to Stage 3	-	-	-	-	-
Increases due to origination and acquisition	(2.9)	-	-	-	(2.9)
Changes due to change in credit risk	0.5	(0.1)	-	-	0.5
Financial assets derecognised during the period	1.4	0.1	3.7	-	5.2
Write-offs of allowances against exposures	-	-	1.0	-	1.0
<b>Credit loss allowance at 31 December 2021</b>	<b>(5.0)</b>	<b>(0.3)</b>	<b>-</b>	<b>-</b>	<b>(5.3)</b>

### **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 2022 (2021: 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. There is one forborne loan as at 31 December 2022 with an exposure of US\$28.3 million (2021: US\$ nil).

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 Business Support & Recovery ("BS&R") team, the workout unit which sits in the Risk function, for active recovery management. An impairment charge is raised if any new terms are less favourable and result in the discounted cash flows being lower than the carrying value of the exposures.

At 31 December 2022, performing loan exposures of US\$9.8 million were under watchlist review (2021: US\$101.6 million), and a significant increase in credit risk had been recognised on this one counterparty exposure, triggering a transfer from 12-month ECL (ECL stage 1) to lifetime ECL (ECL stage 2). In 2021, the exposures under watchlist review (US\$101.6 million) comprised two loans. For one exposure (US\$66.8 million) a significant increase in credit risk had been recognised. During 2022, this loan was classified as non-performing and was transferred to ECL stage 3. At 31 December 2022, the gross exposure for this non-performing loan was US\$28.3 million. The other loan under watchlist review at 31 December 2021 (US\$34.8 million) was repaid in full during 2022.

The ECL allowance on the watchlist portfolio is dependent on the internal credit grade allocated to it. Additional management adjustments to the model 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 collateral risk as well as an assessment of the credit risk of the counterparty. Regulatory capital requirements may also be considered in this assessment.

### **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 appropriate, 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**

Guarantees and standby letters of credit (SBLC) are contracts 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 and SBLCs provided by appropriate central governments, central banks, commercial banks or similar institutions. Where regulatory capital relief is sought to reflect the risk mitigating effect of a guarantee, minimum legal and operational requirements are required to be met. On the basis that these requirements are met, alternative forms of protection, for example indemnities or non-payment insurance, may be classified as guarantees for regulatory capital purposes.

**Credit derivatives**

Credit derivatives are a method of transferring credit risk from one party (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 documentation 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).

Under a credit-linked note, the protection buyer issues a bond or note which is linked to the creditworthiness of an obligor and which may be backed by certain collateral. The bond or note is purchased by the protection seller, who receives a coupon on the bond or note (market rate and spread). If a credit event occurs in relation to either the obligor or the collateral, the bond or note is redeemed by the protection buyer with the recovery value of the collateral being the redemption amount. If no credit event occurs, the bond or note will be redeemed at par by the protection buyer.

**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.

Some counterparties may require that the group provides similar credit protection terms. From time to time, the group may agree to provide those terms on a limited basis. Rating downgrades as a collateralisation or termination event are generally accepted only when dealing with highly rated counterparties and, whenever possible, on a bilateral and reciprocal basis. Exceptionally, such rating downgrades clauses may also be accepted when dealing with unrated counterparties, after taking size, credit strength and business potential into account. In all cases, the acceptance of such terms must be approved by the CFO and 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 ALCO.

### 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 relates 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\$5,065.3 million (2021: US\$2,802.5 million). This is in addition to balances meeting the offsetting principles described in accounting policy 5.

Unsecured exposures of US\$9,718.8 million (2021: US\$13,577.0 million) largely represent corporate, government and designated multilateral development bank 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 relate to reverse repo type securitised lending, where the collateral is typically tradeable. For loans and advances, the collateral accepted includes, cash, equities, guarantees and credit enhancements such as credit default swaps and credit insurance. 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\$2,751.7 million (2021: US\$4,904.5 million) are more than 100% covered by collateral, primarily relating to reverse repurchase lending and equity margin loan 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 2022 or 2021.

### Financial effect of collateral and other credit enhancements<sup>5</sup>

	Total exposure to credit risk	Netting arrangements <sup>1</sup>	Exposure after netting	Unsecured exposures	Secured exposures	Extent of collateral and risk mitigation:		
						1 - 50% <sup>2</sup>	51 - 100% <sup>3</sup>	> 100% <sup>4</sup>
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>2022</b>								
Cash and balances with central banks	4,856.1	-	4,856.1	4,856.1	-	-	-	-
Due from banks and other financial institutions	2,191.3	751.7	1,439.6	1,094.6	345.0	-	64.5	280.5
Financial assets held for trading	702.7	-	702.7	641.9	60.8	-	5.9	55.0
Non-trading financial assets at fair value through profit or loss	2,189.5	-	2,189.5	201.3	1,988.2	-	1,988.2	-
Derivative financial assets	4,968.0	3,892.2	1,075.8	314.8	761.0	85.5	264.4	411.1
Reverse repurchase agreements	2,614.8	-	2,614.8	0.0	2,614.8	-	903.2	1,711.6
Loans and advances to customers	822.6	-	822.6	529.1	293.5	-	-	293.5
Financial investments	1,293.4	-	1,293.4	1,293.4	-	-	-	-
POCI exposures	95.1	-	95.1	95.1	-	-	-	-
<b>Total balance sheet exposure to credit risk</b>	<b>19,733.5</b>	<b>4,643.9</b>	<b>15,089.6</b>	<b>9,026.3</b>	<b>6,063.3</b>	<b>85.5</b>	<b>3,226.2</b>	<b>2,751.7</b>
Guarantees	112.4	-	112.4	112.4	-	-	-	-
Irrevocable unutilised facilities	235.9	-	235.9	235.9	-	-	-	-
Commodity leases	765.6	421.4	344.2	344.2	-	-	-	-
<b>Total off-balance sheet exposure to credit risk</b>	<b>1,113.9</b>	<b>421.4</b>	<b>692.5</b>	<b>692.5</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total exposure to credit risk</b>	<b>20,847.4</b>	<b>5,065.3</b>	<b>15,782.1</b>	<b>9,718.8</b>	<b>6,063.3</b>	<b>85.5</b>	<b>3,226.2</b>	<b>2,751.7</b>

## Notes to the annual financial statements continued

	Total exposure	Netting arrangements <sup>1</sup>	Exposure after netting	Unsecured exposures	Secured exposures	Extent of collateral and risk mitigation:		
						1 - 50% <sup>2</sup>	51 - 100% <sup>3</sup>	> 100% <sup>4</sup>
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
2021								
Cash and balances with central banks	6,056.5	-	6,056.5	6,056.5	-	-	-	-
Due from banks and other financial institutions	2,308.3	470.1	1,838.2	1,322.2	516.0	-	225.3	290.7
Financial assets held for trading	2,455.7	-	2,455.7	2,019.0	436.7	-	-	436.7
Non-trading financial assets at fair value through profit or loss	1,967.0	-	1,967.0	(0.0)	1,967.0	-	-	1,967.0
Derivative financial assets	4,392.1	1,907.8	2,484.3	1,902.5	581.8	74.9	132.3	374.6
Reverse repurchase agreements	2,288.0	-	2,288.0	(0.0)	2,288.0	-	854.8	1,433.2
Loans and advances to customers	1,611.3	-	1,611.3	647.7	963.5	143.9	417.3	402.4
Financial investments	925.5	-	925.5	925.5	-	-	-	-
POCI exposures	1.0	-	1.0	1.0	-	-	-	-
Total balance sheet exposure to credit risk	22,005.4	2,377.9	19,627.5	12,874.5	6,753.0	218.8	1,629.6	4,904.5
Guarantees	62.4	-	62.4	62.4	-	-	-	-
Irrevocable unutilised facilities	107.6	-	107.6	107.6	-	-	-	-
Commodity leases	957.2	424.6	532.6	532.6	-	-	-	-
Total off-balance sheet exposure to credit risk	1,127.2	424.6	702.6	702.6	-	-	-	-
Total exposure to credit risk	23,132.6	2,802.5	20,330.1	13,577.0	6,753.0	218.8	1,629.6	4,904.5

<sup>1</sup> 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.

<sup>2</sup> Represent exposures secured between 1% and 50%.

<sup>3</sup> Represent exposures secured between 51% and 100%.

<sup>4</sup> Represent exposures secured in excess of 100%.

<sup>5</sup> Collateral valuations are performed based on the nature and price volatility of the underlying collateral.

Certain comparative amounts have been reclassified to conform to the current year's presentation.

### 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 jurisdiction rating scale aaa to c), sovereign, and transfer and convertibility risk (on a rating scale RG01 to RG25). In determining the ratings, use is made of the group's network of operations and external information sources. These internal ratings are 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.

## Notes to the annual financial statements continued

The following table illustrates customer risk by geographical segment.

### Geographic analysis of gross loans & advances (notes 4, 8 and 9)<sup>1</sup>

	2022		2021	
	\$m	%	\$m	%
Sub-Saharan Africa	507.9	9.0	546.9	8.8
Asia-Pacific	946.2	16.8	966.5	15.6
Middle East & North Africa	482.8	8.6	717.7	11.6
Rest of Europe	1,970.8	35.0	2,707.7	43.5
Latin America	26.7	0.5	10.4	0.2
North America	1,233.0	21.9	866.5	14.0
Eurozone	461.3	8.2	391.9	6.3
	5,628.7	100.0	6,207.6	100.0

<sup>1</sup>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<sup>1</sup>

	2022		2021	
	\$m	%	\$m	%
Sub-Saharan Africa	2,468.0	87.1	2,828.8	71.0
Asia-Pacific	132.7	4.7	318.1	8.0
Middle East & North Africa	28.0	1.0	757.3	19.0
Rest of Europe	126.9	4.5	72.0	1.8
Latin America	10.3	0.4	8.1	0.2
North America	65.5	2.3	1.5	-
Eurozone	-	-	0.2	-
	2,831.4	100.0	3,986.0	100.0

<sup>1</sup>Analysis of 'Government, utility bonds and treasury bills' and 'Corporate bonds and floating rate notes' is included in note 5.

### 37.6 Liquidity risk

#### Summary of performance (unaudited)

The group's liquidity risk appetite statement (RAS) limits are measured through three metrics:

- Short term liquidity resilience: Total LAB holdings less the LAB requirement as calculated per the Bank's Individual Liquidity Guidance ("ILG")
- Short term liquidity resilience: Total LAB holdings less the LAB requirement over a 91-day survival horizon, as calculated by the Combined Internal Stress Test
- Long term liquidity resilience: Available stable funding less the amount of requirement stable funding, as calculated by the Net Stable Funding Ratio ("NSFR")

These limits ensure that the group holds sufficient HQLA to meet anticipated net contractual and contingent outflows under stress and also maintain stable sources of funding.

- Regulatory Requirement Surplus: The quantum of high quality liquid asset (HQLA) surplus held over the PRA's prescribed Internal Liquidity Guidance (ILG) requirement; and
- Combined Internal Stress Test Surplus: The quantum of HQLA surplus held over the group's Combined Internal Stress test requirement.

These limits ensure that the group holds sufficient HQLA 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 2022, the LCR position was 150% (2021: 199%), and the group held surplus HQLAs of:

- US\$2,130 million over the PRA prescribed ILG requirement, measured at calendar day 30 (2021: US\$3,306 million).
- US\$3,341 million surplus over the constraining internal stress test requirement, measured at the low point of a 91-day survival horizon (2021: US\$3,650 million).

NSFR regulations were implemented in the UK on 1 January 2022. As at 31 December 2022, the NSFR position was 199%, with surplus stable funding of \$4,447m.

#### Liquidity stress testing

The group operates an internal liquidity stress testing framework based on a number of stressed liquidity scenarios covering specific shocks to the group ("Idiosyncratic stress scenario"), overall market conditions ("Market-wide stress scenario"), and a combination of both ("Combined stress scenario"). Each of these stress tests covers a 91-day survival period. The combined stress scenario is included in the RAS together with the Regulatory ILG. In addition, the Idiosyncratic and Market-wide stress scenarios are run for internal risk monitoring purposes to ensure the group's survival horizon is tested across a range of severe but plausible stress events. Each of the stresses is specified 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 internal stress testing framework and assesses certain scenarios and circumstances that would render the group's business model unviable, by identifying potential business vulnerabilities.

#### Liquidity and funding risk monitoring

In addition to RAS limits, the group has further early warning indicators (EWIs) and monitoring indicators that can identify the emergence of increased liquidity risk based on the assumptions and liquidity risk drivers which are of



## Notes to the annual financial statements continued

particular relevance to the group's business model. These are supplemented by the annual review of the liquidity limit/EWL monitoring policy and the stress testing methodologies, to inform the setting of RAS.

### Structural requirements

Maturity analysis of financial liabilities provides the basis for management of the group's exposure to structural liquidity risk. The table below shows the contractual amounts of all financial liabilities based on the earliest date on which the group can be required to repay. This differs from the balance sheet carrying values, 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
<b>2022</b>						
<b>Financial liabilities</b>						
Financial liabilities held for trading	242.1	65.5	146.1	167.6	955.5	1,576.8
Non-trading financial liabilities at fair value through profit or loss	-	0.6	23.6	2,090.4	937.7	3,052.3
Derivative financial liabilities	21.3	887.5	2,022.9	853.9	1,567.2	5,352.8
Deposits <sup>1</sup>	2,095.3	2,531.3	418.5	127.6	3,463.5	8,636.2
Subordinated debt	-	2.1	5.6	7.8	350.4	365.9
<b>Total balance sheet financial liabilities</b>	<b>2,358.7</b>	<b>3,487.0</b>	<b>2,616.7</b>	<b>3,247.3</b>	<b>7,274.3</b>	<b>18,984.0</b>
Guarantees	-	-	68.3	-	44.1	112.4
Irrevocable unutilised facilities	-	-	11.7	-	224.2	235.9
<b>Total off-balance sheet financial liabilities</b>	<b>-</b>	<b>-</b>	<b>80.0</b>	<b>-</b>	<b>268.3</b>	<b>348.3</b>
<b>Total financial liabilities</b>	<b>2,358.7</b>	<b>3,487.0</b>	<b>2,696.7</b>	<b>3,247.3</b>	<b>7,542.6</b>	<b>19,332.3</b>

	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
<b>2021</b>						
<b>Financial liabilities</b>						
Financial liabilities held for trading	510.2	6.4	223.6	93.4	1,191.2	2,024.8
Financial liabilities designated at fair value through profit or loss	-	-	4.5	2,131.9	-	2,136.4
Derivative financial liabilities	23.2	730.4	1,476.7	813.5	2,006.7	5,050.5
Deposits <sup>1</sup>	2,440.1	5,192.4	1,450.3	859.3	3,910.4	13,852.5
Subordinated debt	-	0.8	3.7	5.0	315.5	325.0
<b>Total balance sheet financial liabilities</b>	<b>2,973.5</b>	<b>5,930.0</b>	<b>3,158.8</b>	<b>3,903.1</b>	<b>7,423.8</b>	<b>23,389.2</b>
Guarantees	-	-	31.9	30.5	-	62.4
Irrevocable unutilised facilities	-	-	-	33.6	74.0	107.6
<b>Total off-balance sheet financial liabilities</b>	<b>-</b>	<b>-</b>	<b>31.9</b>	<b>64.1</b>	<b>74.0</b>	<b>170.0</b>
<b>Total financial liabilities</b>	<b>2,973.5</b>	<b>5,930.0</b>	<b>3,190.7</b>	<b>3,967.2</b>	<b>7,497.8</b>	<b>23,559.2</b>

<sup>1</sup> Includes Due to banks and other financial institutions, Repurchase agreements, and Due to customers.

### 37.7 Market risk

#### **Definition**

Market risk is the risk of loss arising from potential adverse changes in the value of the group's assets and liabilities from fluctuation in market variables including, but not limited to, interest rates, foreign exchange rates, equity prices, commodity prices, credit spreads, implied volatilities and asset correlations. The group's exposure to market risk arises as follows:

#### **Trading book market risk**

Trading portfolios comprise positions held with the intention of short-term resale and/or to hedge risks resulting from:

- **Interest rate risk in the banking book (IRRBB)**

These risks arise from the structural interest rate risk caused by the differing repricing characteristics of banking book assets and liabilities.

- **Foreign exchange risk**

This is exposure arising from changes to foreign exchange rates and presents in two key forms. First is the risk arising from transactions in foreign currencies the bank is mandated to trade. Second is the translation impact associated with structural foreign exchange exposures in net investments such as subsidiaries, branches and associates, in currencies other than the US dollar.

- **Equity investments**

These risks arise from changes in equity prices for listed and unlisted investments.

#### **Framework and governance**

The Board approves the Level 1 management VaR limit for market risk appetite and has delegated authority to BRMC to provide independent and objective oversight of market risk. The Board delegates responsibility for management of risk to the CRO, including the design, implementation and monitoring of plans and processes. The RMC is responsible for monitoring and reviewing exposures of market risk and adherence to the agreed risk appetite. The market risk and liquidity committee (MLRC) is responsible for supervising the group's market risk activities and the correct application of its market risk policies.

Market risk management monitors market risk exposures arising from both trading and banking activities. All exposures and any limit excesses are monitored daily, and reported monthly to MLRC. Breaches of level 1 limits (limits defining the market risk appetite of the group approved by Board) are also reported to RMC and BRMC.

#### **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 (SVaR)

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 with confidence intervals (CI) of 99%. Daily losses exceeding the 99% CI VaR are likely to occur, on average, two to three times in every 250 days.

SVaR uses a similar methodology to VaR, however SVaR uses a greater observation period to determine its one-year period of financial stress (selected from 1 January 2007 to the current day). The SVaR is also based on a 10-day holding period with a 99% confidence interval.

Limitations of VaR and SVaR include:

- The use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those that 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 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 positions fully.
- The use of a 99% confidence interval, by definition, does not consider 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.

### Stress tests

Stress testing provides an indication of the potential losses that could occur under extreme but plausible market conditions, including situations when 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 2022 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.

New pricing models are independently documented and validated and both annual and less frequent comprehensive reviews of existing models are performed to ensure they are still relevant and behaving within expectations.

### Analysis of trading book market risk exposures

The following tables show the aggregated historical VaR and SVaR for the group's trading positions. The maximum and minimum 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.

During the year, the group experienced no back-testing loss exception against actual and hypothetical profits and losses.

## Notes to the annual financial statements continued

	1 Day VaR <sup>2</sup>			Year end
	Maximum <sup>1</sup>	Minimum <sup>1</sup>	Average	
	\$m	\$m	\$m	
<b>2022</b>				
Commodities	8.3	0.5	3.2	2.1
Foreign exchange	13.3	1.1	3.5	2.3
Equities	-	-	-	-
Interest Rate Risk (general & specific) <sup>5</sup>	74.0	2.3	18.0	16.2
Diversification benefit <sup>4</sup>				(9.5)
<b>Total (including diversification)</b>	<b>73.1</b>	<b>5.7</b>	<b>18.8</b>	<b>11.1</b>
	10 Day VaR <sup>3</sup>			Year end
	Maximum <sup>1</sup>	Minimum <sup>1</sup>	Average	
	\$m	\$m	\$m	
<b>2022</b>				
Commodities	21.6	0.9	5.9	5.3
Foreign exchange	18.8	2.8	7.5	5.8
Equities	-	-	-	-
Interest Rate Risk (general & specific) <sup>5</sup>	106.5	16.4	35.0	34.7
Diversification benefit <sup>4</sup>				(18.1)
<b>Total (including diversification)</b>	<b>108.8</b>	<b>12.4</b>	<b>39.0</b>	<b>27.7</b>
	1 Day VaR <sup>2</sup>			Year end
	Maximum <sup>1</sup>	Minimum <sup>1</sup>	Average	
	\$m	\$m	\$m	
<b>2021</b>				
Commodities	6.9	1.4	2.9	5.7
Foreign exchange	8.3	1.9	3.6	2.2
Equities	-	-	-	-
Interest Rate Risk (general & specific) <sup>5</sup>	8.0	2.4	3.9	3.2
Diversification benefit <sup>4</sup>				(3.5)
<b>Total (including diversification)</b>	<b>9.2</b>	<b>3.2</b>	<b>5.1</b>	<b>7.6</b>
	10 Day VaR <sup>3</sup>			Year end
	Maximum <sup>1</sup>	Minimum <sup>1</sup>	Average	
	\$m	\$m	\$m	
<b>2021</b>				
Commodities	17.7	1.9	4.9	6.4
Foreign exchange	30.9	3.9	15.2	5.7
Equities	-	-	-	-
Interest Rate Risk (general & specific) <sup>5</sup>	31.8	9.6	19.6	18.6
Diversification benefit <sup>4</sup>				(11.3)
<b>Total (including diversification)</b>	<b>38.6</b>	<b>14.9</b>	<b>23.9</b>	<b>19.4</b>

<sup>1</sup> 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.

<sup>2</sup> Normal VaR is based on a holding period of one day and a confidence interval of 99%.

<sup>3</sup> Stress VaR is based on a holding period of ten days and a confidence interval of 99%.

<sup>4</sup> 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.

<sup>5</sup> The Russian invasion of Ukraine and resultant sanctions placed against Russia, resulted in trades being unwound with Russian counterparties. The residual RUB interest rate and foreign exchange exposure, combined with an increase in market volatility resulted in an increase in the 1-day 99% VaR and Stress VaR metrics.

**Analysis of Interest Rate Risk in the Banking book (IRRBB) (unaudited)**

Interest Rate Risk in the Banking Book ("IRRBB") is the current or prospective risk to the group's economic value or earnings arising from adverse movements in market interest rates. It is generated by the group's non-traded assets and liabilities, specifically loans, deposits, and other financial instruments and liquidity assets that are not held for trading intent or in order to hedge positions held with trading intent. The group seeks to centralise and manage IRRBB in line with the Risk Appetite Statement. ICBCS considers Credit Spread Risk in the Banking Book (CSRBB) within the banks overall IRRBB Risk appetite Statement and limits.

The main analytical techniques used to quantify banking book interest rate risk are:

- a) Economic Value of Equity (EVE) metric; and
- b) Net Interest Income (NII) metric.

The group primarily uses the EVE metric for IRRBB risk management purposes and to determine Economic Capital requirements. The NII metric is used for risk monitoring purposes. The results obtained from the EVE metric assist in evaluating the optimal hedging strategies on a risk-return basis. Desired changes to a particular interest rate risk profile are achieved through modification of balance sheet exposure profiles or by the use of derivative instruments, such as interest rate swaps. IRRBB interest rate risk limits for ICBCS are set using the EVE metric.

For IRRBB Economic Capital (ECAP) assessments, the worst of the following shock scenarios from the EVE metric are taken in to account, plus any non-modelled IRRBB risk add-on's and an add-on for Credit Spread Risk in the Banking Book (CSRBB) quantified by the Risk team.

IRRBB ECAP assessment shocks:

- parallel 200bps rates up/down shocks (as indicated in the table below); or
- the six prescribed scenario shocks (Parallel Up, Parallel Down, Flattener – Short Rates Up and Long Rates Down, Steepner – Short Rates Down and Long Rates Up, Short Rates Up and Short Rates Down)

**a) Economic Value of Equity (EVE) metric**

EVE is a valuations based metric which assesses changes in the net present value of all cash flows originating from banking book assets and liabilities as a result of pre-specified movements in market interest rates under a variety of shock scenarios.

All banking book assets, liabilities and off-balance sheet items are placed in time bands (gap intervals) based on their interest rate repricing or cash flow expectation dates. The EVE model calculates IRRBB by currency and applies maturity dependent post shock floors as per the regulatory guidance.

The EVE metric is computed with the following assumptions:

- A run-off balance sheet approach where maturing trades are not replaced by new business as they mature;
- Equity is excluded from the metric;
- All downside shocks are floored to -1% and the flooring assumptions are periodically reviewed for relevance, in accordance with the regulatory guidance.

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.]

**Repricing gap for non-trading portfolios**

	0-3 months \$m	3-6 months \$m	6-12 months \$m	>12 months \$m
<b>2022</b>				
Interest rate sensitivity gap	1,517.0	(110.7)	116.9	(43.0)
Cumulative interest rate sensitivity gap	1,517.0	1,406.3	1,523.2	1,480.2
Cumulative interest rate sensitivity gap as a percentage of total banking assets	15.5%	14.3%	15.5%	15.1%
	0-3 months \$m	3-6 months \$m	6-12 months \$m	>12 months \$m
<b>2021</b>				
Interest rate sensitivity gap	1,161.2	(155.1)	(672.5)	(38.4)
Cumulative interest rate sensitivity gap	1,161.2	1,006.1	333.6	295.2
Cumulative interest rate sensitivity gap as a percentage of total banking assets	8.5%	7.4%	2.4%	2.2%

**Sensitivity of Economic Value of Equity to changes in interest rates**

The table below indicates the sensitivity in US Dollar equivalents of the group's banking book EVE in response to a change in interest rates, after considering 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 for regulatory purposes.

The EVE sensitivity to a parallel 200bps shock up/down of interest rates at 31 December 2022 is set out below for illustrative purposes. The final sensitivity numbers shown below are excluding IRRBB EVE non-modelled risk additions and CSRBB. During the year, sensitivities have reduced in line with the group's expectations.

	Increase in basis points	0-3 months \$m	3-6 months \$m	6-12 months \$m	>12 months \$m
<b>2022</b>					
2% up (interest-rate increase)	200	1.1	0.9	(1.6)	1.7
2% down (interest-rate decrease)	200	(1.1)	(1.0)	1.6	(1.8)
	Increase in basis points	0-3 months \$m	3-6 months \$m	6-12 months \$m	>12 months \$m
<b>2021</b>					
2% up (interest-rate increase)	200	5.7	0.5	11.0	1.1
2% down (interest-rate decrease)	200	(3.4)	-	(7.9)	(0.9)

As illustrated in the table above, there is an asymmetry between the rates up scenario in comparison to the rates down scenario in 2021. This is due to the central bank interest rate reductions in the course of 2020/2021 to assist economies affected by the pandemic, bringing rates close to the modelled floor (-1% floor) affecting the rate down scenarios noted above. Interest rates have materially risen in 2022.

**b) Net Interest Income (NII) metric**

NII is an earnings-based measure, which assesses the change in expected potential future profitability resulting from prescribed movements in market interest rates under a variety of shock scenarios. NII sensitivity is calculated as the change in NII (due to rate shock scenarios) over a set observation period compared with the base scenario.

All interest-bearing products in the banking book are captured in the NII calculations. Off-balance sheet products and equity are not included. All cash flows of interest rate sensitive instruments are mapped to exact repricing dates of individual positions.

The NII metric is computed with the following key assumptions:

- A static balance sheet approach where maturing assets and liabilities are replaced like-for-like to maintain balance sheet size and shape;
- No proactive management actions undertaken through the year;
- The group has opted to use a one-year observation period; and
- All downside shocks are floored to -1% and the flooring assumptions are periodically reviewed for relevance, in accordance with the regulatory guidance.

**Sensitivity of Net Interest Income to changes in interest rates**

The table below shows NII sensitivity at 31 December 2022 in a one-year time horizon (observatory period) to a parallel +/- 200bps shock of the interest rate curve. The year on year numbers could be volatile due to the short-dated nature of the group's balance sheet and the embedded assumptions around the model (as highlighted above).

	Increase in basis points	P&L Volatility for a 1 year period \$m
<b>2022</b>		
2% up (interest-rate increase)	200.0	43.1
2% down (interest-rate decrease)	200.0	(43.1)
<hr/>		
	Increase in basis points	P&L Volatility for a 1 year period \$m
<b>2021</b>		
2% up (interest-rate increase)	200.0	38.2
2% down (interest-rate decrease)	200.0	(26.4)

**Foreign exchange risk**

The group's foreign exchange positions arise from mandated transaction or translational activity. All foreign exchange risk is governed by currency limits approved by the MLRC in accordance with the group's market risk policy. Currency limits are subject to review 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.

**Net investment in foreign operations**

	2022	2021
Functional currency	\$m	\$m
Chinese Renminbi	29.5	31.2

### **37.8 Operational risk (unaudited)**

#### ***Introduction***

Operational risk exists in the natural course of business activity. The group's approach to managing operational risk is to adopt appropriate 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 (ORM) function 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. It proactively analyses incident root causes, trends and emerging threats, advises on the remediation of potential control weaknesses and recommends best practice solutions.

#### ***The management and measurement of operational risk***

The ORM framework follows a largely qualitative approach, being focused on ensuring that underlying risks are identified and managed and that the residual risk is maintained within an acceptable level, overseen by an independent operational risk function within risk management.

The ORM framework includes qualitative and quantitative (i.e. scenario analysis) methodologies and tools to assist management to identify, assess and monitor operational risks and 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), control assurance 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. The bank supplements these qualitative and quantitative approaches with scenario analysis and a capital model, which is used for calculating Pillar 2 capital.

Historical losses are reviewed, to ensure that adequate management action is taken in respect of the root cause of loss and near miss incidents. Losses are recorded in the operational incident database.

Given the broad and diverse nature of the above definition of Operational Risk, 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, which include legal and compliance risk, business conduct risk, data and information technology risk, tax risk, insurance risk and environmental risk.

### **37.9 Reputational risk (unaudited)**

Reputational risk results from damage to the group's public image which may impair its ability to retain and generate business. Such damage could result from a breakdown of trust, confidence or business relationships for a wide variety of reasons.



### 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 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 the Financial Conduct Authority, 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 UK's prudential regime for banks, which implements the global regulatory standards set by the Basel Committee on Banking Supervision. The group is also subject to the UK's prudential regime for banks, which is based on the global regulatory standards set by the Basel Committee on Banking Supervision.

#### Economic capital (unaudited)

In addition to 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 utilisation which forms part of the risk appetite.

#### Regulatory capital

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 11.3% (2021: 11.3%).

Total available regulatory capital consists of the sum of two tiers:

- Tier I capital consists of the sum of common equity tier I, in the form of share capital and retained earnings less applicable regulatory deductions, and additional tier I capital instruments; and
- Tier II capital, which includes medium to long-term subordinated debt

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. In addition, overall risk-weighted assets also include 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 group.

	2022	2021
	\$m	\$m
<b>Capital resources</b>		
<b>Common Equity Tier 1</b>		
Paid up capital instruments	1,083.5	1,083.5
Share premium	-	-
Reserves	438.5	126.5
Less regulatory deductions (unaudited)	(67.4)	(61.6)
<b>Total Common Equity Tier 1</b>	<b>1,454.6</b>	<b>1,148.4</b>
<b>Additional Tier 1</b>		
Capital instruments	160.0	160.0
<b>Total Additional Tier 1 Capital</b>	<b>160.0</b>	<b>160.0</b>
<b>Total Tier 1</b>	<b>1,614.6</b>	<b>1,308.4</b>
<b>Tier 2</b>		
Subordinated debt instruments	250.0	250.0
<b>Total Tier 2</b>	<b>250.0</b>	<b>250.0</b>
<b>Total eligible capital</b>	<b>1,864.6</b>	<b>1,558.4</b>

### **38. Encumbered assets (unaudited)**

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 2022 were US\$2,449.9 million (2021: US\$2,714.3 million).

### **39. 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\$2,923.5 million (2021: US\$2,930.1 million). In addition, the group received cash collateral of US\$980.4 million in 2022 (2021: US\$1,283.1 million). The fair value of financial assets accepted as collateral that have been sold or re-pledged is US\$615.9 million (2021: US\$660.3 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.

### **40. Ultimate holding company**

The company's ultimate parent and controlling party is Industrial and Commercial Bank of China Limited (ICBC Limited), a company incorporated in the People's Republic of China. The smallest and largest group into which the results of the company are consolidated is that headed by ICBC Limited. Copies of the Group accounts of ICBC Limited may be obtained from its website at the address below or from investor relations at the following address:

Industrial and Commercial Bank of China Limited  
No. 55 Fuxingmennei Avenue  
Xicheng District  
Beijing 100140  
The People's Republic of China

For more information on ICBC Group, please visit [www.icbc.com.cn](http://www.icbc.com.cn)

## Acronyms and abbreviations

APB	Auditing Practices Board	IFRS	International Financial Reporting Standards as adopted by the EU
APER	Approved persons	ILAAP	Individual liquidity adequacy assessment process
BAC	Board audit committee	ILG	Individual liquidity guidance
BRMC	Board risk management committee	IMA	Internal model approval
BS&R	Business support and recovery	IMF	International Monetary Fund
CapCom	Capital and liquidity management committee	IPV	Independent price verification
CBIRC	China Banking and Insurance Regulatory Commission	IRRBB	Interest rate risk in the banking book
CEO	Chief Executive Officer	ISDA	International Swap Dealers Association
CI	Confidence intervals	KI	Key indicator
CIB	Corporate and Investment Banking division	LAB	Liquid asset buffer
COCON	Code of conduct	LCR	Liquidity coverage ratio
COMEX	Commodity exchange	LGD	Loss given default
Company	ICBC Standard Bank Plc company	MLRC	Market risk and liquidity committee
CRO	Chief Risk Officer	MRT	Material risk taker
CSA	Credit Support Annex	NSFR	Net stable funding ratio
CSR	Corporate social responsibility	OCI	Other comprehensive income
CVA	Credit valuation adjustment	OIS	Overnight index based swap curves
DCM	Debt Capital Markets	OpCo	Operational risk committee
DVA	Own credit valuation adjustments	ORM	Operational risk management
EAD	Exposure at default	OTC	Over-the-counter
EBA	European Banking Authority	PBB	Personal and Business Banking
Ecap	Economic capital	PD	Probability of default
ECL	Expected credit loss	PIT	Point-in-time
EM	Emerging markets	POCI	Purchased or Originated Credit Impaired
EMIR	European Market Infrastructure Regulation	PRA	Prudential Regulation Authority
EP	Economic profit	RAS	Risk appetite statement
ESG	Environmental, Social and Governance	RCSA	Risk control self assessment
EU	European Union	Remco	Remuneration committee of the group
EURIBOR	Euro Interbank offered rate	Repos	Repurchase agreements
EVE	Economic value of equity	RFR	Risk free rate
EWI	Early warning indicator	RMC	Risk management committee
FCA	Financial Conduct Authority	RMAC	Risk methodologies approval committee
FICE	Fixed Income, Currencies and Equities	SASB	Sustainability Accounting Standards Board
FIRB	Foundation internal ratings based	SBG	Standard Bank Group Limited and subsidiaries
FOA	Futures and Options Association	SBLH	Standard Bank London Holdings Limited
FOMC	Federal Open Markets Committee	SBSA	Standard Bank of South Africa Limited
FVA	Funding valuation adjustment	SECR	Streamlined Energy and Carbon Reporting
FVOCI	Fair value through other comprehensive income	SIFMA	Securities Industry and Financial Markets Association
FVPL	Fair value through profit or loss	SONIA	Sterling overnight index average
GMRA	Global Master Repurchase Agreement	SPPI	Solely payments of principal and interest
GRI	Global Reporting Initiative	SVaR	Stressed Value-at-risk
Group	ICBC Standard Bank Plc, its subsidiaries and CSEs	TCFD	Task Force on Climate-Related Financial Disclosures
HQLA	High quality liquid asset	TCM	Treasury & Capital Management
IAS	International Accounting Standards	TCR	Total capital requirement
IBOR	Benchmark interest rates	TPRM	Third party risk management framework
ICAAP	Internal capital adequacy assessment process	TTC	Through-the-cycle
ICBC	Industrial and Commercial Bank of China Limited	UL	Unexpected loss
ICBCS	ICBC Standard Bank Plc	VaR	Value-at-risk
ICMA	International Capital Market Association	VAT	Value added tax
		WWR	Wrong way risk
		ZAR	South African Rand

# Contact Information

## **CHINA**

ICBC Standard Resources (China) Limited  
Unit 2302, ICBC Tower  
No. 8 & 16 Yincheng Road  
Shanghai 200120  
The People's Republic of China

X Liu  
*General Manager*

## **SINGAPORE**

ICBC Standard Bank Plc - Singapore branch  
One George Street  
No. 16-04  
Singapore 049145

V Yu  
*Chief Executive*

## **UNITED KINGDOM**

ICBC Standard Bank Plc  
20 Gresham Street  
London EC2V 7JE England  
United Kingdom

W Wang  
*Chief Executive*  
<https://www.icbcstandardbank.com>

## **UNITED STATES OF AMERICA**

ICBC Standard NY Holdings, Inc. group  
28th Floor  
520 Madison Avenue  
New York  
N.Y. 10022  
USA

J Roncevich  
*Chief Executive*