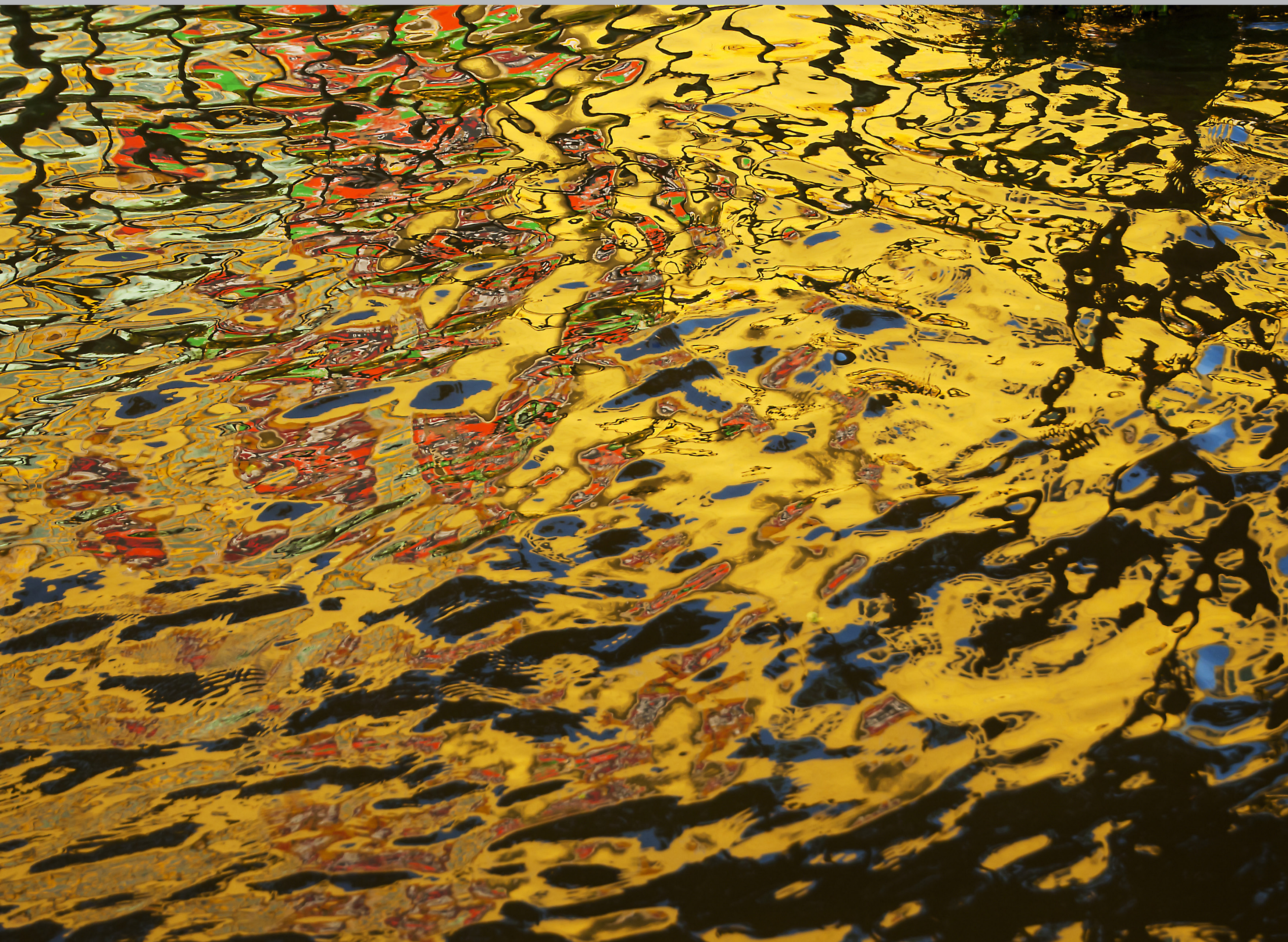
ICBC Standard Bank

Consolidated Annual Report

for the year ended 31 December 2016

ICBC Standard Bank Plc

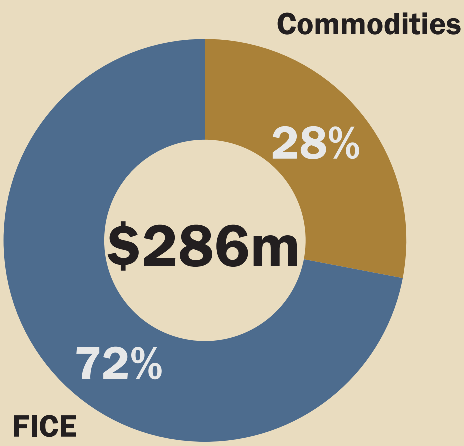


www.icbcstandard.com

ICBC Standard Bank at a glance

ICBC Standard Bank is a London-based global markets business, focusing on commodities, fixed income, currencies and equities products.

Operating revenue for 2016



Offices and number of employees

918

employees for the year

Structure

ICBC —20%→ Standard Bank

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

Pre-eminent Africa-focused financial services group

60% → ICBC Standard Bank ← 40%

Our businesses

Commodities, Fixed Income, Currencies & Equities

Credit ratings - ICBC Standard Bank

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

Vision, strategic priorities and values

Our vision

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

Our operating model

Global markets banking specialist offering Commodities and Fixed Income, Currency and Equities (FICE) products with a focus on emerging and frontier markets.

Our strategic priorities

Leverage the franchise strength of our shareholders

Focus our efforts where we are differentiated

Simplify the business model

Underpinned by our values

Serving our Clients

Upholding the highest levels of Integrity

Commitment to Excellence

Being Open and Transparent

Delivering to Stakeholders

Progress against strategic priorities

- Vaulting and Clearing product launched with purchase of commercial Precious Metals Vault
- Gold clearer and member of London Precious Metals Clearing Limited
- Leveraging ICBC client relationships with notable high value clients on boarded and landmark transactions executed
- China/Africa knowledge generating revenue opportunities
- Improved cost efficiency despite regulatory complexity

Contents

1. Strategic report

The directors present their strategic report for the year ended 31 December 2016 for ICBC Standard Bank Plc ('the company') and its subsidiaries (together 'the group').

Introduction

The group is a leading financial markets and commodities bank, benefiting from its unique Chinese and African parentage, providing a platform to serve the growing demands of Chinese clients for global markets products, while continuing as a distribution platform for African risk.

The group specialises in traded products including commodities, fixed income, currencies and equities, focusing, in particular, on emerging market jurisdictions across Asia, Africa, Central and Eastern Europe, the Middle East and Latin America.

The group is headquartered in London, with operations in Dubai, Hong Kong, Singapore, New York, and Tokyo. The group's representative office in Shanghai is to be closed.

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

The company has access to major international financial exchanges through its membership of London Metals Exchange, London Stock Exchange and Tokyo Commodities Exchange. In December 2016, the company became the first UK bank to obtain clearing membership on Moscow Exchange's Foreign Exchange Market. It also owns two seats on the New York Mercantile Exchange (Comex division) and a seat on the Shanghai Gold Exchange International Board.

Global Markets business

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

The partnership between ICBC and SBG has expanded the strategic capability of the Global Markets business in order to serve the increasing demand for commodities, hedging and capital market capabilities from Chinese clients and also to support the further internationalisation of the Chinese Renminbi.

The Global Markets business is structured across two business units: Commodities and Fixed Income, Currencies and Equities (FICE).

Commodities

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

FICE

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

Discontinued product areas

All activities that were previously performed by the group, which do not form part of the Global Markets business, were discontinued, with the associated assets and liabilities being transferred to SBG in 2014 prior to the change of control. These discontinued product areas included Investment Banking, Transactional Products and Services, Principal Investment Management and Private Client Services.

Market conditions

Volatile conditions persisted during 2016 in response to key market events, resulting in widespread uncertainty for much of the year across global financial markets. Subdued commodity and oil prices, coupled with uncertain economic and geopolitical conditions, created a challenging operating environment for the group, most notably at the start of the year, with conditions markedly improved in the second half of the year.

The first half of the year was dominated by anticipation surrounding the UK referendum on EU membership held on 23 June 2016. The decision to leave the EU had widespread impact across UK and EU markets, with the pound falling significantly against the US dollar. The effect on rates markets was also significant with 10-year German government bonds falling to a record low negative yield as demand for defensive instruments surged. Despite the initial impact, most markets recovered quickly and organisations now wait to learn the practicalities of an anticipated exit in 2019.

The lead up to the US presidential election in November also caused uncertainty, with the outcome sending initial shocks through the markets, albeit followed by a prompt recovery. Despite the market volatility, and reflecting a more robust US and global economy as the year came to an end, the Federal Reserve moved to raise rates by 25bp at its December meeting.

Gold markets rallied early in the year in response to investor demand across Europe and the US, while base and other precious metals fluctuated in line with shifts in macro-economic sentiment. Concerns over China’s slowing economic growth saw prices remain at multi-year lows across copper, nickel, lead, tin and oil for much of the year, negatively impacting many commodity producing nations. Prices began to recover toward the end of the year, reflecting the more robust economic environment and showed positive momentum going into 2017.

Performance

Revenue performance in 2016 improved ending the year at US$286.2 million, a 66% increase on 2015. Subdued trading conditions in commodities resulted in compressed margins and low volumes during much of the year, impacting business performance. However, this was offset by a strong result in the FICE division supported by a number of favourable opportunities in emerging markets. Efforts to reduce and contain operating costs continued through the year, resulting in lower operating costs compared to 2015 while increasing investment in business development.

Commodities

Revenue growth during the first half of 2016 was impacted by challenging market conditions with commodities prices falling to multi-year lows, resulting in decreased client trading activity. Commodities revenues improved over the second half as client flows increased, helped by volatile trading conditions caused by the UK referendum and US presidential election. This resulted in overall revenues for the year increasing to US$81.9 million (2015: US$54.8 million).

Base Metals revenues were affected in the first half of 2016 as compressed margins impacted trading activity. Derivative and trading revenues strengthened over the second half as market sentiment began to improve. The financing business adjusted its volumes and risk appetite in light of the challenging conditions while working to further enhance its control framework.

In early 2016, Precious Metals revenues were negatively impacted by low physical premiums and financing margins. However, the business had a strong second half as a combination of improved financing margins and increased market activity off the back of more buoyant gold prices resulted in improved client flow, which in turn improved overall revenues by 20% on 2015. The purchase of a precious metals vault from Barclays in July 2016 and acceptance as a clearing member of the London Precious Metals Clearing company (LPMCL) realised a key strategic initiative for the group. The vault is operational and holds group, ICBC and client metal. Business development continues with a focus on Chinese financial institutions and increased partnership with ICBC branches.

The Energy and Bulk business successfully developed a suite of oil financing products, meeting the requirements of large Chinese state-owned enterprises and major international trading companies. Revenue performance was subdued as low prices reduced the demand for funding to finance stock holdings and clients had abundant supplies of USD liquidity. Despite this, the business executed its first energy financing transaction in which ICBC shared a risk participation, which is expected to be a model for future business activities.

In the light of the subdued trading environment, management consolidated the Commodities business model to reflect current operating conditions. Headcount reductions and team changes were undertaken, with the decision to convert Shanghai and New York to sales centres only, and to cease Commodities' activities in Dubai. Whilst the business has been streamlined, the full suite of products has been maintained; allowing Commodities to scale business as and when the market improves and new opportunities arise.

FICE

The FICE business delivered strong revenue growth in 2016, with total revenues for the year of US$206.5 million (2015: US$67.7 million). The business navigated unpredictable conditions including significant devaluation in some key markets, notably China (Yuan) and Nigeria (Naira). Political uncertainty weighed heavily on liquidity and volumes as the outcomes of the EU referendum and US election caught markets by surprise. Trading performance in 2016 reflected solid risk management.

Growth in the client franchise was encouraging during the year. In addition to its well-established global investor franchise, the FICE business invested heavily in three key areas: China sales franchise focussing on ICBC and its clients; Corporate, Financial Institutions and Sovereign franchise leveraging the Emerging Markets and African expertise; and a structured solutions sales team specialising in bespoke financing and liability management solutions for our clients.

Business growth sourced from ICBC and their clients is a clear validation of the strategic relationship. A number of noteworthy transactions were executed in 2016, including large central bank financing deals and multiple project-finance hedges for US high yield energy clients. There has been significant cooperation with ICBC in the Debt Capital Markets (DCM) business, including the first “bridge to bond” loan and the first Panda bond opportunities.

The FICE growth strategy for 2017 will be underpinned by continued investment in origination and structuring capabilities to enhance the offering to the client franchise.

Financial results

The group’s results for the year are shown in the consolidated income statement on page 21 and key performance indicators are discussed within this report.

The loss attributable to shareholders in 2016 of US$98.8 million compares favourably to a loss of US$267.7 million in the prior year.

The difficult market conditions experienced in 2015 continued into early 2016, particularly in commodities which experienced further reductions in prices and volumes in the early part of the year in many product types. However, market conditions improved as the year progressed with increased volumes and client activity contributing to improved performance, with the FICE business performing particularly strongly. The improved revenue performance was further supported by integration benefits arising from business opportunities with ICBC and its clients. A reduction in Treasury losses, driven by the utilisation of cheaper funding sources and more efficient management of surplus liquidity, also contributed to the group’s improved revenue performance.

Operating expenses of US$382.9 million were lower than the prior year costs of US$386.1 million. The decrease is due primarily to savings achieved in other operating expenses as a result of various cost reduction initiatives executed during the year while increasing investment in business development.

Total assets at year-end were US$20,223.6 million, broadly consistent with prior year (US$20,137.5 million). However, there were changes in the asset mix, with increases in collateralised client lending, assets held as part of the liquid asset portfolio and increased metal stock holdings offset by reduced cash placements held with the Bank of England and reductions in derivative financial assets and trading assets.

Capital resources

At the end of the reporting period, the group's equity capital resources amounted to US$956.9 million (2015: US$1,075.0 million) and total capital resources qualifying for prudential purposes amounted to US$1,227.3 million (2015: US$1,449.6 million). The group remains well-capitalised, with a total capital adequacy ratio of 19.3% (2015: 19.1%), a tier 1 ratio of 14.6% (2015: 13.9%) and risk weighted assets of US$6,362.8 million (2015: US$7,579.7 million).

The group’s leverage ratio, which measures tier 1 capital to a defined measure of on-balance sheet assets and off-balance sheet items, was 4.7% at 31 December 2016 (2015: 5.4%). A minimum leverage ratio of 3% is expected to be applied by the PRA from 2019.

On 13 January 2017, the group received further capital of US$265.0 million from its shareholders, in accordance with the capital plans forming part of the group's strategic planning process. The additional capital is intended to replenish the capital base and ensure that the group can meet its growth and profitability objectives in 2017. The total capital adequacy ratio and tier 1 ratio would be 23.7% and 19.0%, including the benefit of the new capital.

Liquidity

The group maintained a strong liquidity profile throughout the year and at year end. Under the required stress testing scenarios, the group maintained a survival horizon in excess of the internally established limit and liquidity in excess of the regulatory ratio.

Management forecasts the group's funding and liquidity requirements in the funding plan as part of the annual budgeting cycle. The group's stress testing results, regulatory ratios and funding composition are reviewed throughout the year and the outcome of this ongoing review is used to continuously reassess the group's funding and liquidity requirements.

Change in control

On 1 February 2015, Industrial and Commercial Bank of China Limited (ICBC) acquired, for cash consideration, a controlling interest of 60% in Standard Bank Plc (and its subsidiary companies), Standard Bank Group's (SBG) London-based global markets business. Following the acquisition, the company was renamed ICBC Standard Bank Plc. The group specialises in the sales and trading of commodity, fixed income, currency and equity products.

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

ICBC Group profile

ICBC, formerly known as Industrial and Commercial Bank of China, was established on 1 January 1984. On 28 October 2005, ICBC was restructured to a joint-stock limited company. On 27 October 2006, ICBC was listed on both the Shanghai and Hong Kong stock exchanges and has developed into one of the largest listed banks in the world, possessing a significant customer base, a diversified business structure, strong innovation capabilities and market competitiveness. ICBC has a presence on six continents and its overseas network spans 42 countries and regions.

ICBC provides a comprehensive suite of financial products and services to over five million corporate customers and over 500 million personal customers through its various distribution channels. These consist of domestic institutions, overseas institutions and correspondent banks worldwide, as well as the e-banking network comprising a range of internet and telephone banking services and self-service banking centres. These form a diversified and international operating structure focusing on commercial banking business while maintaining a leading position in ICBC's domestic market.

Standard Bank Group profile

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

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

Business objectives and strategies

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

Good progress has been made in 2016 against the group's strategic priorities, including the following:

- Leveraging the franchise strength of the company's shareholders; and
- Focusing the company's efforts where it is differentiated.

Leverage the strength of ICBC franchise

As the largest Chinese bank and majority shareholder, integration with ICBC is fundamental to the group's strategy. ICBC's ownership creates a unique and compelling competitive advantage and work has progressed during 2016 to leverage the ICBC franchise. An enhanced commodity and financial markets platform and access to ICBC's client base have created sizable commercial opportunities within emerging markets. Solid growth in client volumes and turnover during 2016, along with a number of landmark transactions executed with ICBC support, further demonstrates the value of the ICBC franchise. With ICBC's balance sheet strength and leading Renminbi capabilities, the group is well placed for sustainable franchise and revenue growth over the long term.

Commodities franchise centred on ICBC network

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

Continue building FICE business

The FICE business will continue to build its role as a foreign exchange and interest rate hub for ICBC, targeting corporates, sovereigns and financial institutions. It also aims to continue to leverage SBG franchise growth. FICE has a major focus on emerging market currency, rates and credit products which it distributes to its investor client base. Additionally investments have been made in the event driven origination and structuring teams who work closely with ICBC branches and onshore Chinese clients.

Capital management and liquidity

The group adopts a holistic approach to capital and liquidity risk management which links strategy, policy, management and monitoring with appropriate escalation and feedback mechanisms. The group seeks to ensure that emerging risks are identified promptly through the early warning indicator and liquidity risk tolerance frameworks.

ICBC and SBLH invested further capital of US$265.0 million on 13 January 2017 to support business growth, replenish the capital base of the group and ensure that the group has sufficient financial resources to accomplish its business plan for 2017.

Key risk areas and impact on prospects

The group faces a number of risks and uncertainties in the normal course of conducting banking business. The key risks and risk management processes are set out in note 37 of this report. Policies, procedures, limits and other controls are in place at either the group or functional level to manage these risks and align to the Board's risk appetite. The key business risks that may impact business strategies and financial prospects are described below.

On 23 June 2016, the UK voted in a referendum to leave the European Union (EU). This has created considerable uncertainty and has resulted in a significant increase in market volatility. Negotiation of the UK's exit agreement and its future relationship with the EU and other trading partners around the world is likely to take a number of years to resolve. It is expected this will lead to uncertain economic conditions and market volatility for both the UK and other EU members throughout that period and impact general trading conditions for the group.

The integration of the group with ICBC remains a primary focus of management. A number of initiatives are underway to strengthen business integration of the group within the wider ICBC franchise. Some are well progressed, such as precious metals vaulting and clearing, while others, such as greater IT systems integration, will occur over the longer term.

Restoring profitability remains a key focus for management. The slowdown in China and depressed commodity markets prevalent at the start of the year have abated with markets stabilising in the second half of the year. However, concerns remain over the pace of the global economic recovery, heightened by recent political events such as the UK's vote to leave the EU and the US presidential election. This disappointing pace of growth in many leading and developing economies continues to result in low levels of interest rates and, as a result of the supportive monetary policies, low margins for many of the bank's products. The impact of this on the group's business plan continues to be closely monitored. However, accelerating the monetisation of the significant revenue opportunities arising from the partnership with ICBC and managing the financial resources required to support business demand and growth remain primary objectives of the group.

The group's credit rating is important for its business operations. The credit rating is premised on support from ICBC as parent, as well as consideration of the group's strong capital and liquidity position, corporate strategy and future profitability. Moody's and Fitch Ratings' credit ratings for the group are at Baa3 and BBB+ respectively, with stable outlooks.

The group continues to focus on effective risk management and developing diversified funding sources. The funding plan is calibrated with respect to the group's credit rating and market conditions broadly, however the ability to raise funds while managing funding costs at reasonable levels continues to present a key challenge. Because of the group's position as an ICBC affiliate, the long term funding costs of the bank are likely to be closely related to those of ICBC and the Chinese financial sector more widely.

The Net Stable Funding Ratio (NSFR) represents the ratio of available stable funding (that is equity capital and liabilities maturing over one-year) to required stable funding (determined with reference to asset type e.g. assets maturing in over one-year require 100% stable funding and commodity stocks 85%). The NSFR will require the group to optimise its balance sheet composition, increasing its available stable funding by lengthening deposit tenors and acquiring deposits with greater available stable funding weightings. The ratio is required to be at least 100% and will come into effect on 1 January 2019 at the earliest.

The regulatory environment encompasses both prudential and conduct requirements and continues to evolve. In March 2016, the group implemented the Senior Managers and Certification Regimes (SMCR). This was introduced by the PRA and FCA as a new accountability framework for individuals, replacing the previous 'approved persons' regime. The management team has also responded to the ongoing prudential requirements by implementing appropriate actions to maintain a strong liquidity position and capital ratios, in both cases in excess of minimum regulatory requirements. The group's capital and liquidity management includes consideration of the impact of emerging requirements in its capital and liquidity forecasts and stress tests to ensure the group continues to be adequately capitalised and funded. The group has also put in place plans and resources to evaluate and meet changed regulatory requirements under the Markets in Financial Instruments Directive II, Basel III, Volcker, Dodd Frank Act, Common Reporting Standard (CRS), European Market Infrastructure Regulation (EMIR) on derivatives, central counterparties and trade repositories, collateral management system replacement (IOSCO regulation) and other reform programmes.

From time to time, the group is the subject of litigation, regulatory reviews and requests for information by various governmental and regulatory bodies arising from the group's business operations. While there is inherent uncertainty in predicting the outcome of these matters, management believe that based upon current knowledge, adequate provisions have been made. ICBCS remains bound by the terms of the deferred prosecution agreement, referred to in note 29.3, that was entered into in 2015.

As a financial services organisation, the group faces potential conduct risks, including those from selling products which may not meet customer needs and from exhibiting behaviours that may not meet market or regulatory standards. Such failures could result in significant losses or reputational damage. To address these concerns, the group has developed a Conduct and Culture framework. This has been communicated to staff across all areas and provides a framework to ensure that the group acts with the highest levels of integrity, in order to protect the interests of clients, the markets, and other stakeholders.

Failures to identify and address potential conflicts of interest may adversely affect the group's business. Such conflicts can arise for example where services to a particular client conflict with the interests of another client, the business has access to material non-public information or where the group is a creditor of an entity with which it also has an advisory or other relationship. Extensive procedures and controls are in place to identify and address conflicts of interest, including those designed to prevent improper sharing of information. Failure to identify, disclose and deal appropriately with such conflicts could damage the group's reputation and could also give rise to litigation or regulatory enforcement actions.

The group relies on the secure processing, storage and transmission of confidential and other information in its computer systems and networks. Despite efforts to ensure the integrity of its systems and information, the group may not be able to anticipate, detect or implement effective preventive measures against all cyber threats. These could take the form of unauthorised access to or misuse of systems, computer viruses or other malicious code events. The group continuously monitors and develops its systems to protect its technology infrastructure and data from cyber-attacks, which could jeopardise confidential and other information processed, stored in, and transmitted through, the group's computer systems and networks. Any such attacks could impact on the group's ability to transact or result in significant losses or reputational damage.

By order of the Board

W Wang
Chairman

21 February 2017

20 Gresham Street
London EC2V 7JE
Registered in England and Wales No. 2130447

2. Directors' report

The directors present their report and financial statements for the year ended 31 December 2016 for ICBC Standard Bank Plc ('the company') and its subsidiaries (together 'the group').

In accordance with Section 414A of the Companies Act 2006, the directors have presented a strategic report on pages 2 to 10 of this annual report. This contains a review of the group's businesses, a description of the principal risks and uncertainties facing the group and a description of its future outlook in accordance with section 414C of the Companies Act 2006.

Going concern basis

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

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

On 1 February 2015, Industrial and Commercial Bank of China Limited (ICBC) acquired, for cash consideration, a controlling interest of 60% in Standard Bank Group's (SBG) London-based global markets business. The company was renamed as ICBC Standard Bank Plc after completion of the acquisition.

The group maintains a strong capital and liquidity position. In addition, ICBC issued the following statement of support on 1 February 2015, which remains in force:

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

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

Dividends

The directors do not recommend the payment of a dividend.

Internal control and financial reporting

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

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

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

Such procedures for the ongoing identification, evaluation and management of the significant risks faced by the group have been in place throughout the year and up to 21 February 2017, the date of approval of the consolidated annual report for the year ended 31 December 2016.

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

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

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

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

Committees

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

Governance committee

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

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

The major sub-committees supporting the governance committee in fulfilling its responsibilities are the capital management committee, risk management committee, regulatory compliance committee, client risk management committee, new products committee, transaction acceptance committee, integration and change committee, conduct and culture committee and outsourced services committee.

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 compliance, financial and accounting control systems. The committee's other responsibilities are to review the scope of external and internal audit, to receive regular reports from internal audit and the external auditors, KPMG LLP, and to review the financial statements focusing in particular on accounting policies, and areas of management judgement and estimates. The committee meets quarterly.

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

C J Sheridan and H E Staunton served on this committee during the period until resigning as directors of the company.

Board risk management committee

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

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

M Bi, C J Sheridan, H E Staunton and J Zeng served on this committee during the period until resigning as directors of the company.

Board remuneration committee

This non-executive board committee approves remuneration policy and long-term incentive schemes for staff, sets the remuneration of executive directors and other senior executives, and approves guidelines for the group's annual salary and incentive reviews.

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

M Bi, P Chen, C J Sheridan, Q Hou and H E Staunton served on this committee during the period until resigning as directors of the company. Y Wang served on this committee during her time as a director during the period.

Transactions with directors and related parties

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

Directors' liability insurance

The group maintained directors' and officers' liability insurance during the twelve months ended 31 December 2016.

Employees

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

Employee involvement in the group's business is encouraged and information disseminated through communication meetings and an internal staff publication.

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

Directors and directors' interests

The directors who held office during the course of 2016 or who hold office as at the date of this report are as follows:

Current directors:

J E Eden	(Appointed as an independent non-executive director on 5 September 2016)
E J Giera	(Independent non-executive director)
F Hu	(Appointed as a non-executive director on 14 October 2016)
Y Hu	(Appointed as President and executive director on 13 September 2016)
B J Kruger	(Non-executive director)
D C Munro	(Non-executive director)

A W Simmonds	(Independent non-executive director)
M M van der Spuy	(Chief executive and executive director)
S Wang	(Executive director)
W Wang	(Appointed as a non-executive director on 4 May 2016 and as Chairman on 6 February 2017)
R U Weerasekera	(Appointed as an independent non-executive director on 5 September 2016)

Former directors:

M Bi	(Resigned as Chairman and non-executive director on 6 February 2017)
P Chen	(Resigned as a non-executive director on 21 January 2016)
Q Hou	(Resigned as a non-executive director on 4 May 2016)
C J Sheridan	(Resigned as an independent non-executive director on 5 September 2016)
H E Staunton	(Resigned as an independent non-executive director on 5 September 2016)
Y Wang	(Appointed as a non-executive director on 4 May 2016 and resigned on 14 October 2016)
J Zheng	(Resigned as a non-executive director on 13 September 2016)
J Xu	(Resigned as an executive director on 10 February 2017)

None of the directors held any beneficial interest in the ordinary share capital of the company during the year or at 31 December 2016.

Auditor

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

By order of the Board

R Otterson
Secretary

21 February 2017

20 Gresham Street
London EC2V 7JE
Registered in England and Wales No. 2130447

3. Remuneration policy statement

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

Introduction

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

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

The primary objective of the remuneration strategy is to implement designs and practices that only reward value delivered, adjusted appropriately for risk assumed.

A second objective in 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 remuneration committee (Remco) seeks to design and implement structures and practices that are specifically tailored to the group's business strategy.

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

Principles that underpin our remuneration strategy

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

- The group rewards sustainable, long-term business results.
- The group does not discriminate between employees based on diversity or physical difference.
- The reward focus is on total reward, being fixed and variable remuneration. The group seeks to be competitive in both elements, but annual incentives are not a function of a guaranteed package.
- The group creates an appropriate balance between the fixed pay and variable elements of total reward. A deferral policy affects annual incentives above pre-determined levels.
- Vesting conditions attached to deferred awards and long-term incentives make provision for malus and forfeiture of unvested awards.
- The group determines all elements of pay based on an understanding of market remuneration levels and internal relative remuneration.
- Remuneration structures encourage a focus on achieving agreed deliverables and behaviours, rather than hours worked.
- Individual performance appraisals identify talent at all levels in the organisation, enabling fair and competitive remuneration.
- Individual rewards are determined according to group, business unit and individual performance.
- The group rewards experience and performance relative to others doing similar work and performance against the market.
- The principles of individual reward differentiation are transparent, and are based on quantitative and behavioural performance as well as retention.
- Remuneration designs comply with all legal and regulatory requirements.
- Ongoing oversight to eliminate any potential for irresponsible risk taking by individuals and to ensure risk adjustment forms an intrinsic part of remuneration design.

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

Remuneration strategy

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

The group's remuneration strategy includes the following:

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

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

Discretionary incentive deferral

The group operates a deferred discretionary incentive arrangement, the purpose of which is to strengthen the retention effect of incentive remuneration.

Deferred incentive awards are also designed to allow malus (forfeiture) during the vesting period in circumstances where:

- there is reasonable evidence of misbehaviour or material error by the participant;
- the group, the employer company or the relevant business unit suffers a material downturn in its financial performance, for which the participant can be seen to have some liability;
- the group, the employer company or the relevant business unit suffers a material failure of risk management, for which the participant can be seen to have some liability; or
- in any other circumstances, if the Remco determines that it is reasonable to subject unvested awards of one or more participants to reduction or forfeiture.

Employees deemed as material risk takers (MRTs) and categorised under certain elements of the qualitative criteria, as per the UK FCA/PRA regulations, are subject to relatively higher deferral conditions than those imposed by the group's mandatory deferral scheme. The deferral for this population increases on a marginal basis from 30% at US$150,000 to 50% deferral for the highest awards.

For non-MRTs, a proportion of the incentive may be deferred increasing on a marginal basis from 30% at US$150,000 to 45% deferral for the highest awards.

Some MRTs, who have been identified under either the qualitative or quantitative definitions for the year ended 31 December 2016, may continue to be subject to the group's mandatory internal deferral policy.

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

4. Statement of directors' responsibilities

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

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's and the group'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 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 (UK) governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

We confirm that to the best of our knowledge:

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

By order of the Board

R. Otterson

R Otterson

Secretary

21 February 2017

20 Gresham Street
London EC2V 7JE
Registered in England and Wales No. 2130447

5. Independent auditor's report to the members of ICBC Standard Bank Plc

We have audited the financial statements of ICBC Standard Bank Plc for the year ended 31 December 2016 set out on pages 20 to 98. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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.

Respective responsibilities of directors and auditor

As explained more fully in the statement of directors' responsibilities set out on page 18, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2016 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, the information given in the strategic report and directors' report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the strategic report and the directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Paul Furneaux (Senior statutory auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
15 Canada Square, London, E14 5GL
21 February 2017

6. Consolidated balance sheet

The balance sheet presents assets, liabilities and shareholders' equity for the group as at 31 December 2016.

	Note	2016 $m	2015 $m
Assets			
Cash and balances with central banks	3	**1,174.3**	3,254.2
Due from banks and other financial institutions	4	**1,842.3**	1,510.9
Financial assets held for trading	5	**970.5**	2,443.9
Financial assets designated at fair value through profit or loss	6	**1,339.2**	7.9
Derivative financial assets	7	**4,715.0**	6,223.0
Reverse repurchase agreements	8	**3,601.1**	2,684.5
Loans and advances to customers	9	**855.3**	427.1
Financial investments	10	**1,300.7**	105.3
Property and equipment	11	**22.6**	21.1
Current tax assets		**0.4**	1.1
Deferred tax assets	12	**1.4**	3.0
Other assets	13	**4,400.8**	3,455.5
Total assets		**20,223.6**	20,137.5
Liabilities and equity			
Liabilities		**19,266.7**	19,062.5
Financial liabilities held for trading	15	**781.7**	984.3
Financial liabilities designated at fair value through profit or loss	16	**1,313.3**	-
Derivative financial liabilities	7	**4,849.3**	5,926.3
Due to banks and other financial institutions	17	**8,022.7**	10,259.2
Repurchase agreements	18	**2,097.7**	361.4
Certificates of deposit	19	**63.3**	97.4
Due to customers	20	**519.3**	573.4
Current tax liabilities		**0.5**	-
Subordinated debt	21	**529.2**	682.9
Other liabilities	22	**1,089.7**	177.6
Equity			
Equity attributable to ordinary shareholders		**956.9**	1,075.0
Share capital	28	**1,083.5**	1,083.5
Ordinary share premium		**731.0**	731.0
Reserves		**(857.6)**	(739.5)
Total liabilities and equity		**20,223.6**	20,137.5

The accounting policies and notes on pages 28 to 98 should be read as part of the financial statements.

Approved by the Board of Directors and signed on its behalf on 21 February 2017.

M van der Spuy, Chief Executive

W Wang, Chairman

7. Consolidated income statement

The income statement presents the financial performance for the group for the year ended 31 December 2016.

	Note	2016 $m	2015 $m
Net interest income / (expense)		**36.1**	(3.7)
Interest income	30.1	**90.2**	57.3
Interest expense	30.2	**(54.1)**	(61.0)
Non-interest revenue	30.3	**250.1**	176.4
Net fees and commission		**17.7**	18.6
Fees and commission income		**19.3**	20.2
Fees and commission expenses		**(1.6)**	(1.6)
Trading revenue		**215.9**	107.3
Net gain on financial assets and liabilities at fair value through profit or loss		**19.0**	-
(Loss) / recovery on commodity reverse repurchase agreements	30.4	**(2.5)**	50.5
Total operating income		**286.2**	172.7
Credit impairment (charges) / recoveries	30.5	**(0.3)**	0.4
Income after impairments		**285.9**	173.1
Operating expenses		**(382.9)**	(386.1)
Staff costs	30.6	**(251.8)**	(229.1)
Other operating expenses	30.7	**(124.6)**	(152.2)
Indirect taxation	30.8	**(6.5)**	(4.8)
Loss before taxation		**(97.0)**	(213.0)
Income tax charge	31	**(1.8)**	(19.8)
Loss for the period from continuing operations		**(98.8)**	(232.8)
Discontinued operations		**-**	(34.9)
Loss attributable to equity shareholders		**(98.8)**	(267.7)

The accounting policies and notes on pages 28 to 98 should be read as part of the financial statements.

8. Consolidated statement of comprehensive income

This statement shows the comprehensive income for the year ended 31 December 2016.

	2016 $m	2015 $m
Loss attributable to equity shareholders	**(98.8)**	(267.7)
Items that may be subsequently reclassified to profit or loss[1]		
Foreign currency translation reserve	**(5.2)**	(3.7)
Cash flow hedging reserve	**(13.6)**	(8.7)
Effective portion of changes in fair value	**(29.6)**	(13.0)
Net amount transferred to profit or loss	**16.0**	4.3
Changes in fair value of available-for-sale assets	**(0.5)**	(0.9)
Total comprehensive loss attributable to equity shareholders	**(118.1)**	(281.0)

[1]Amounts are presented net after tax.

9. Consolidated statement of changes in shareholders' equity

This statement presents a summary of the changes in shareholders' equity for the year ended 31 December 2016.

	Ordinary share capital and share premium[1] $m	Cash flow hedging reserve $m	Available-for-sale reserve $m	Foreign currency translation reserve $m	Retained earnings[2] $m	Total equity $m
Balance at 1 January 2015	1,514.5	0.3	2.4	6.8	(508.9)	1,015.1
Total comprehensive loss for the year	-	(8.7)	(0.9)	(3.7)	(267.7)	(281.0)
Equity contribution under indemnity claim[3]	-	-	-	-	40.9	40.9
Shares issued including share premium	300.0	-	-	-	-	300.0
Balance at 31 December 2015	1,814.5	(8.4)	1.5	3.1	(735.7)	1,075.0
Balance at 1 January 2016	**1,814.5**	**(8.4)**	**1.5**	**3.1**	**(735.7)**	**1,075.0**
Total comprehensive loss for the year	**-**	**(13.6)**	**(0.5)**	**(5.2)**	**(98.8)**	**(118.1)**
Balance at 31 December 2016	**1,814.5**	**(22.0)**	**1.0**	**(2.1)**	**(834.5)**	**956.9**

[1]On 29 January 2015, the company issued an additional two ordinary shares of US$1 each to Standard Bank London Holdings Limited, at a share premium of US$150 million per share
[2]Retained earnings include the equity contribution under indemnity claim.
[3]The indemnity claim has been reflected as a capital contribution as this is a result of a transaction with SBG (shareholder with significant influence). This claim reimbursed the group for costs incurred on a historic transaction - see note 29.3.

10. Consolidated statement of cash flows

This statement presents a summary of the cash flows for the year ended 31 December 2016.

	Note	2016 $m	2015 $m
Cash flows (used in) / from operating activities			
Loss before taxation			
Continuing operations		**(97.0)**	(213.0)
Discontinued operations		**-**	(34.9)
Adjusted for:			
Net interest expense		**(36.1)**	3.7
Amortisation of intangible assets		**0.1**	11.7
Depreciation of property and equipment		**7.9**	10.1
Non-cash flow movements on subordinated debt		**(8.9)**	(1.7)
Cash-settled share-based payments		**12.2**	10.9
Net credit impairments		**0.3**	0.4
Provisions for leave pay		**(0.2)**	1.7
		(121.7)	(211.1)
Changes in operating funds		**(2,080.7)**	1,648.3
Increase in income-earning assets	32.1	**(3,948.8)**	(816.4)
Decrease in deposits and other liabilities	32.2	**1,868.1**	2,464.7
Interest received		**77.2**	59.0
Interest paid		**(51.1)**	(55.0)
Corporation and withholding tax paid	32.3	**(0.2)**	(3.4)
Cash flows (used in) / from operating activities		**(2,176.5)**	1,437.8
Cash flows used in investing activities			
Capital expenditure on property and equipment		**(9.4)**	(2.0)
Cash flows used in investing activities		**(9.4)**	(2.0)
Cash flows (used in) / from financing activities			
Equity contribution under indemnity claim		**-**	40.9
Proceeds from issue of ordinary share capital to shareholders		**-**	300.0
Redemption of subordinated debt - Step-up perpetual subordinated notes		**(137.9)**	-
Cash flows (used in) / from financing activities		**(137.9)**	340.9
Net (decrease) / increase in cash and cash equivalents		**(2,323.8)**	1,776.7
Effects of exchange rate changes on cash and cash equivalents		**(17.8)**	(0.7)
Cash and cash equivalents at beginning of the year	32.4	**4,476.2**	2,700.2
Cash and cash equivalents at end of the year	32.4	**2,134.6**	4,476.2

11. Company balance sheet

The balance sheet presents assets, liabilities and shareholders' equity for the company as at 31 December 2016.

	Note	2016 $m	2015 $m
Assets			
Cash and balances with central banks	3	**1,174.3**	3,254.2
Due from banks and other financial institutions	4	**1,761.2**	1,456.8
Financial assets held for trading	5	**970.5**	2,476.5
Financial assets designated at fair value through profit or loss	6	**1,339.2**	7.9
Derivative financial assets	7	**4,715.0**	6,222.6
Reverse repurchase agreements	8	**3,601.1**	2,684.5
Loans and advances to customers	9	**855.3**	412.4
Financial investments	10	**1,300.7**	105.3
Property and equipment	11	**14.6**	12.3
Current tax assets		**-**	0.3
Deferred tax assets	12	**-**	-
Other assets	13	**4,398.6**	3,414.6
Investment in group companies	14	**29.5**	29.5
Total assets		**20,160.0**	20,076.9
Liabilities and equity			
Liabilities		**19,256.4**	19,067.2
Financial liabilities held for trading	15	**781.7**	984.3
Financial liabilities designated at fair value through profit or loss	16	**1,313.3**	-
Derivative financial liabilities	7	**4,849.2**	5,926.0
Due to banks and other financial institutions	17	**8,020.5**	10,259.2
Repurchase agreements	18	**2,097.7**	361.4
Certificates of deposit	19	**63.3**	97.4
Due to customers	20	**519.3**	573.4
Current tax liabilities		**0.5**	-
Subordinated debt	21	**529.2**	682.9
Other liabilities	22	**1,081.7**	182.6
Equity			
Equity attributable to ordinary shareholders		**903.6**	1,009.7
Share capital	28	**1,083.5**	1,083.5
Ordinary share premium		**731.0**	731.0
Reserves		**(910.9)**	(804.8)
Total liabilities and equity		**20,160.0**	20,076.9

The accounting policies and notes on pages 28 to 98 should be read as part of the financial statements.

Approved by the Board of Directors and signed on its behalf on 21 February 2017.

M van der Spuy, Chief Executive

W Wang, Chairman

12. Company statement of changes in shareholders' equity

This statement presents a summary of the changes in shareholders' equity for the year ended 31 December 2016.

	Ordinary share capital and share premium[1]	Cash flow hedging reserve	Available-for-sale reserve	Retained earnings[2]	Total equity
	$m	$m	$m	$m	$m
Balance at 1 January 2015	1,514.5	0.3	2.4	(572.4)	944.8
Total comprehensive loss for the year	-	(8.7)	(0.9)	(266.4)	(276.0)
Equity contribution under indemnity claim[3]	-	-	-	40.9	40.9
Shares issued including share premium	300.0	-	-	-	300.0
Balance at 31 December 2015	1,814.5	(8.4)	1.5	(797.9)	1,009.7
Balance at 1 January 2016	**1,814.5**	**(8.4)**	**1.5**	**(797.9)**	**1,009.7**
Total comprehensive loss for the year	**-**	**(13.6)**	**(0.5)**	**(92.0)**	**(106.1)**
Balance at 31 December 2016	**1,814.5**	**(22.0)**	**1.0**	**(889.9)**	**903.6**

[1]On 29 January 2015, the company issued an additional two ordinary shares of US$1 each to Standard Bank London Holdings Limited, at a share premium of US$150 million per share.
[2]Retained earnings include the equity contribution under indemnity claim.
[3]The indemnity claim has been reflected as a capital contribution as this is a result of a transaction with SBG (shareholder with significant influence). This claim reimbursed the company for costs incurred on a historic transaction - see note 29.3.

13. Company statement of cash flows

This statement presents a summary of the cash flows for the year ended 31 December 2016.

	Note	2016 $m	2015 $m
Cash flows (used in) / from operating activities			
Loss before taxation		**(90.8)**	(246.9)
Adjusted for:			
Net interest (income) / expense		**(35.4)**	4.1
Amortisation of intangible assets		**0.1**	11.7
Depreciation of property and equipment		**6.7**	10.1
Non-cash flow movements on subordinated debt		**(8.9)**	(1.7)
Cash-settled share-based payments		**12.2**	10.9
Net credit impairments		**0.3**	0.5
Provisions for leave pay		**(0.2)**	1.7
		(116.0)	(209.6)
Changes in operating funds		**(2,067.4)**	1,670.6
Increase in income-earning assets	32.1	**(3,921.2)**	(817.3)
Decrease in deposits and other liabilities	32.2	**1,853.8**	2,487.9
Interest received		**76.5**	46.3
Interest paid		**(51.1)**	(42.7)
Corporation and withholding tax paid	32.3	**(0.5)**	(1.0)
Cash flows (used in) / from operating activities		**(2,158.5)**	1,463.6
Cash flows used in investing activities			
Capital expenditure on property and equipment		**(9.0)**	(1.2)
Cash flows used in investing activities		**(9.0)**	(1.2)
Cash flows (used in) / from financing activities			
Equity contribution under indemnity claim		**-**	40.9
Proceeds from issue of ordinary share capital to shareholders		**-**	300.0
Redemption of subordinated debt - Step-up perpetual subordinated notes		**(137.9)**	-
Cash flows (used in) / from financing activities		**(137.9)**	340.9
Net (decrease) / increase in cash and cash equivalents		**(2,305.4)**	1,803.3
Effects of exchange rate changes on cash and cash equivalents		**(14.9)**	1.3
Cash and cash equivalents at beginning of the year	32.4	**4,389.6**	2,585.0
Cash and cash equivalents at end of the year	32.4	**2,069.3**	4,389.6

14. Significant accounting policies

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

1. Basis of preparation

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

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

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

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

On 1 February 2015, ICBC acquired a controlling interest in Standard Bank Group's (SBG) London-based global markets business, focusing on commodities, fixed income, currencies, credit and equities products. As Standard Bank Plc was the primary legal entity used by SBG's global markets business, ICBC acquired 60% of that company from Standard Bank London Holdings Limited (SBLH) for cash. The company's name was changed to ICBC Standard Bank Plc following completion of the transaction.

The group maintains a strong capital and liquidity position. ICBC issued the following statement of support on 1 February 2015, which remains in force:

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

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

Changes in accounting policies

The accounting policies are consistent with those adopted in the previous year, except as required in terms of the adoption of the following:

Adoption of new and revised standards

- IFRS 14 *Regulatory Deferral Accounts*.
- *Accounting for Acquisitions of Interests in Joint Operations* (Amendments to IFRS 11 *Joint Arrangements*).
- *Clarification of Acceptable Methods of Depreciation and Amortisation* (Amendments to IAS 16 *Property, Plant and Equipment and IAS 38 Intangible Assets*).
- *Investment Entities: Applying the Consolidation Exception* (Amendments to IFRS 10 *Consolidation of Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities*, and IAS 28 *Investments in Associates*).
- *Annual improvements 2012 – 2014 cycle: Amendments to* IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, IAS 19 *Employee Benefits* and IAS 34 *Interim Financial Reporting*.

The revised standards and interpretations did not have any effect on the group's annual financial statements.

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;
- it has exposure or rights to variable returns from its involvement with the investee; and
- it has the ability to use its power to affect 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, balances and unrealised 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 proportion of comprehensive income and changes in equity allocated to the group and non-controlling interests are determined on the basis of the group's present ownership interest in the subsidiary.

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

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

3. Foreign currency translations

Functional and presentation currency

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

Group companies

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 (including goodwill, intangible assets and fair value adjustments arising on acquisition) are translated at the closing rate on the reporting date;
- income and expenses are translated at average exchange rates for the month, to the extent that such average rates approximate actual rates; and
- all resulting foreign exchange differences are accounted for directly in a separate component of other comprehensive income (OCI), being the foreign currency translation reserve.

Where the partial disposal of a subsidiary that includes a foreign operation does not result in a loss of control, a proportionate share of the balance of the foreign currency translation reserve is transferred to non-controlling interests. For all other partial disposals of a foreign operation, the proportionate share of the balance of the foreign currency translation reserve is reclassified to profit or loss.

On disposal of a subsidiary that includes a foreign operation where a change in ownership occurs and control is lost, the cumulative amount in the foreign currency translation reserve relating to that operation is reclassified to profit or loss at the time at which the profit or loss on disposal of the foreign operation is recognised.

Transactions and balances

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

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

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

Foreign currency gains and losses on intra-group loans are recognised in profit or loss except where the settlement of the loan is neither planned nor likely to occur in the foreseeable future. In these cases, the foreign currency gains and losses are recognised in the group's foreign currency translation reserve and are reclassified to profit or loss either on disposal (loss of control of a subsidiary, loss of significant influence over an associate or loss of joint control over a jointly controlled entity that includes a foreign operation) of the subsidiary, associate or jointly controlled entity that includes a foreign operation, or partial disposal (reduction in ownership interest in a foreign operation other than a disposal) of an associate or jointly controlled entity that includes a foreign operation. In the case of a partial disposal of a subsidiary that includes a foreign operation that does not result in a loss of control, the proportionate share of the cumulative amount of the exchange differences recognised in OCI is reclassified to the non-controlling interests in that foreign operation.

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 liabilities. These instruments are typically held for liquidity, investment, trading or hedging purposes. All financial instruments are initially recognised at fair value plus directly attributable transaction costs, except those carried at fair value through profit or loss where transaction costs are recognised immediately in profit or loss.

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

Subsequent measurement

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

Held-for-trading assets and liabilities
Held-for-trading assets and liabilities include those financial assets and liabilities acquired or incurred principally for the purpose of selling or repurchasing in the near term and those forming part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are always categorised as held-for-trading, as reflected in note 24.

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

Financial assets and liabilities designated at fair value through profit or loss

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

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

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

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

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

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

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

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

Financial liabilities at amortised cost
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.

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

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

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

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

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

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

When such valuation models, with only observable market data as inputs, or comparison with other observable current market transactions in the same instrument indicate that the fair value differs from the transaction price, this initial difference, commonly referred to as day one profit or loss, is recognised in profit or loss immediately. If significant unobservable market data is used as inputs to the valuation models or where the fair value of the financial instrument is not evidenced by comparison with other observable current market transactions in the same instrument the resulting difference between the transaction price and the model value is deferred. The timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement, depending on the nature of the instrument and availability of market observable inputs.

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

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

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

Impairment of financial assets

Assets carried at amortised cost

The group assesses at each reporting date whether there is objective evidence that a loan or group of loans is impaired. A loan or group of loans is impaired if objective evidence indicates that a loss event has occurred after initial recognition which has a negative effect on the estimated future cash flows of the loan or group of loans that can be estimated reliably.

Criteria that are used by the group in determining whether there is objective evidence of impairment include:

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

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

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

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

If the group determines that no objective evidence of impairment exists for an individually assessed loan, whether significant or not, it includes the loan in a group of loans with similar credit risk characteristics and collectively assesses that group for impairment. Loans that are individually assessed for impairment and for which an impairment loss is recognised are not included in a collective assessment for impairment.

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

Increases in loan impairments and any subsequent reversals thereof, or recoveries of amounts previously impaired (including loans that have been written off), are reflected within credit impairment charges in profit or loss. Previously impaired loans are written off once all reasonable attempts at collection have been made and there is no realistic prospect of recovering outstanding amounts. Any subsequent reductions in amounts previously impaired are reversed by adjusting the allowance account with the amount of the reversal recognised as a reduction in credit impairment losses in profit or loss.

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

Renegotiated loans

Loans that would otherwise be past due or impaired and whose terms have been renegotiated and exhibit the characteristics of a performing loan are reset to performing loan status. Loans whose terms have been renegotiated are subject to ongoing review to determine whether they are considered to be impaired or past due.

The effective interest rate of renegotiated loans that have not been derecognised (described under the heading 'Derecognition of financial instruments'), is redetermined based on the loan's renegotiated terms.

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

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

Offsetting

Financial assets and liabilities are offset and the net amount 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 on a net basis, or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by accounting standards, 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'.

Embedded derivatives included in hybrid instruments are accounted for and disclosed as separate derivative instruments when their economic characteristics and risks are not closely related to those of the host contract, the terms of the embedded derivative are the same as those of a stand-alone derivative and the combined contract is not measured at fair value through profit or loss. The financial host contracts are accounted for applying the rules of the relevant financial instrument category.

The method of recognising fair value gains and losses depends on whether the derivatives are designated as hedging instruments, and if so, the nature of the hedge relationship, or if they are classified as held-for-trading.

Derivatives that qualify for hedge accounting
When derivatives are designated in a hedge relationship, the group designates them as either:

- 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).

Hedge accounting is applied to derivatives designated in this way provided certain criteria are met. The group documents, at the inception of the hedge, the relationship between hedged items and hedging instruments, as well as its risk management objective and strategy for undertaking various hedging relationships. The group also documents its assessment, both at the inception of the hedge and on an ongoing basis, of whether the hedging instruments are highly effective in offsetting the exposure to changes in the fair value or cash flows of the hedged items attributable to the hedged risk.

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

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

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

Amounts recognised in OCI are transferred to profit or loss in the periods in which the hedged forecast cash flows affect profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the cumulative gains or losses recognised previously in OCI are transferred and included in the initial cost or other carrying amount of the asset or liability.

If the derivative expires, is sold, terminated, exercised, no longer meets the criteria for cash flow hedge accounting, or the designation is revoked, then hedge accounting is discontinued. The cumulative gains or losses recognised in OCI remain in OCI until the forecast transaction is recognised in the case of a non-financial asset or a non-financial liability, or until the forecast transaction affects profit or loss in the case of a financial asset or a financial liability. If the forecast transaction is no longer expected to occur, the cumulative gains and losses recognised in OCI are immediately reclassified to profit or loss, classified as trading revenue.

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

Borrowings

Borrowings, including subordinated debt, are recognised initially at fair value, generally being their issue proceeds, net of directly attributable transaction costs incurred. Borrowings are subsequently measured at amortised cost with interest recognised using the effective interest method.

Financial guarantee contracts

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

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

Derecognition of financial instruments

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

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

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

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

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

Where an existing financial asset or liability is replaced by another with the same counterparty on substantially different terms, or the terms of an existing financial asset or liability are substantially modified, such an exchange or modification is treated as a derecognition of the original asset or liability and the recognition of a new asset or liability, with the difference in the respective carrying amounts being recognised in profit or loss.

In all other instances, the renegotiated asset or liability's effective interest rate is redetermined by taking into account the renegotiated terms.

Sale and repurchase agreements and lending of securities

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

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

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

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

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

6. Commodities and related transactions

Commodities that are principally acquired by the group for the purpose of selling in the near future and generating a profit from fluctuations in price or broker-traders' margin, are measured at fair value less costs to sell and are reported as non-financial assets held for trading within other assets. All changes in fair value less costs to sell are recognised in trading revenue in the period of the change. Commodities owned by the group may be held on an allocated or unallocated basis with third parties or within facilities leased by the group. Commodities held by the group on an allocated basis on behalf of customers are not recognised on the group's balance sheet.

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

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

Commodities lent to counterparties are retained in the financial statements and are classified and measured in accordance with the policies set out above. Commodities borrowed are not recognised in the financial statements unless sold to third parties. In these cases, 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 commodity borrowing and lending business are recognised over the period of the transactions.

7. Intangible assets

Computer software

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

Expenditure subsequently incurred on computer software is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates.

Costs relating to the ongoing maintenance of computer software are expensed immediately as incurred.

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

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted, if necessary.

8. Property and equipment

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

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

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

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

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

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

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

9. Capitalisation of borrowing costs

Borrowing costs that relate to qualifying assets, that is, assets that necessarily take a substantial period of time to get ready for their intended use or sale and which are not measured at fair value, are capitalised. All other borrowing costs are recognised in profit or loss.

10. Impairment of non-financial assets

Intangible assets that have an indefinite useful life 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.

For the purposes of assessing impairment, assets that cannot be tested individually are grouped at the lowest levels for which there are separately identifiable cash inflows from continuing use (cash-generating units). Impairment losses recognised in respect of cash-generating units reduce the carrying amounts of the other assets in the unit on a pro rata basis.

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.

11. Leases

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

Group as lessee

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

Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Lease payments are apportioned between the finance charge, which is recognised in profit or loss over the lease period in interest expense, and the capital repayment, which reduces the liability to the lessor.

Payments made under operating leases, net of any incentives received from the lessor, are recognised in profit or loss on a straight-line basis over the term of the lease. Contingent rentals are expensed as they are incurred. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

12. Provisions, contingent assets and contingent liabilities

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

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

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

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.

13. Tax

Direct taxation

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

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

Deferred tax is recognised in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax is calculated using the tax rates expected to apply to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date. Deferred tax is not recognised for the following temporary differences:

- the initial recognition of assets and liabilities in a transaction that is not a business combination, which at the time of the transaction affects neither accounting nor taxable profit or loss; and
- investments in subsidiaries and jointly controlled entities (excluding mutual funds) where the group controls the timing of the reversal of temporary differences and it is probable that these differences will not reverse in the foreseeable future.

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 that 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 that 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 tax 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.

14. Employee benefits

Post-employment benefits – defined contribution plans

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

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

Termination benefits

Termination benefits are recognised as an expense when the group is committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the group has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

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.

15. Long-term incentive schemes

The group operates both cash-settled and equity-settled share-based compensation plans. Following ICBC's acquisition of a controlling interest in the group, IFRS 2 is considered the most appropriate accounting policy for payments linked to the SBG share price. Accordingly, compensation arrangements linked to the SBG share price continue to be presented as share based payments in accordance with IFRS 2.

Quanto stock unit plan

The quanto stock unit plan awards quanto stock units denominated in US dollars and is a cash-settled, deferred incentive scheme. For those units in issue as at 31 December 2015, the value is based on the Standard Bank Group Limited (SBG) share price and moves in parallel to the change in price of the SBG ordinary shares listed on the Johannesburg Stock Exchange. For awards made in 2016, the value of units is based on the ICBC ordinary share price as quoted on the Hong Kong Stock Exchange. The awards, which are granted following Board remuneration committee approval subsequent to year end, vest over a three year period dependent on the employee being in service for the period and are recognised as an expense accrued from the award date over the vesting period. The amount of the accrued liability is re-measured at the end of each reporting period, taking into account assumptions about leavers. Changes in the liability are accounted for through profit or loss over the life of the quanto stock units. The changes in the liability arising from share price movements have been hedged, applying cash flow hedging principles.

SBG equity scheme

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

16. 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 (with the exception of those borrowing costs that are capitalised – refer to accounting policy 9 – 'Capitalisation of borrowing costs') are recognised in profit or loss on an accruals basis using the effective interest method for all interest-bearing financial instruments, except those classified at fair value through profit or loss. Under the effective interest method, interest is recognised at a rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. Direct incremental transaction costs incurred and origination fees received, including loan commitment fees, as a result of bringing margin-yielding assets or liabilities on to the balance sheet, are capitalised to the carrying amount of financial instruments that are not at fair value through profit or loss and amortised as interest income or expense over the life of the asset or liability as part of the effective interest rate.

Where the estimate of payments or receipts on financial assets (except those that have been reclassified – refer to accounting policy 5 – 'Financial instruments') 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.

Where financial assets have been impaired, interest income continues to be recognised on the impaired value based on the original effective interest rate.

Fair value gains and losses on realised debt financial instruments, excluding those classified as either held-for-trading or designated as at fair value through profit or loss, are included 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.

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

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

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

Gains/losses from financial instruments designated at fair value
Gains/losses from financial instruments designated at fair value includes all gains and losses from changes in the fair value of financial instruments designated at fair value through profit or loss, including interest income, interest expense and dividend income 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.

Other revenue
Other revenue includes gains and losses on available-for-sale equity financial assets reclassified from OCI to profit or loss on derecognition or impairment of the investments. Dividends on these instruments are also recognised in other revenue.

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

17. Discontinued operations

The group classifies a component of the business as a discontinued operation when that component has been disposed of, or it is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations, or
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations.

The results of discontinued operations are shown as a single amount in the income statement comprising the post tax profit or loss.

18. 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.

19. 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. However, fee income earned and fee expenses incurred by the group relating to its responsibilities from fiduciary activities are recognised in profit or loss.

20. New standards and interpretations not yet adopted

The following new or revised standards and amendments are not yet effective for the year ended 31 December 2016 and have not been applied in preparing these annual financial statements.

Pronouncement	Title	Effective date
IFRS 9	**Financial Instruments** This standard will replace the existing standard on the recognition and measurement of financial instruments (IAS 39). It requires all financial assets to be classified and measured on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The accounting for financial assets differs in various other areas to existing requirements such as embedded derivatives. All changes in the fair value of financial liabilities designated at fair value through profit or loss due to changes in an entity's own credit risk will be required to be recognised within OCI. The standard also introduces a new expected-loss impairment model, which will require more timely recognition of credit losses. This new model will apply to financial assets measured at amortised cost or fair value through OCI, as well as to loan commitments when there is a present commitment to extend credit (unless these are measured at fair value through profit or loss). With the exception of purchased or originated credit impaired financial assets, expected credit losses are required to be measured through a loss allowance at an amount equal to either 12-month expected credit losses or full lifetime expected credit losses. A loss allowance for full lifetime expected credit losses is required for a financial asset if the credit risk of that instrument has increased significantly since initial recognition, as well as for certain contract assets and trade receivables. For all other financial assets, expected credit losses are measured at an amount equal to 12-month expected credit losses. The revised general hedge accounting requirements are better aligned with an entity's risk management activities, provide additional opportunities to apply hedge accounting and various simplifications in achieving hedge accounting. The group has an established project to ensure a high quality implementation of IFRS 9. The project involves the group's Finance, Risk and IT functions and is overseen by a senior management steering committee. Based on the work performed under this project, the group has assessed the impact of IFRS 9 and expects the standard will have no significant impact on the group's annual financial statements.	Annual periods beginning on or after 1 January 2018
IFRS 15	**Revenue from Contracts with Customers** This standard will replace the existing revenue standards, IAS 18 Revenue and IAS 11 Construction Contracts, and their related interpretations. The standard sets out the requirements for recognising revenue that applies to all contracts with customers (except for contracts that are within the scope of the standards on leases, insurance contracts or financial instruments). The core principle of the standard is that revenue is recognised to reflect the consideration to which the company expects to be entitled in exchange for the transfer of the promised goods or services to the customer. The standard incorporates a five step analysis to determine the amount and timing of revenue recognition. The group has assessed the impact of IFRS 15 and expects the standard will have no significant impact on the group's annual financial statements.	Annual periods beginning on or after 1 January 2018
IFRS 16	**Leases** This standard will replace the existing standard, IAS 17 Leases, and its related interpretations and sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, being the lessee (customer) and the lessor (supplier). The core principle of this standard is that the lessee and lessor should recognise all rights and obligations arising from leasing arrangements on balance sheet. The most significant change pertaining to the accounting treatment of operating leases is from the lessees' perspective. IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and introduces a single lessee accounting model, where a right of use (ROU) asset together with a liability for the future payments is to be recognised for all leases with a term of more than 12 months, unless the underlying asset is of low value. The lessor accounting requirements in IAS 17 have not changed substantially. As a result, a lessor continues to classify its leases as operating leases or finance leases and accounts for these as it currently does under IAS 17. In addition, the new standard requires the lessor to provide enhanced disclosures about its leasing activities and, in particular, about its exposure to residual value risk and how this is managed. The group has assessed the impact of IFRS 16 and expects the standard will have no significant impact on the group's annual financial statements.	Annual periods beginning on or after 1 January 2019

Pronouncement	Title	Effective date
IAS 7 (amendments)	**Statement of cash flows** The amendments are part of the disclosure initiative project requiring entities to provide additional disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including non-cash changes and changes arising from cash flows. The amendments are not expected to have a significant impact on the group's annual financial statements.	Annual periods beginning on or after 1 January 2017
IAS 12 (amendments)	**Income tax** The amendments relate to the recognition of deferred tax assets for unrealised losses and clarify the following: • Unrealised losses on debt instruments measured at fair value in the financial statements but at cost for tax purposes can give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use. • The carrying amount of an asset does not limit the estimation of probable future taxable profits. • When comparing deductible temporary differences with future taxable profits, the future taxable profits exclude tax deductions resulting from the reversal of those deductible temporary differences. • Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type. The amendments are not expected to have a significant impact on the group's annual financial statements.	Annual periods beginning on or after 1 January 2017
IFRS 2 (amendments)	**Share-based payments** The amendments clarify how to account for certain types of share based payment transactions, providing requirements on the accounting for: • the effects of vesting and non-vesting conditions on the measurement of cash settled share based payments; • share based payment transactions with a net settlement feature for withholding tax obligations; and • a modification to the terms and conditions of a share based payment that changes the classification from cash-settled to equity-settled. The amendments are not expected to have a significant impact on the group's annual financial statements.	Annual periods beginning on or after 1 January 2018

15. Notes to the annual financial statements

1. Segment reporting

Following ICBC's acquisition of a controlling interest in the group on 1 February 2015, the results for continuing operations comprise three reportable segments, namely Commodities, FICE and Other. Discontinued operations were not part of the transaction and had been transferred to SBG entities prior to the change in control. Information related to each reportable segment is set out below.

Operating segments - continuing operations

Commodities	The Commodities business unit provides trading, sales and structuring expertise and has global presence across Base Metals, Precious Metals, Bulk Products and Oil.
FICE	The FICE segment provides a comprehensive range of foreign exchange, money markets, interest rate, credit and equity products. The segment is focused on emerging markets.
Other	Includes central treasury balance sheet and significant items not allocated to business segments.

Operating segments - discontinued operations

Discontinued operations	Investment Banking, Transactional Products and Services, Corporate Banking, Service Unit, Principal Investment Management and Private Client Services segments that were disposed of prior to ICBC's acquisition of a controlling interest in the group.

	Continuing operations				Discontinued operations
2016	**Commodities**	**FICE**	**Other**	**Total**	**Total**
Segment results	**$m**	**$m**	**$m**	**$m**	**$m**
Net interest income	**8.9**	**27.2**	-	**36.1**	-
Net fees, commission and revenue sharing arrangements	**0.4**	**17.3**	-	**17.7**	-
Trading revenue	**73.2**	**142.7**	-	**215.9**	-
Net gain on financial assets and liabilities at fair value through profit or loss	-	**19.0**	-	**19.0**	-
Loss on commodity reverse repurchase agreements	-	-	**(2.5)**	**(2.5)**	-
Total revenue / (loss)	**82.5**	**206.2**	**(2.5)**	**286.2**	-
Credit impairment (charges) /recoveries	**(0.6)**	**0.3**	-	**(0.3)**	-
Revenue / (loss) after impairments	**81.9**	**206.5**	**(2.5)**	**285.9**	-
Operating expenses	**(189.8)**	**(193.1)**	-	**(382.9)**	-
(Loss) / profit before taxation	**(107.9)**	**13.4**	**(2.5)**	**(97.0)**	-
Income tax charge	**(0.5)**	**(1.3)**	-	**(1.8)**	-
(Loss) / profit attributable to equity shareholders	**(108.4)**	**12.1**	**(2.5)**	**(98.8)**	-
Included in operating expenses:					
Depreciation	**(4.5)**	**(3.4)**	-	**(7.9)**	-
Amortisation of intangible assets	**(0.1)**	-	-	**(0.1)**	-

	Continuing operations				Discontinued operations
2015	Commodities	FICE	Other	Total	Total
Segment results	$m	$m	$m	$m	$m
Net interest expense	(0.9)	(2.8)	-	(3.7)	-
Net fees, commission and revenue sharing arrangements	4.8	13.8	-	18.6	6.0
Trading revenue	50.1	57.2	-	107.3	-
Recovery on commodity reverse repurchase agreements	-	-	50.5	50.5	-
Total revenue	54.0	68.2	50.5	172.7	6.0
Credit impairment recovery / (charge)	0.8	(0.5)	0.1	0.4	-
Revenue after impairments	54.8	67.7	50.6	173.1	6.0
Operating expenses	(193.0)	(185.4)	(7.7)	(386.1)	(40.9)
(Loss) / profit before taxation	(138.2)	(117.7)	42.9	(213.0)	(34.9)
Income tax recovery / (charges)	0.1	(1.7)	(18.2)	(19.8)	-
(Loss) / profit attributable to equity shareholders	(138.1)	(119.4)	24.7	(232.8)	(34.9)
Included in operating expenses:					
Depreciation	(5.3)	(4.8)	-	(10.1)	-
Amortisation of intangible assets	(9.2)	(2.5)	-	(11.7)	-

1. Segment reporting (continued)

	Continuing operations				Discontinued operations
Segment assets and liabilities	**Commodities**	**FICE**	**Other**	**Total**	**Total**
2016	**$m**	**$m**	**$m**	**$m**	**$m**
Total assets	**6,600.0**	**11,304.5**	**2,319.1**	**20,223.6**	**-**
Total liabilities	**6,600.0**	**11,304.5**	**1,362.2**	**19,266.7**	**-**
2015					
Total assets	6,087.1	9,885.5	4,164.9	20,137.5	-
Total liabilities	6,087.1	9,885.5	3,089.9	19,062.5	-

Geographical analysis

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

Name	Nature of activities	Geographical location	Turnover[1]	(Loss) / profit before tax	Corporation tax paid[2]	Average number of employees
			$m	$m	$m	
2016						
ICBC Standard Bank Plc	Banking	United Kingdom	**214.5**	**(92.1)**	**-**	**727**
ICBC Standard Bank Plc Dubai branch	Banking	Dubai	**1.9**	**-**	**-**	**3**
ICBC Standard Bank Plc Hong Kong branch	Banking	Hong Kong	**8.6**	**0.2**	**-**	**24**
ICBC Standard Bank Plc Singapore branch	Banking	Singapore	**27.5**	**1.0**	**-**	**91**
ICBC Standard Bank Plc Tokyo branch	Banking	Japan	**2.8**	**0.1**	**0.1**	**10**
ICBC Standard Resources (China) Limited	Trading	China	**5.5**	**-**	**(0.2)**	**18**
ICBC Standard NY Holdings, Inc. group	Broker/Dealer	USA	**25.4**	**0.6**	**-**	**45**
Other consolidation eliminations			**-**	**(6.8)**	**-**	**-**
Total			**286.2**	**(97.0)**	**(0.1)**	**918**
2015						
ICBC Standard Bank Plc	Banking	United Kingdom	110.9	(249.7)	-	730
ICBC Standard Bank Plc Dubai branch	Banking	Dubai	1.6	-	-	2
ICBC Standard Bank Plc Hong Kong branch	Banking	Hong Kong	7.0	0.3	-	22
ICBC Standard Bank Plc Singapore branch	Banking	Singapore	26.3	0.8	-	95
ICBC Standard Bank Plc Tokyo branch	Banking	Japan	3.7	1.6	0.3	9
ICBC Standard Resources (China) Limited	Trading	China	4.1	(1.9)	0.9	22
ICBC Standard NY Holdings, Inc. group	Broker/Dealer	USA	25.1	1.0	(0.9)	48
Other consolidated structured entities[3]			-	-	2.2	-
Total			178.7	(247.9)	2.5	928

[1]Turnover is defined as accounting revenue.
[2]Negative value represents a tax receipt.
[3]This relates to an historic liability settled with the Chinese tax authorities by an externally-managed unit trust.

Summary balance sheet	Total assets	Non-financial assets	Total liabilities	Non-financial liabilities
	$m	$m	$m	$m
2016				
ICBC Standard Bank Plc	**20,119.6**	**4,409.0**	**19,235.6**	**1,073.2**
ICBC Standard Bank Plc Dubai branch	**0.2**	**-**	**0.6**	**0.6**
ICBC Standard Bank Plc Hong Kong branch	**154.2**	**3.7**	**150.0**	**1.9**
ICBC Standard Bank Plc Singapore branch	**74.8**	**56.7**	**57.8**	**57.8**
ICBC Standard Bank Plc Tokyo branch	**6.1**	**0.1**	**7.4**	**5.2**
ICBC Standard Resources (China) Limited	**56.0**	**4.2**	**3.4**	**1.3**
ICBC Standard NY Holdings, Inc. group	**28.2**	**9.7**	**13.9**	**8.8**
Other consolidation eliminations	**(215.5)**	**(58.2)**	**(202.0)**	**(58.6)**
Total	**20,223.6**	**4,425.2**	**19,266.7**	**1,090.2**
2015				
ICBC Standard Bank Plc	19,916.6	3,325.6	18,877.6	51.5
ICBC Standard Bank Plc Dubai branch	1.9	1.7	33.2	33.2
ICBC Standard Bank Plc Hong Kong branch	217.9	4.9	214.1	1.7
ICBC Standard Bank Plc Singapore branch	76.6	28.3	60.2	60.2
ICBC Standard Bank Plc Tokyo branch	172.7	147.0	170.9	125.5
ICBC Standard Resources (China) Limited	87.5	57.2	22.8	2.1
ICBC Standard NY Holdings, Inc. group	26.9	16.0	12.7	12.7
Other consolidated structured entities and consolidation eliminations	(362.6)	(101.1)	(329.0)	(109.3)
Total	20,137.5	3,479.6	19,062.5	177.6

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

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

2. Key management assumptions

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

2.1 Going concern

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

2.2 Taxation

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

Deferred tax assets
The accounting policy for the recognition of deferred tax assets is described in accounting policy 13. A deferred tax asset is recognised to the extent it is probable that suitable future taxable profits will be available against which deductible temporary differences can be utilised. The recognition of a deferred tax asset relies on management's judgements surrounding the probability and sufficiency of suitable future taxable profits, future reversals of existing taxable temporary differences and planning strategies.

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

Losses suffered in recent years created uncertainty over the recoverability of the group's deferred tax asset balances and as a result deferred tax assets of US$223.6 million (2015: US$207.2 million) have not been recognised in respect of unutilised trading losses carried forward and other temporary differences. Due mainly to the historic performance of ICBCS and the current challenging global economic conditions, deferred tax assets have not been recognised on current year and prior year tax losses for the UK. Based on management's judgement, the unutilised trading losses will remain eligible for future use.

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

2.3 Determining fair value

The fair value of financial instruments that are not quoted in active markets is determined using other valuation techniques. Wherever possible, models use only observable market data. Where required, these models incorporate assumptions that are not supported by prices from observable current market transactions in the same instrument and are not based on available observable market data. Such assumptions include recoverability, risk premiums, liquidity discount rates, credit risk, volatilities and correlations. Changes in these assumptions could affect the reported fair values of financial instruments. Additional disclosures on fair value measurements of financial instruments are set out in notes 23, 24 and 25. Note 30.4 provides additional information on management's judgement regarding the valuation loss on commodity reverse repurchase agreements.

2. Key management assumptions (continued)

2.4 Credit impairment losses on loans and advances

Portfolio loan impairments
The group assesses its loan portfolios for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in profit or loss, the group makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be allocated to an individual loan in that portfolio. Estimates are also made of the duration between the occurrence of a loss event and the identification of a loss on an individual basis. The impairment for performing loans is determined on a portfolio basis, based on calculated loss ratios, adjusted for economic conditions and other indicators of potential default.

These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period. At the year end, a number of factors including loss emergence period, recovery rates, recent loss history and probability of default were considered. Of these factors, the loss emergence period is a key input (2016: 12 months; 2015: 12 months), with a change of one month in this parameter resulting in a US$0.6 million (2015: US$0.5 million) change in the value of the impairment.

2.5 Legal proceedings and regulatory matters

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

The above includes the following matters:

- ICBC Standard Bank Plc is defending a class action lawsuit filed against it and a number of other institutions in the Southern District of New York for unquantified damages arising as a result of an alleged conspiracy to manipulate and rig the global benchmarks for physical platinum and palladium prices, as well as the prices of platinum and palladium based financial derivative products. ICBC Standard Bank Plc is also defending a similar complaint filed against it (and various other institutions) by an individual plaintiff.
- On 15 February 2017, the South African Competition Commission issued a press release indicating that it had that day referred a case for prosecution to the Competition Tribunal with respect to allegations of collusive behaviour in the trading of foreign currency pairs involving the Rand. The allegations are made against a number of institutions, including Standard New York Securities Inc (which is now a subsidiary of ICBC Standard Bank Plc and is known as ICBC Standard Securities Inc).

3. Cash and balances with central banks

	Group		Company	
	2016	2015	**2016**	2015
	$m	$m	**$m**	$m
Reserve Account with Bank of England[1]	**1,174.3**	3,254.2	**1,174.3**	3,254.2

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

4. Due from banks and other financial institutions

	Group		Company	
	2016	2015	**2016**	2015
	$m	$m	**$m**	$m
Gross banks and other financial institutions	**1,842.3**	1,510.9	**1,761.2**	1,456.8
Credit impairments	**-**	-	**-**	-
	1,842.3	1,510.9	**1,761.2**	1,456.8
Specific impairments				
Balance at beginning of the year	**-**	5.3	**-**	5.3
Amounts written off	**-**	(4.6)	**-**	(4.6)
Impairments raised	**-**	0.3	**-**	0.3
Exchange and other movements	**-**	(1.0)	**-**	(1.0)
	-	-	**-**	-
Segmental industry analysis				
Due from banks	**1,052.3**	1,384.8	**991.8**	1,333.4
Other financial institutions	**790.0**	126.1	**769.4**	123.4
	1,842.3	1,510.9	**1,761.2**	1,456.8
Included above are the following amounts with related parties:				
Balances with ultimate holding company (ICBC Limited) and subsidiaries and branches	**28.8**	27.2	**11.1**	24.5
Balances with shareholder with significant influence (SBG) and subsidiaries and branches	**94.1**	163.5	**94.1**	163.5
	122.9	190.7	**105.2**	188.0

5. Financial assets held for trading

	Group		Company	
	2016	2015	**2016**	2015
	$m	$m	**$m**	$m
Government, utility bonds and treasury bills	**709.6**	1,288.3	**709.6**	1,288.4
Corporate bonds and floating rate notes	**110.5**	756.8	**110.5**	756.8
Listed equities	**15.0**	19.7	**15.0**	19.7
Reverse repurchase agreements	**135.4**	378.9	**135.4**	378.9
Other unlisted instruments	**-**	0.2	**-**	32.7
	970.5	2,443.9	**970.5**	2,476.5
Included above are the following amounts with related parties:				
Balances with ultimate holding company (ICBC Limited) and subsidiaries and branches	**2.8**	1.2	**2.8**	1.2
Balances with shareholder with significant influence (SBG) and subsidiaries and branches	**-**	-	**-**	-
	2.8	1.2	**2.8**	1.2

6. Financial assets designated at fair value through profit or loss

	Group		Company	
	2016	2015	**2016**	2015
	$m	$m	**$m**	$m
Debt instruments[1]	**1,331.4**	-	**1,331.4**	-
Unlisted equities	**7.8**	7.9	**7.8**	7.9
	1,339.2	7.9	**1,339.2**	7.9

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

7. Derivative instruments

7.1 Derivative assets and liabilities

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

Group 2016

	Maturity analysis of net fair value < 1 year	1 - 5 years	>5 years	Net fair value	Fair value of assets	Fair value of liabilities	Contract/ notional amount
	$m	$m	$m	$m	$m	$m	$m
Derivatives held for trading							
Foreign exchange derivatives	(100.0)	(16.2)	-	(116.2)	815.8	(932.0)	91,277.5
Forwards	(100.0)	(14.7)	-	(114.7)	803.3	(918.0)	89,660.7
Options	-	(1.5)	-	(1.5)	12.5	(14.0)	1,616.8
Interest rate derivatives	(4.0)	57.3	(114.3)	(61.0)	2,680.9	(2,741.9)	200,414.0
Caps and floors	0.4	4.3	-	4.7	4.8	(0.1)	2,867.2
Forwards	-	-	-	-	2.5	(2.5)	7,272.9
Futures options	(0.1)	3.8	-	3.7	4.3	(0.6)	50,334.7
Swaps	(3.4)	49.6	(114.2)	(68.0)	2,662.0	(2,730.0)	137,951.0
Swaptions	(0.9)	(0.4)	(0.1)	(1.4)	7.3	(8.7)	1,988.2
Commodity derivatives	105.3	(21.6)	-	83.7	1,091.7	(1,008.0)	111,992.2
Forwards	(48.1)	1.0	-	(47.1)	81.6	(128.7)	4,046.6
Futures	140.6	(35.6)	-	105.0	895.3	(790.3)	102,309.4
Options	12.8	13.0	-	25.8	114.8	(89.0)	5,636.2
Credit derivatives	(16.5)	(31.3)	(31.9)	(79.7)	64.7	(144.4)	3,858.9
Credit default swaps	1.2	(21.7)	1.6	(18.9)	29.1	(48.0)	3,529.6
Total return swaps	(17.7)	(9.6)	(33.5)	(60.8)	35.6	(96.4)	329.3
Equity derivatives	1.2	-	-	1.2	2.0	(0.8)	5.9
Options	1.2	-	-	1.2	2.0	(0.8)	5.9
Total derivative assets / (liabilities) held for trading	(14.0)	(11.8)	(146.2)	(172.0)	4,655.1	(4,827.1)	407,548.5
Derivatives held for hedging							
Derivatives designated as cash flow hedges	(21.8)	0.7	-	(21.1)	1.1	(22.2)	147.9
Foreign exchange forwards	(21.4)	-	-	(21.4)	-	(21.4)	121.7
Equity options	(0.4)	0.7	-	0.3	1.1	(0.8)	26.2
Derivatives designated as fair value hedges	-	58.8	-	58.8	58.8	-	2,500.0
Interest rate swaps	-	58.8	-	58.8	58.8	-	2,500.0
Total derivative assets / (liabilities) held for hedging	(21.8)	59.5	-	37.7	59.9	(22.2)	2,647.9
Total derivative assets / (liabilities)	(35.8)	47.7	(146.2)	(134.3)	4,715.0	(4,849.3)	410,196.4
Included above are the following amounts with related parties:							
Balances with ultimate holding company (ICBC Limited) and subsidiaries and branches				213.8	423.2	(209.4)	
Balances with shareholder with significant influence (SBG) and subsidiaries and branches				30.3	165.6	(135.3)	

The company reported derivative assets of US$4,715.0 million (2015: US$6,222.6 million) and derivative liabilities of US$4,849.2 million (2015: US$5,926.0 million). The difference between the group and company amounts are due to foreign exchange and commodity derivatives.

7. Derivative instruments (continued)

7.1 Derivative assets and liabilities

Group 2015

	Maturity analysis of net fair value < 1 year	1 - 5 years	>5 years	Net fair value	Fair value of assets	Fair value of liabilities	Contract/ notional amount
	$m	$m	$m	$m	$m	$m	$m
Derivatives held for trading							
Foreign exchange derivatives	86.2	(16.7)	-	69.5	680.3	(610.8)	71,719.6
Forwards	86.0	(15.2)	-	70.8	674.1	(603.3)	68,773.4
Options	0.2	(1.5)	-	(1.3)	6.2	(7.5)	2,946.2
Interest rate derivatives	(68.6)	58.9	(208.0)	(217.7)	3,778.1	(3,995.8)	255,686.1
Caps and floors	-	3.6	-	3.6	5.0	(1.4)	1,667.4
Forwards	0.4	0.2	-	0.6	17.2	(16.6)	24,516.8
Futures options	0.6	3.0	-	3.6	4.7	(1.1)	66,740.7
Swaps	(70.7)	51.9	(208.1)	(226.9)	3,744.4	(3,971.3)	161,800.4
Swaptions	1.1	0.2	0.1	1.4	6.8	(5.4)	960.8
Commodity derivatives	370.0	52.6	0.3	422.9	1,683.0	(1,260.1)	136,435.4
Forwards	55.7	34.2	0.3	90.2	189.5	(99.3)	2,436.3
Futures	339.0	0.1	-	339.1	1,359.9	(1,020.8)	129,979.4
Options	(24.7)	18.3	-	(6.4)	133.6	(140.0)	4,019.7
Credit derivatives	(6.7)	-	0.8	(5.9)	39.7	(45.6)	3,979.0
Credit default swaps	(1.4)	0.1	0.8	(0.5)	39.3	(39.8)	3,958.7
Total return swaps	(5.3)	(0.1)	-	(5.4)	0.4	(5.8)	20.3
Equity derivatives	3.4	1.7	-	5.1	5.3	(0.2)	79.1
Options	3.4	1.7	-	5.1	5.3	(0.2)	79.1
Total derivative assets / (liabilities) held for trading	384.3	96.5	(206.9)	273.9	6,186.4	(5,912.5)	467,899.2
Derivatives held for hedging							
Derivatives designated as cash flow hedges	(8.1)	(5.7)	-	(13.8)	-	(13.8)	326.4
Foreign exchange forwards	(3.5)	(1.1)	-	(4.6)	-	(4.6)	285.6
Equity options	(4.6)	(4.6)	-	(9.2)	-	(9.2)	40.8
Derivatives designated as fair value hedges	-	36.6	-	36.6	36.6	-	500.0
Interest rate swaps	-	36.6	-	36.6	36.6	-	500.0
Total derivative assets / (liabilities) held for hedging	(8.1)	30.9	-	22.8	36.6	(13.8)	826.4
Total derivative assets / (liabilities)	376.2	127.4	(206.9)	296.7	6,223.0	(5,926.3)	468,725.6
Included above are the following amounts with related parties:							
Balances with ultimate holding company (ICBC Limited) and subsidiaries and branches				64.6	97.9	(33.3)	
Balances with shareholder with significant influence (SBG) and subsidiaries and branches				36.9	345.3	(308.4)	

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

7.2 Use and measurement of derivative instruments

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

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

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

7. Derivative instruments (continued)

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

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

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

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

7.3 Derivatives held for trading

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

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

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

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

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

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

7. Derivative instruments (continued)

7.4 Derivatives held for hedging

7.4.1 Derivatives designated as cash flow hedges

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

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

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

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

	Group		Company	
	2016	2015	**2016**	2015
	$m	$m	**$m**	$m
3 months or less	**39.6**	52.8	**39.6**	52.8
More than 3 months but less than 1 year	**98.9**	135.9	**98.9**	135.9
More than 1 year but less than 5 years	**6.3**	137.7	**6.3**	137.7
	144.8	326.4	**144.8**	326.4
Reconciliation of movements in the cash flow hedging reserve				
Balance at beginning of the year	**(8.4)**	0.3	**(8.4)**	0.3
Amounts recognised directly in other comprehensive income	**(29.6)**	(13.0)	**(29.6)**	(13.0)
Less: amounts transferred to profit or loss (operating expenses)	**16.0**	4.3	**16.0**	4.3
Balance at end of the year	**(22.0)**	(8.4)	**(22.0)**	(8.4)

There is no current or deferred tax charged or credited to equity in 2016 (2015:US$ nil)

7.4.2 Derivatives designated as fair value hedges

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

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

	Group		Company	
	2016	2015	**2016**	2015
Gains / (losses) arising from fair value hedges	**$m**	$m	**$m**	$m
on hedging instruments	**23.9**	(4.7)	**23.9**	(4.7)
on the hedged item attributable to the hedged risk	**(23.1)**	4.4	**(23.1)**	4.4

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

8. Reverse repurchase agreements

	Group		Company	
	2016	2015	**2016**	2015
	$m	$m	**$m**	$m
Customers	**-**	38.0	**-**	38.0
Banks and other financial institutions[1]	**3,601.1**	2,646.5	**3,601.1**	2,646.5
	3,601.1	2,684.5	**3,601.1**	2,684.5
Included above are the following amounts with related parties:				
Balances with ultimate holding company (ICBC Limited) and subsidiaries and branches	**79.1**	250.2	**79.1**	250.2
Balances with shareholder with significant influence (SBG) and subsidiaries and branches	**1.9**	272.4	**1.9**	272.4
	81.0	522.6	**81.0**	522.6

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

9. Loans and advances to customers

	Group		Company	
	2016	2015	**2016**	2015
	$m	$m	**$m**	$m
Gross loans and advances to customers	**861.9**	433.4	**861.9**	418.7
Demand loans and advances	**245.8**	243.3	**245.8**	228.6
Term loans	**616.1**	190.1	**616.1**	190.1
Credit impairments – portfolio basis	**(6.6)**	(6.3)	**(6.6)**	(6.3)
	855.3	427.1	**855.3**	412.4
Portfolio impairments				
Balance at beginning of the year	**6.3**	7.0	**6.3**	7.0
Impairments charged / (released)	**0.3**	(0.7)	**0.3**	(0.7)
	6.6	6.3	**6.6**	6.3
Segmental industry analysis				
Governments and public sector organisations	**51.7**	-	**51.7**	-
Manufacturing	**70.6**	75.5	**70.6**	75.5
Mining	**504.1**	231.5	**504.1**	231.5
Transport	**15.2**	7.0	**15.2**	7.0
Wholesale	**164.1**	97.7	**164.1**	97.7
Other	**56.2**	21.7	**56.2**	7.0
	861.9	433.4	**861.9**	418.7

10. Financial investments

	Group		Company	
	2016	2015	**2016**	2015
	$m	$m	**$m**	$m
Available-for-sale				
Debt Securities	**1,297.3**	102.9	**1,297.3**	102.9
Unlisted equities	**3.4**	2.4	**3.4**	2.4
	1,300.7	105.3	**1,300.7**	105.3

11. Property and equipment

11.1 Summary - Group

	2016			2015		
	Cost	**Accumulated depreciation**	**Carrying value**	**Cost**	**Accumulated depreciation**	**Carrying value**
	$m	**$m**	**$m**	**$m**	**$m**	**$m**
Computer equipment	**19.4**	**(14.6)**	**4.8**	20.0	(11.8)	8.2
Office equipment	**6.0**	**(2.9)**	**3.1**	5.7	(2.6)	3.1
Furniture and fittings	**45.5**	**(30.8)**	**14.7**	38.3	(28.5)	9.8
	70.9	**(48.3)**	**22.6**	64.0	(42.9)	21.1

11. Property and equipment (continued)

11.2 Movement - Group

	2015 Carrying value $m	Additions $m	Disposals $m	Depreciation charge $m	2016 Carrying value $m
Computer equipment	**8.2**	**0.6**	**(0.1)**	**(3.9)**	**4.8**
Office equipment	**3.1**	**0.4**	**-**	**(0.4)**	**3.1**
Furniture and fittings	**9.8**	**8.5**	**-**	**(3.6)**	**14.7**
	21.1	**9.5**	**(0.1)**	**(7.9)**	**22.6**

	2014 Carrying value $m	Additions $m	Disposals $m	Depreciation charge $m	2015 Carrying value $m
Computer equipment	11.0	1.2	-	(4.0)	8.2
Office equipment	3.8	0.2	-	(0.9)	3.1
Furniture and fittings	14.4	0.6	-	(5.2)	9.8
	29.2	2.0	-	(10.1)	21.1

11.3 Summary - Company

	2016			2015		
	Cost $m	Accumulated depreciation $m	Carrying value $m	Cost $m	Accumulated depreciation $m	Carrying value $m
Computer equipment	**17.9**	**(13.7)**	**4.2**	18.0	(10.8)	7.2
Office equipment	**5.3**	**(2.7)**	**2.6**	5.0	(2.4)	2.6
Furniture and fittings	**36.7**	**(28.9)**	**7.8**	29.6	(27.1)	2.5
	59.9	**(45.3)**	**14.6**	52.6	(40.3)	12.3

11.4 Movement - Company

	2015 Carrying value $m	Additions $m	Depreciation charge $m	2016 Carrying value $m
Computer equipment	**7.2**	**0.6**	**(3.6)**	**4.2**
Office equipment	**2.6**	**0.4**	**(0.4)**	**2.6**
Furniture and fittings	**2.5**	**8.0**	**(2.7)**	**7.8**
	12.3	**9.0**	**(6.7)**	**14.6**

	2014 Carrying value $m	Additions $m	Depreciation charge $m	2015 Carrying value $m
Computer equipment	10.0	0.9	(3.7)	7.2
Office equipment	3.1	0.3	(0.8)	2.6
Furniture and fittings	6.8	0.1	(4.4)	2.5
	19.9	1.3	(8.9)	12.3

12. Deferred tax assets

	Group 2016 $m	2015 $m	Company 2016 $m	2015 $m
Deferred tax asset recognised	1.4	3.0	-	-
Deferred tax asset not recognised	223.6	207.2	223.6	207.2
Unused tax losses and other temporary differences	225.0	210.2	223.6	207.2

12.1 Movements in deferred tax balances

Group	Opening balance	Recognised in profit or loss	Recognised in OCI	Asset not recognised[1]	Closing balance
2016	$m	$m	$m	$m	$m
Capital allowances	(1.1)	0.1	-	-	(1.0)
Share-based payments	1.2	(0.8)	-	-	0.4
Other short-term temporary differences	1.8	(0.9)	-	-	0.9
Unused tax losses	1.1	-	-	-	1.1
Total recognised deferred tax	3.0	(1.6)	-	-	1.4
Total unrecognised deferred tax [2]	207.2	-	-	16.4	223.6
Temporary differences not recognised	50.1	-	-	0.6	50.7
Unused tax losses not recognised	157.1	-	-	15.8	172.9
	210.2	(1.6)	-	16.4	225.0
2015					
Capital allowances	10.6	(11.7)	-	-	(1.1)
Share-based payments	12.0	(10.8)	-	-	1.2
Other short-term temporary differences	2.1	(0.3)	-	-	1.8
Unused tax losses	-	1.1	-	-	1.1
Total recognised deferred tax	24.7	(21.7)	-	-	3.0
Total unrecognised deferred tax[2]	149.7	-	-	57.5	207.2
Temporary differences not recognised	21.8	-	-	28.3	50.1
Unused tax losses not recognised	127.9	-	-	29.2	157.1
	174.4	(21.7)	-	57.5	210.2

Company	Opening balance	Recognised in profit or loss	Recognised in OCI	Asset not recognised[1]	Closing balance
2016	$m	$m	$m	$m	$m
Capital allowances	-	-	-	-	-
Share-based payments	-	-	-	-	-
Total recognised deferred tax	-	-	-	-	-
Total unrecognised deferred tax [2]	207.2	-	-	16.4	223.6
Temporary differences not recognised	50.1	-	-	0.6	50.7
Unused tax losses not recognised	157.1	-	-	15.8	172.9
	207.2	-	-	16.4	223.6
2015					
Capital allowances	10.6	(10.6)	-	-	-
Cash flow hedges	-	-	-	-	-
Share-based payments	9.4	(9.4)	-	-	-
Total recognised deferred tax	20.0	(20.0)	-	-	-
Total unrecognised deferred tax[2]	149.7	-	-	57.5	207.2
Temporary differences not recognised	21.8	-	-	28.3	50.1
Unused tax losses not recognised	127.9	-	-	29.2	157.1
	169.7	(20.0)	-	57.5	207.2

[1]Asset not recognised is net of an adverse tax rate change of US$10.6 million (2015: US$0.3 million).
[2]Deferred tax assets have not been recognised in the UK in respect of gross deductible temporary differences of US$203.6 million (2015: US$192.9 million) and gross tax losses of US$967.3 million (2015: US$872.3 million). UK deductible temporary differences and UK tax losses can be carried forward indefinitely. The main UK corporation tax rate for 2016 is 20%. Reductions in the main UK corporation tax rate to 19% with effect from 1 April 2017 and 17% from 1 April 2020 have been enacted. Additionally, an 8% surcharge on banking companies in the UK took effect from 1 January 2016 and UK tax losses arising before this date cannot be utilised against taxable profits subject to the surcharge. The group applied tax rates that are expected to be applied to the temporary differences and unused tax losses when they reverse based on the laws that have been enacted or substantively enacted at the reporting date.

13. Other assets

	Group		Company	
	2016	2015	**2016**	2015
	$m	$m	**$m**	$m
Non-financial assets held for trading [1]	**4,250.7**	3,326.0	**4,250.7**	3,289.5
Unsettled dealing balances	**68.1**	61.6	**68.1**	61.6
Other receivables	**66.2**	67.9	**64.0**	63.5
Intangible assets	**15.8**	-	**15.8**	-
	4,400.8	3,455.5	**4,398.6**	3,414.6
Included above are the following amounts due from related parties:				
Balances with ultimate holding company (ICBC Limited) and subsidiaries and branches	**2.9**	1.9	**2.9**	6.8
Balances with shareholder with significant influence (SBG) and subsidiaries and branches	**21.0**	10.2	**20.6**	10.2
	23.9	12.1	**23.5**	17.0

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

14. Investment in group companies

Company		
Carrying value at end of the year	29.5	29.5

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

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

[1]Indirectly held - the immediate parent of these entities is ICBC Standard NY Holdings Inc.
[2]Refer to registered address information on page 100

15. Financial liabilities held for trading

	Group		Company	
	2016	2015	**2016**	2015
	$m	$m	**$m**	$m
Government and utility bonds	**180.0**	471.5	**180.0**	471.5
Corporate bonds	**19.6**	26.7	**19.6**	26.7
Unlisted equities	**-**	1.0	**-**	1.0
Credit-linked notes	**564.4**	459.6	**564.4**	459.6
Other unlisted instruments	**17.7**	25.5	**17.7**	25.5
	781.7	984.3	**781.7**	984.3
Included above are the following amounts with related parties:				
Balances with ultimate holding company (ICBC Limited) and subsidiaries and branches	**-**	1.5	**-**	1.5
Balances with shareholder with significant influence (SBG) and subsidiaries and branches	**1.8**	2.3	**1.8**	2.3
	1.8	3.8	**1.8**	3.8

16. Financial liabilities designated at fair value through profit or loss

	Group		Company	
	2016	2015	**2016**	2015
	$m	$m	**$m**	$m
Debt instruments issued [1]	**1,313.3**	-	**1,313.3**	-
	1,313.3	**-**	**1,313.3**	**-**

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

17. Due to banks and other financial institutions

	Group		Company	
	2016	2015	**2016**	2015
	$m	$m	**$m**	$m
Due to banks	**7,739.5**	9,972.6	**7,737.3**	9,972.6
Other financial institutions	**283.2**	286.6	**283.2**	286.6
	8,022.7	10,259.2	**8,020.5**	10,259.2
Included above are the following amounts with related parties:				
Balances with ultimate holding company (ICBC Limited) and subsidiaries and branches	**3,452.1**	3,418.9	**3,452.1**	3,418.9
Balances with shareholder with significant influence (SBG) and subsidiaries and branches	**1,237.1**	1,837.7	**1,237.1**	1,837.7
	4,689.2	5,256.6	**4,689.2**	5,256.6

18. Repurchase agreements

	Group		Company	
	2016	2015	**2016**	2015
	$m	$m	**$m**	$m
Banks and other financial institutions	**2,097.7**	361.4	**2,097.7**	361.4
	2,097.7	361.4	**2,097.7**	361.4
Included above are the following amounts with related parties:				
Balances with ultimate holding company (ICBC Limited) and subsidiaries and branches	**-**	-	**-**	-
Balances with shareholder with significant influence (SBG) and subsidiaries and branches	**904.8**	-	**904.8**	-
	904.8	-	**904.8**	-

19. Certificates of deposit

	Group		Company	
	2016	2015	**2016**	2015
	$m	$m	**$m**	$m
Commercial paper	**63.3**	97.4	**63.3**	97.4
	63.3	97.4	**63.3**	97.4
Included above are the following amounts with related parties:				
Balances with ultimate holding company (ICBC Limited) and subsidiaries and branches	**-**	-	**-**	-
Balances with shareholder with significant influence (SBG) and subsidiaries and branches	**58.3**	91.9	**58.3**	91.9
	58.3	91.9	**58.3**	91.9

20. Due to customers

	Group		Company	
	2016	2015	**2016**	2015
	$m	$m	**$m**	$m
Call deposits	**355.7**	366.3	**355.7**	366.3
Term deposits	**163.6**	207.1	**163.6**	207.1
	519.3	573.4	**519.3**	573.4

21. Subordinated debt

	Group		Company	
	2016	2015	**2016**	2015
	$m	$m	**$m**	$m
Subordinated fixed rate notes 2019[1]	**526.1**	535.0	**526.1**	535.0
Step-up perpetual subordinated notes[2]	**-**	137.9	**-**	137.9
Accrued interest	**3.1**	10.0	**3.1**	10.0
	529.2	682.9	**529.2**	682.9

[1] Bonds issued in US Dollars (US$500 million) bearing interest equal to 8.125% per annum until maturity on 2 December 2019. These bonds are listed on the London Stock Exchange. To manage interest rate volatility, the group entered into a fair value hedge. Refer note 7.4.2.
[2] Bonds issued in US Dollars (US$137.9 million) at a fixed rate equal to 8.012% per annum. These bonds were redeemed in January 2016 at a premium of US$2.1 million. This premium, along with fees of US$0.8 million were accrued in 2015. These amounts and the principal of US$137.9 million were paid in January 2016.

Claims in respect of the loan capital are subordinated to the claims of other creditors. The group has not defaulted on principal or interest, or incurred any other breaches with respect to its subordinated liabilities during 2016 and 2015.

22. Other liabilities

	Group		Company	
	2016	2015	**2016**	2015
	$m	$m	**$m**	$m
Precious metal payables	**916.3**	-	**916.3**	-
Unsettled dealing balances	**43.8**	54.0	**43.8**	68.7
Long-term share incentives	**21.2**	23.1	**21.2**	21.7
Other	**108.4**	100.5	**108.4**	92.2
	1,089.7	177.6	**1,089.7**	182.6
Included above are the following amounts with related parties:				
Balances with ultimate holding company (ICBC Limited) and subsidiaries and branches	**230.3**	-	**230.3**	14.8
Balances with shareholder with significant influence (SBG) and subsidiaries and branches	**16.9**	1.4	**16.9**	1.4
	247.2	1.4	**247.2**	16.2

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.

Fair value can be a function of many variables. These include factors unique to the position such as liquidity and oversupply. Fair value does not factor in ‘fire-sale’ or ‘distressed sale’ conditions unless immediate sale in such conditions is the trading objective. Equally, fair value does not factor in ‘trading off the information curve’, i.e. trades between unequally informed counterparties.

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

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

Derivatives 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 applicable.

23. Estimation of fair values (continued)

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:

- 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 by discounting the future cash flows over the time period they are expected to be recovered at the original effective interest rate, which includes consideration of collateral.
- For secured loans and deposits arising from sale and repurchase agreements and for bond transactions that are due to settle on a date beyond the market norm (i.e. forward settlement), the group receives collateral in the form of cash or securities. The collateral is valued using established valuation techniques and variation margin is called or paid. Carrying amounts therefore closely reflect fair values.

23.3 Overnight index based swap curves (OIS)

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

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

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

The methodology for estimating CVA and DVA as at 31 December 2016 was consistent with that used at 31 December 2015, with inputs updated where required. Credit and debit valuation adjustments are taken against derivative exposures in order to reflect the potential impact of party / counterparty performance with regards to these contracts.

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

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

Where material, adjustments 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.

23. Estimation of fair values (continued)

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 uncertainty provisions against DVA calculated against derivative counterparts due to substantial uncertainty as to the ability to monetise the DVA. 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 the same methodology as for CVA and DVA. However, valuations were adjusted for effects related to the expected funding of the flows rather than the performance of the parties.

24. Classification of assets and liabilities

The tables that follow analyse financial instruments carried at the end of the reporting period by measurement basis. Fair values are determined for each balance sheet line item and classified into levels 1, 2 or 3, depending on its 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 bank 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 techniques 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)

31 December 2016	Note	Held-for-trading[1]	Designated at fair value	Loans and receivables	Available-for-sale assets	Other amortised cost	Other non-financial assets/liabilities	Total carrying value	Level 1	Level 2	Level 3	Other[2]	Total fair value
		$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Financial assets measured at fair value													
Financial assets held for trading	5	970.5	-	-	-	-	-	970.5	199.9	743.1	27.5	-	970.5
Financial assets designated at fair value through profit or loss	6	-	1,339.2	-	-	-	-	1,339.2	-	1,331.4	7.8	-	1,339.2
Derivative financial assets	7	4,715.0	-	-	-	-	-	4,715.0	804.2	3,872.6	38.2	-	4,715.0
Financial investments	10	-	-	-	1,300.7	-	-	1,300.7	1,215.4	81.9	3.4	-	1,300.7
		5,685.5	1,339.2	-	1,300.7	-	-	8,325.4	2,219.5	6,029.0	76.9	-	8,325.4
Financial assets carried at amortised cost													
Cash and balances with central banks[3]	3	-	-	1,174.3	-	-	-	1,174.3	-	-	-	1,174.3	1,174.3
Due from banks and other financial institutions[3]	4	-	-	1,842.3	-	-	-	1,842.3	-	-	882.4	960.3	1,842.7
Reverse repurchase agreements	8	-	-	3,601.1	-	-	-	3,601.1	-	3,613.0	-	-	3,613.0
Loans and advances to customers	9	-	-	855.3	-	-	-	855.3	-	-	855.3	-	855.3
		-	-	7,473.0	-	-	-	7,473.0	-	3,613.0	1,737.7	2,134.6	7,485.3
Other non-financial assets		4,250.7	-	-	-	-	174.5	4,425.2					
Total assets		9,936.2	1,339.2	7,473.0	1,300.7	-	174.5	20,223.6					
Financial liabilities measured at fair value													
Financial liabilities held for trading	15	781.7	-	-	-	-	-	781.7	52.5	426.9	302.3	-	781.7
Financial liabilities designated at fair value through profit or loss	16	-	1,313.3	-	-	-	-	1,313.3	-	1,313.3	-	-	1,313.3
Derivative financial liabilities	7	4,849.3	-	-	-	-	-	4,849.3	749.9	3,916.3	183.1	-	4,849.3
		5,631.0	1,313.3	-	-	-	-	6,944.3	802.4	5,656.5	485.4	-	6,944.3
Financial liabilities carried at amortised cost													
Due to banks and other financial institutions[3]	16	-	-	-	-	8,022.7	-	8,022.7	-	-	6,480.0	1,545.8	8,025.8
Repurchase agreements	17	-	-	-	-	2,097.7	-	2,097.7	-	2,098.9	-	-	2,098.9
Certificates of deposit	18	-	-	-	-	63.3	-	63.3	-	-	63.8	-	63.8
Due to customers	19	-	-	-	-	519.3	-	519.3	-	-	519.5	-	519.5
Subordinated debt	20	-	-	-	-	529.2	-	529.2	-	554.6	-	-	554.6
		-	-	-	-	11,232.2	-	11,232.2	-	2,653.5	7,063.3	1,545.8	11,262.6
Other non-financial liabilities	21	916.3	-	-	-	-	173.9	1,090.2					
Total liabilities		6,547.3	1,313.3	-	-	11,232.2	173.9	19,266.7					

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

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

[2] Represents cash and cash equivalents.

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

24. Classification of assets and liabilities (continued)

31 December 2015	Note	Held-for-trading[1]	Designated at fair value	Loans and receivables	Available-for-sale assets	Other amortised cost	Other non-financial assets/liabilities	Total carrying value	Level 1	Level 2	Level 3	Other[2]	Total fair value
		$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Financial assets measured at fair value													
Financial assets held for trading	5	2,443.9	-	-	-	-	-	2,443.9	953.5	1,419.2	71.2	-	2,443.9
Financial assets designated at fair value through profit or loss	6	-	7.9	-	-	-	-	7.9	-	-	7.9	-	7.9
Derivative financial assets	7	6,223.0	-	-	-	-	-	6,223.0	1,353.4	4,828.1	41.5	-	6,223.0
Financial investments	10	-	-	-	105.3	-	-	105.3	-	102.9	2.4	-	105.3
		8,666.9	7.9	-	105.3	-	-	8,780.1	2,306.9	6,350.2	123.0	-	8,780.1
Financial assets carried at amortised cost													
Cash and balances with central banks[3]	3	-	-	3,254.2	-	-	-	3,254.2	-	-	-	3,254.2	3,254.2
Due from banks and other financial institutions[3]	4	-	-	1,510.9	-	-	-	1,510.9	-	-	288.9	1,222.0	1,510.9
Reverse repurchase agreements	8	-	-	2,684.5	-	-	-	2,684.5	-	2,693.2	-	-	2,693.2
Loans and advances to customers	9	-	-	427.1	-	-	-	427.1	-	-	429.1	-	429.1
		-	-	7,876.7	-	-	-	7,876.7	-	2,693.2	718.0	4,476.2	7,887.4
Other non-financial assets		3,326.0	-	-	-	-	154.7	3,480.7					
Total assets		11,992.9	7.9	7,876.7	105.3	-	154.7	20,137.5					
Financial liabilities measured at fair value													
Derivative financial liabilities	7	5,926.3	-	-	-	-	-	5,926.3	979.4	4,682.6	264.3	-	5,926.3
Financial liabilities held for trading	15	984.3	-	-	-	-	-	984.3	22.2	621.6	340.5	-	984.3
		6,910.6	-	-	-	-	-	6,910.6	1,001.6	5,304.2	604.8	-	6,910.6
Financial liabilities carried at amortised cost													
Due to banks and other financial institutions[3]	16	-	-	-	-	10,259.2	-	10,259.2	-	-	6,496.6	3,762.6	10,259.2
Repurchase agreements	17	-	-	-	-	361.4	-	361.4	-	361.9	-	-	361.9
Certificates of deposit	18	-	-	-	-	97.4	-	97.4	-	-	98.8	-	98.8
Due to customers	19	-	-	-	-	573.4	-	573.4	-	-	575.0	-	575.0
Subordinated debt	20	-	-	-	-	682.9	-	682.9	-	698.2	-	-	698.2
		-	-	-	-	11,974.3	-	11,974.3	-	1,060.1	7,170.4	3,762.6	11,993.1
Other non-financial liabilities		-	-	-	-	-	177.6	177.6					
Total liabilities		6,910.6	-	-	-	11,974.3	177.6	19,062.5					

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

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

[2] Represents cash and cash equivalents.

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

25. Financial instruments measured at fair value

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

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

	Valuation basis	Main assumptions	Level 2		Level 3	
			2016	2015	**2016**	2015
			$m	$m	**$m**	$m
Net derivative instruments	Discounted cash flow model (DCF)	Credit rate, interest rate, correlation, copper and silver composition, vega bid offer on FX factor volatility surface	**(73.7)**	152.8	**(144.7)**	(222.8)
	Black Scholes model	Risk-free rate, volatility rate	**30.0**	(7.6)	**(0.2)**	-
	Other	Exchange price difference	**-**	0.3	**-**	-
			(43.7)	145.5	**(144.9)**	(222.8)
Financial assets held for trading	DCF	Bond price, credit curve, credit rate, recovery level, discount rate	**743.1**	1,419.2	**27.5**	71.2
Financial assets designated at fair value through profit or loss	DCF	Discount rate, credit curve, credit rate, period	**1,331.4**	-	**7.8**	7.9
Financial investments	DCF	Discount rate, liquidity discount rate, period	**81.9**	102.9	**3.4**	2.4
Financial liabilities held for trading	DCF	Interest rate, credit rate, credit curve, correlation, discount rate	**(426.9)**	(621.6)	**(302.3)**	(340.5)
Financial liabilities designated at fair value through profit or loss	DCF	Discount rate, credit rate, credit curve	**(1,313.3)**	-	**-**	-
			372.5	1,046.0	**(408.5)**	(481.8)

25.2 Reconciliation of level 3 financial instruments

2016	**Net derivative instruments**	**Financial assets held for trading**	**Financial assets designated at fair value through profit or loss**	**Financial investments**	**Financial liabilities held for trading**	**Total**
Group[1]	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
Balance at beginning of the year	**(222.8)**	**71.2**	**7.9**	**2.4**	**(340.5)**	**(481.8)**
Total gains / (losses) included in trading revenue	**119.2**	**13.8**	**(0.1)**	**-**	**9.6**	**142.5**
Realised	**81.5**	**(0.5)**	**-**	**-**	**(3.4)**	**77.6**
Unrealised	**37.7**	**14.3**	**(0.1)**	**-**	**13.0**	**64.9**
Gain included in OCI	**-**	**-**	**-**	**0.3**	**-**	**0.3**
Purchases	**(14.9)**	**0.4**	**-**	**0.7**	**-**	**(13.8)**
Issues	**-**	**-**	**-**	**-**	**1.8**	**1.8**
Sales	**(20.7)**	**(57.9)**	**-**	**-**	**-**	**(78.6)**
Settlements	**-**	**-**	**-**	**-**	**23.6**	**23.6**
Transfers into level 3[2]	**(8.8)**	**-**	**-**	**-**	**-**	**(8.8)**
Transfers out of level 3[3]	**3.1**	**-**	**-**	**-**	**3.2**	**6.3**
Balance at end of the year	**(144.9)**	**27.5**	**7.8**	**3.4**	**(302.3)**	**(408.5)**

2015	Net derivative instruments	Financial assets held for trading	Financial assets designated at fair value through profit or loss	Financial investments	Financial liabilities held for trading	Total
Group[1]	$m	$m	$m	$m	$m	$m
Balance at beginning of the year	(121.3)	263.6	14.2	2.6	(435.3)	(276.2)
Total (losses) / gains included in trading revenue	(154.3)	(68.4)	(6.3)	-	41.4	(187.6)
Realised	(30.6)	7.8	(4.7)	-	44.1	16.6
Unrealised	(123.7)	(76.2)	(1.6)	-	(2.7)	(204.2)
Loss included in OCI	-	-	-	(0.2)	-	(0.2)
Purchases	(1.0)	27.5	-	-	-	26.4
Issues	-	-	-	-	53.4	53.4
Sales	49.7	(159.6)	-	-	-	(109.9)
Settlements	-	-	-	-	-	-
Transfers into level 3[2]	(0.5)	8.1	-	-	-	7.6
Transfers out of level 3[3]	4.6	-	-	-	-	4.6
Balance at end of the year	(222.8)	71.2	7.9	2.4	(340.5)	(481.8)

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

25. 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 2016.

Group[1]	Main assumptions	Range of estimates for unobservable input 2016
Net derivative instruments	Credit curve, credit rate	Less than 1% to 20.2%
Financial assets held for trading	Credit curve	Less than 1% to 19.4%
	Bond price	Less than 1 to 105.5
Financial assets designated at fair value through profit of loss	Period	12 months
Financial investments	Discount rate, liquidity discount rate	1%
Financial liabilities held for trading	Credit curve, credit rate	Less than 1% to 20.8%

[1] There is not a material difference 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 non-observable parameters. The table below measures the sensitivity to non-observable parameters only. These positions are risk managed using various instruments of which the associated gains or losses are not reflected in the table below.

		Effect recorded in profit or loss			
Group[1]	Main assumptions	2016		2015	
		Favourable	(Adverse)	Favourable	(Adverse)
		$m	$m	$m	$m
Net derivative instruments	Credit rate, interest rate, correlation, vega bid offer on FX factor volatility surface	2.9	(2.9)	14.7	(14.7)
Financial assets held for trading	Bond price, credit curve, recovery level, discount rate	1.3	(1.3)	1.7	(1.7)
Financial assets designated at fair value through profit or loss	Discount rate, credit curve, credit rate, period	-	-	0.1	(0.1)
Financial investments	Discount rate, liquidity discount rate, period	-	-	-	-
Financial liabilities held for trading	Interest rate, credit rate, credit curve, correlation, discount rate	7.7	(7.7)	3.3	(3.3)

[1] There is not a material difference between group and company

26. Reclassification of financial assets

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

In 2008, the group reclassified assets for which there was a clear change of intent to hold the assets for the foreseeable future, rather than to exit or trade in the short term, from held-for-trading to loans and receivables. The group has not made any such reclassifications since 2008.

	2016	2015
	$m	$m
Carrying value of reclassified financial assets at end of the year	1.5	3.0
Fair value of reclassified financial assets at end of the year	1.5	3.0
If the reclassification had not been made, the profit or loss would have included no unrealised fair value gain or loss (2015: US$ nil).		
The table below sets out the amounts actually recognised in profit or loss:		
Period after reclassification		
Net interest income	-	-
Credit impairment charge	-	(0.4)
Net expense	-	(0.4)

The loans in the portfolio are assessed for credit impairments in terms of the credit policy set out in note 37.4.

27. Offsetting of financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the balance sheet when the group currently has a legally enforceable right to set-off the recognised amounts and there is an intention to settle the asset and the liability on a net basis, or to realise the asset and settle the liability simultaneously. Certain derivative assets and liabilities met this criteria and US$3,538.1 million was offset in the current year (2015: US$4,285.7 million).

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

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

Financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements	**Gross**	**Amounts offset in the balance sheet**	**Net amounts included in the balance sheet**	**Amounts that could be offset in the event of counterparty default[1]**		
				Financial instruments	**Cash collateral received / pledged**	**Net amount**
2016	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
Assets in scope						
Derivative financial assets	**8,253.1**	**(3,538.1)**	**4,715.0**	**(2,714.1)**	**(517.8)**	**1,483.1**
Commodity reverse repurchase agreements	**135.4**	**-**	**135.4**	**(132.8)**	**(1.8)**	**0.8**
Reverse repurchase agreements	**3,601.1**	**-**	**3,601.1**	**(3,601.1)**	**-**	**-**
Total financial assets in scope	**11,989.6**	**(3,538.1)**	**8,451.5**	**(6,448.0)**	**(519.6)**	**1,483.9**
Liabilities in scope						
Derivative financial liabilities	**8,387.4**	**(3,538.1)**	**4,849.3**	**(2,714.1)**	**(641.2)**	**1,494.0**
Repurchase agreements	**2,097.7**	**-**	**2,097.7**	**(2,035.4)**	**(62.3)**	**-**
Total financial liabilities in scope	**10,485.1**	**(3,538.1)**	**6,947.0**	**(4,749.5)**	**(703.5)**	**1,494.0**

Financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements	Gross	Amounts offset in the balance sheet	Net amounts included in the balance sheet	Amounts that could be offset in the event of counterparty default[1]		
				Financial instruments	Cash collateral received / pledged	Net amount
2015	$m	$m	$m	$m	$m	$m
Assets in scope						
Derivative financial assets	10,508.7	(4,285.7)	6,223.0	(3,723.3)	(838.3)	1,661.4
Commodity reverse repurchase agreements	378.9	-	378.9	(319.2)	(21.4)	38.3
Reverse repurchase agreements	2,684.5	-	2,684.5	(2,684.5)	-	-
Total financial assets in scope	13,572.1	(4,285.7)	9,286.4	(6,727.0)	(859.7)	1,699.7
Liabilities in scope						
Derivative financial liabilities	10,212.0	(4,285.7)	5,926.3	(3,723.3)	(755.5)	1,447.5
Repurchase agreements	361.4	-	361.4	(354.7)	(6.7)	-
Total financial liabilities in scope	10,573.4	(4,285.7)	6,287.7	(4,078.0)	(762.2)	1,447.5

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

28. Ordinary share capital

Issued and fully paid

	2016 $m	2015 $m
Issued and fully paid		
1 083 458 353 ordinary shares of US$1 each (2015: 1 083 458 353)	**1,083.5**	1,083.5
	1,083.5	1,083.5

	2016 Number	2015 Number
Reconciliation of ordinary shares issued		
Shares in issue at beginning of the year	**1,083,458,353**	1,083,458,351
Issue of shares[1]	**-**	2
Shares in issue at end of the year	**1,083,458,353**	1,083,458,353

[1] On 29 January 2015, the company issued an additional two ordinary shares of US$1 each at a share premium of US$150.0 million per share.
On 13 January 2017, the company issued an additional twenty five ordinary shares of US$1 each at a share premium of US$10.6 million per share. See note 35.1

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

29. Contingent liabilities and commitments

29.1 Contingent liabilities

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

29.2 Operating lease commitments

The future minimum payments under non-cancellable operating leases are as follows:

	2016 $m	2015 $m
Properties		
Within 1 year	**10.7**	12.8
After 1 year but within 5 years	**37.0**	39.5
After 5 years	**25.7**	35.6
	73.4	87.9
Equipment		
Within 1 year	**0.1**	0.1
After 1 year but within 5 years	**0.1**	0.1
	0.2	0.2

29.3 Legal proceedings and regulatory matters

From time to time, the group is the subject of litigation, regulatory reviews and requests for information by various governmental and regulatory bodies arising from the group's business operations. While there is inherent uncertainty in predicting the outcome of these matters, management believe that based upon current knowledge, adequate provisions have been made. Refer to note 2.5.

During 2015, ICBC Standard Bank Plc entered into a Deferred Prosecution Agreement (DPA) with the United Kingdom Serious Fraud Office following a judgment delivered by the High Court of England and Wales on 30 November 2015. The DPA relates to allegations that the group failed, contrary to section 7 of the UK Bribery Act 2010, to prevent two senior executives of Stanbic Bank Tanzania (Stanbic) engaging a local partner with the intent that the engagement would induce Tanzanian government representatives into acting partially in awarding a capital raising mandate to the bank and Stanbic. ICBC Standard Bank Plc also agreed with the United States Securities and Exchange Commission to resolve a claim that it acted negligently and did not disclose to US investors the involvement of the local partner in this capital raising mandate. The group incurred costs of US$40.9 million in 2015, included within discontinued operations, related to this matter.

30. Supplementary income statement information

30.1 Interest income[1]

	2016 $m	2015 $m
Interest on loans and advances and short-term funds	**83.3**	56.6
Interest on available for sale debt instruments	**6.9**	0.7
	90.2	57.3
Included above are the following amounts receivable from related parties:		
Transactions with ultimate holding company (ICBC Limited) and subsidiaries and branches	**4.6**	1.1
Transactions with shareholder with significant influence (SBG) and subsidiaries and branches	**8.0**	10.0
	12.6	11.1

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

30.2 Interest expense[1]

	2016 $m	2015 $m
Subordinated debt	**27.3**	38.0
Other interest-bearing liabilities[2]	**26.8**	23.0
	54.1	61.0
Included above are the following amounts payable to related parties:		
Transactions with ultimate holding company (ICBC Limited) and subsidiaries and branches	**28.2**	2.6
Transactions with shareholder with significant influence (SBG) and subsidiaries and branches	**14.7**	15.4
	42.9	18.0

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

[2] Interest expense net of charge to trading revenue as per accounting policy 16.

30.3 Non-interest revenue

	2016 $m	2015 $m
Net fees, commission and revenue sharing arrangements[1]	**17.7**	24.6
Trading revenue	**215.9**	107.3
Commodities	**71.6**	61.2
Debt securities	**48.2**	31.7
Equities	**5.8**	14.2
Foreign exchange	**90.3**	0.2
Net gain on financial assets and liabilities at fair value through profit or loss	**19.0**	-
(Loss) / recovery on commodity reverse repurchase agreements (note 30.4)	**(2.5)**	50.5
	250.1	182.4
Comprising:		
Continuing operations	**250.1**	176.4
Discontinued operations	**-**	6.0
	250.1	182.4
Included above are the following amounts with related parties:		
Transactions with ultimate holding company (ICBC Limited) and subsidiaries and branches	**0.7**	0.1
Transactions with shareholder with significant influence (SBG) and subsidiaries and branches	**13.6**	16.6
	14.3	16.7

[1] Revenue sharing arrangements include receipts of US$13.2 million in continuing operations (2015: US$15.8 million) and US$ nil in discontinued operations (2015: US$6.0 million). There were no payments in 2016 (2015: US$ nil). Of these amounts, US$13.2 million relates to transactions with SBG companies.

30. Supplementary income statement information (continued)

30.4 (Loss) / recovery on commodity reverse repurchase agreements

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

In 2015, the group provided for the remaining US$20.0 million of exposure to the reverse repos. Following settlement of the majority of the claim with the insurers on a portion of the exposure, recoveries of US$70.5 million were recorded in the income statement in 2015, leaving the net recovery in 2015 at US$50.5 million. As an agreement has not been reached with the remaining insurer for that portion of the claim, no further revenue has been recognised in 2016.

Legal costs of US$3.0 million have been incurred in 2016 (2015: US$4.5 million), with these being reflected within operating expenses. In addition, the group incurred US$2.5 million of storage costs on the metal held in the bonded warehouses which has been disclosed within operating income.

As part of the legal proceedings which seek to recover the exposure, the group is required by Chinese law to provide security to the court in the form of cash placements amounting to US$6.0 million (2015: US$35.8 million). This security is included in the total of pledged assets and cash margin placements of US$1,725.7 million (2015: US$1,276.7 million) disclosed in note 38.

30.5 Credit impairment (charges) / recoveries

	2016 **$m**	2015 $m
Specific impairments raised	**-**	(0.3)
Banks	**-**	(0.3)
Customers	**-**	-
Portfolio impairments (raised) / released	**(0.3)**	0.7
Banks	**-**	-
Customers	**(0.3)**	0.7
Net credit impairment (charges) / recoveries in continuing operations	**(0.3)**	0.4

30.6 Staff costs

	2016 **$m**	2015 $m
Salaries and allowances	**204.4**	185.6
Other direct staff costs	**25.1**	23.3
Long-term incentive schemes	**12.2**	10.9
Retirement benefit costs	**10.1**	9.3
	251.8	229.1

30. Supplementary income statement information (continued)

30.7 Other operating expenses

	2016 $m	2015 $m
Amortisation of intangible assets	**0.1**	11.7
Auditors' remuneration	**3.3**	3.2
Audit of ICBC Standard Bank Plc company	**2.1**	1.5
Current year	**1.7**	1.5
Prior year	**0.4**	-
Audit of subsidiaries[1]	**0.5**	0.4
Audit related assurance services	**0.6**	0.5
All other services	**0.1**	0.8
Depreciation	**7.9**	10.1
Computer equipment	**3.9**	4.0
Office equipment	**0.4**	0.9
Furniture and fittings	**3.6**	5.2
Operating lease charges - Properties	**12.5**	11.2
Information technology and communication	**41.6**	48.2
Premises	**11.3**	11.4
Other expenses	**47.9**	97.3
	124.6	193.1
Comprising:		
Continuing operations	**124.6**	152.2
Discontinued operations	**-**	40.9
	124.6	193.1

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

30.8 Indirect taxation

	2016 $m	2015 $m
Value added tax	**6.5**	4.8
	6.5	4.8

30.9 Long-term incentive schemes

30.9.1 Quanto stock unit plan

Since 2007, the group has operated a deferred incentive arrangement in the form of the quanto stock unit plan. Qualifying employees with an incentive award above a set threshold are awarded quanto stock units denominated in US Dollars for nil consideration. For those in issue as at 31 December 2015, the value is based on the Standard Bank Group Limited (SBG) share price and moves in parallel to the change in price of the SBG ordinary shares listed on the Johannesburg Stock Exchange. The awards made in 2016 and beyond are based on the ICBC ordinary share price as quoted on the Hong Kong Stock Exchange. The cost of the award is accrued over the vesting period (generally three years), commencing with the year in which the quanto stock units are awarded and communicated to employees. Awards prior to 2011 can be exercised within 10 years, 2011 awards can be exercised within the longest vesting period applied to these awards (generally three years) and awards after 2011 will be exercised on vesting. Units granted since 1 January 2012 do not allow for incremental payments to employees in service for four years. A description of the underlying accounting principles is disclosed in accounting policy 15 Long-term incentive schemes.

The provision in respect of liabilities under the scheme amounts to US$21.2 million at 31 December 2016 (2015: US$23.1 million), and the charge for the year is US$12.2 million (2015: US$10.9 million). The change in liability due to changes in the SBG and ICBC share prices is hedged through the use of equity options designated as cash flow hedges (see note 7.4.1).

30. Supplementary income statement information (continued)

30.9.1 Quanto stock unit plan

SBG shares	2016 Units	2015 Units
Units outstanding at beginning of the year	**192,409**	328,681
Granted	**-**	65,101
Exercised	**(114,868)**	(194,715)
Leavers / lapses	**(6,325)**	(6,658)
Units outstanding at end of the year	**71,216**	192,409
Of which relates to key management	**20,635**	61,186

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

Expiry year[1]	2016 Units	2015 Units
2016	**-**	17,565
2017	**4,919**	46,386
2018	**40,247**	82,855
2019	**26,050**	45,603
	71,216	192,409

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

ICBC shares	2016 Units	2015 Units
Units outstanding at beginning of the year	**-**	-
Granted	**2,708,024**	-
Leavers / lapses	**(138,108)**	-
Units outstanding at end of the year	**2,569,916**	-
Of which relates to key management	**1,335,054**	-

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

Expiry year[1]	2016 Units	2015 Units
2017	**859,324**	-
2018	**856,614**	-
2019	**853,978**	-
	2,569,916	-

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

The unrecognised compensation cost related to the unvested awards amounts to US$18.5 million (2015: US$19.1 million). The quanto element of this is US$12.9 million, with US$5.6 million being deferred cash awards. These represent the accumulated amount deferred on awards issued and approved. The vesting of these awards is expected to occur as follows:

	2016 $m	2015 $m
Year ending 31 December 2016	**-**	6.4
Year ending 31 December 2017	**11.0**	5.3
Year ending 31 December 2018	**5.5**	3.8
Year ending 31 December 2019	**1.8**	3.6
Year ending 31 December 2020	**0.2**	-
	18.5	19.1

Deferred awards of US$11.3 million have been approved for issue in March 2017. This is split into quanto awards of US$5.7 million and cash deferral of US$5.6 million. These awards will have three vesting periods: 12 months, 24 months and 36 months.

30. Supplementary income statement information (continued)

30.9.2 SBG equity scheme

Certain employees are granted share options under the SBG equity-settled share-based scheme. The outstanding award value under the SBG share scheme amounts to US$9.4 million (2015: US$9.4 million), and the amount charged for the year is US$ nil (2015: US$ nil).

	2016 Units	2015 Units
Options outstanding at beginning of the year	**456,504**	492,152
Transfers in	**16,980**	102,815
Exercised	**(67,812)**	(138,195)
Leavers / lapses	**(23,751)**	(268)
Options outstanding at end of the year	**381,921**	456,504
Of which relates to key management	**190,470**	277,658

Share options were exercised regularly throughout the year, other than during closed periods. The average share price for the year was ZAR130.73.

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

Options expiry period	Option price range per share (ZAR)	2016 Units	2015 Units
Year to December 2016	79.50 - 81.00	**-**	42,500
Year to December 2017	92.05 - 107.91	**54,600**	50,000
Year to December 2018	89.00 - 92.00	**57,725**	55,625
Year to December 2019	62.39 - 65.00	**74,125**	91,500
Year to December 2020	111.94	**92,658**	98,126
Year to December 2021	98.80	**102,813**	118,753
		381,921	456,504

30.10 Directors' emoluments

Directors[1,2]

	2016 $m	2015 $m
Emoluments of directors in respect of services rendered		
Emoluments	**3.3**	3.1
Proceeds from exercise of share-based incentives	**1.3**	2.9
Pension contribution	**-**	-
Highest paid director		
Emoluments	**2.0**	1.4
Proceeds from exercise of share-based incentives	**1.3**	2.9

[1] Compensation relates to services rendered to the group. In addition, US$0.2 million was paid on the group's behalf by entities consolidated into the ultimate holding company (ICBC Limited) and the shareholder with significant influence (SBG).
[2] The number of directors for whom pension contributions were paid was one during the year and at year end

Long-term benefits under the SBG quanto stock unit plan

	2016 Units	2015 Units
Number of units brought forward	**14,232**	41,083
Leavers	**-**	(7,473)
Exercised	**(9,326)**	(19,378)
As at 31 December	**4,906**	14,232

Long-term benefits under the ICBC quanto stock unit plan

	2016 Units	2015 Units
Number of units brought forward	**-**	-
Issued during the year	**322,251**	-
As at 31 December	**322,251**	-

30. Supplementary income statement information (continued)

Long-term benefits under the SBG equity-settled share-based scheme

	2016 Units	2015 Units
Number of options brought forward	**143,750**	168,126
Leavers	**-**	(24,376)
Exercised	**(25,500)**	-
As at 31 December	**118,750**	143,750

30.11 Company profits

As permitted by section 408 of the Companies Act 2006, the company's statement of comprehensive income has not been presented. The company's loss of US$92.0 million (2015: US$266.4 million loss) has been included in the consolidated income statement.

30.12 Dividends

No dividends were declared in 2016 (2015: nil).

31. Income tax charge

	2016 $m	2015 $m
Current year tax charge	**(1.7)**	(20.0)
UK deferred tax	**-**	(20.0)
Overseas tax	**(0.5)**	0.5
Overseas deferred tax	**(1.2)**	(0.5)
Prior years		
Overseas tax	**0.3**	1.4
Overseas deferred tax	**(0.4)**	(1.2)
Total tax charge	**(1.8)**	(19.8)

UK tax rate reconciliation

The UK corporation tax rate for 2016 was 20.0% (2015: 20.25%). 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 loss before tax is explained below.

	2016 $m	2015 $m
Loss before taxation		
Continuing operations	**(97.0)**	(213.0)
Discontinued operations (note 1)	**-**	(34.9)
	(97.0)	(247.9)
Tax credit at the standard rate of 20.0% (2015: 20.25%)	**19.4**	50.2
Effects of:		
Adjustment to tax in respect of prior years	**(0.1)**	0.2
Different tax rates in other countries	**(0.3)**	(0.5)
Non-deductible expenses	**(0.8)**	(8.1)
Deferred tax asset written off	**-**	(20.0)
Net impact of overseas tax	**(1.1)**	0.7
Tax losses for which no deferred tax asset was recognised	**(18.9)**	(42.3)
Tax charge included in the income statement	**(1.8)**	(19.8)
Effective tax rate (%)	**(1.9)**	(0.1)

32. Notes to the cash flow statement

32.1 Increase in income-earning assets

	Group		Company	
	2016	2015	**2016**	2015
	$m	$m	**$m**	$m
Financial assets held for trading	**1,473.4**	251.6	**1,506.0**	222.0
Financial assets designated at fair value through profit or loss	**(1,331.3)**	6.3	**(1,331.3)**	6.3
Loans and advances	**(1,950.6)**	(199.2)	**(1,916.9)**	(201.2)
Other assets	**(945.4)**	(773.3)	**(984.1)**	(742.6)
Financial investments	**(1,194.9)**	(101.8)	**(1,194.9)**	(101.8)
	(3,948.8)	(816.4)	**(3,921.2)**	(817.3)

32.2 Decrease in deposits and other liabilities

	Group		Company	
	2016	2015	**2016**	2015
	$m	$m	**$m**	$m
Deposits and current accounts	**(585.4)**	2,988.4	**(587.6)**	3,000.5
Net derivative instruments	**444.6**	(229.3)	**444.4**	(228.5)
Financial liabilities held for trading	**(202.6)**	(169.9)	**(202.6)**	(169.9)
Financial liabilities designated at fair value through profit or loss	**1,313.3**	-	**1,313.3**	-
Other liabilities	**898.2**	(124.5)	**886.3**	(114.2)
	1,868.1	2,464.7	**1,853.8**	2,487.9

32.3 Corporation and withholding tax paid

	Group		Company	
	2016	2015	**2016**	2015
	$m	$m	**$m**	$m
Amounts unpaid at beginning of the year	**1.1**	(6.0)	**0.3**	(1.6)
Income tax charge	**(1.8)**	(19.8)	**(1.2)**	(19.7)
Amounts received from branches of ultimate holding company (ICBC Limited)	**(1.0)**	-	**-**	-
Non-cash movements	**1.9**	23.5	**0.3**	20.6
Amounts unpaid at end of the year	**(0.4)**	(1.1)	**0.1**	(0.3)
	(0.2)	(3.4)	**(0.5)**	(1.0)

32.4 Cash and cash equivalents

	Group		Company	
	2016	2015	**2016**	2015
	$m	$m	**$m**	$m
Balances with central banks	**1,174.3**	3,254.2	**1,174.3**	3,254.2
Other cash equivalents[1]	**960.3**	1,222.0	**895.0**	1,135.4
Cash and cash equivalents at end of the year	**2,134.6**	4,476.2	**2,069.3**	4,389.6

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

33. Related party transactions

33.1 Subsidiaries

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

33.2 ICBC and SBG related parties

The group entered into transactions with other entities forming part of the ICBC Group and Standard Bank Group. The transactions were entered into in the course of banking operations and were conducted in the ordinary course of business at arm's length. These transactions include funding and acceptance of interbank deposits, lending, derivative transactions and correspondent banking transactions. The transactions were priced at the prevailing market rates at the time of the

33. Related party transactions (continued)

transactions. A significant portion of this activity reflects funding received as well as the placement of excess liquidity by other entities with the group. The extent of these activities is presented in notes 16, 17 and 19. As part of its normal activities, the group also advanced funds to other entities within the ICBC and Standard Bank groups, the extent of which is disclosed in notes 4 and 8. Balances arising from derivative transactions are shown in note 7.1. Issue of additional share capital in January 2017 is described in note 35.1.

33.3 Risk mitigation transactions

The group entered into equity risk mitigation transactions with Standard Bank of South Africa Limited (SBSA), of which US$7.8 million remains outstanding as at the reporting date (2015: US$7.9 million). Under the transactions, SBSA provides risk mitigation to the group. Under IFRS, the equity exposures are not derecognised, with the liabilities recognised on the balance sheet.

33.4 Key management compensation

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

	2016	2015
	$m	$m
Salaries and other short-term benefits	**13.2**	12.9
Long-term incentives recognised in the income statement	**5.1**	3.5
Amounts included in the income statement	**18.3**	16.4
Proceeds on exercise of long-term incentives	**5.7**	10.3

There were no other transactions with key management in 2016 (2015: nil).

The average executive key management consists of 14 employees (2015: 15 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$10.1 million (2015: US$9.3 million). There were no outstanding contributions at the end of the reporting period (2015: US$ nil).

35. Subsequent events

35.1 Issue of share capital

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

36. Maturity analysis

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

Group - 31 December 2016	Repayable on demand	Maturing within 1 month	Maturing after 1 month but within 3 months	Maturing after 3 months but within 6 months	Maturing after 6 months but within 12 months	Maturing after 12 months but within 5 years	Maturing after 5 years	Undated	Total
	$m	$m	$m	$m	$m	$m	$m	$m	$m
Assets									
Cash and balances with central banks	1,174.3	-	-	-	-	-	-	-	1,174.3
Due from banks and other financial institutions	1,765.6	7.4	0.9	23.5	19.1	25.8	-	-	1,842.3
Financial assets held for trading	6.8	24.6	124.7	12.3	65.0	367.2	354.9	15.0	970.5
Financial assets designated at fair value through profit or loss	-	-	-	-	1,331.4	-	-	7.8	1,339.2
Derivative financial assets	36.5	399.6	701.2	435.3	786.3	1,839.2	516.9	-	4,715.0
Reverse repurchase agreements	809.5	297.8	69.4	151.8	199.3	2,073.3	-	-	3,601.1
Loans and advances to customers	223.8	20.8	79.6	51.5	150.3	324.8	4.5	-	855.3
Financial investments	-	-	5.0	13.5	13.2	1,185.7	79.9	3.4	1,300.7
Property and equipment	-	-	-	-	-	-	-	22.6	22.6
Current tax assets	-	-	-	-	-	-	-	0.4	0.4
Deferred tax assets	-	-	-	-	-	-	-	1.4	1.4
Other assets	97.7	-	-	-	-	0.6	-	4,302.5	4,400.8
Total assets	4,114.2	750.2	980.8	687.9	2,564.6	5,816.6	956.2	4,353.1	20,223.6
Liabilities									
Financial liabilities held for trading	10.8	12.6	2.2	81.8	167.4	184.7	322.2	-	781.7
Financial liabilities designated at fair value through profit or loss	-	-	-	-	1,313.3	-	-	-	1,313.3
Derivative financial liabilities	58.9	437.8	662.9	498.3	736.9	1,792.4	662.1	-	4,849.3
Due to banks and other financial institutions	1,763.9	2,924.0	2,050.4	967.6	301.6	8.6	6.6	-	8,022.7
Repurchase agreements	65.2	34.8	1,449.4	198.3	-	350.0	-	-	2,097.7
Certificates of deposit	-	5.0	-	23.5	19.1	15.7	-	-	63.3
Due to customers	366.4	13.3	21.3	52.3	66.0	-	-	-	519.3
Current tax liabilities	-	-	-	-	-	-	-	0.5	0.5
Subordinated debt	-	-	-	-	-	529.2	-	-	529.2
Other liabilities	1,024.9	-	-	-	-	0.4	-	64.4	1,089.7
Total liabilities	3,290.1	3,427.5	4,186.2	1,821.8	2,604.3	2,881.0	990.9	64.9	19,266.7

36. Maturity analysis (continued)

Company - 31 December 2016	**Repayable on demand**	**Maturing within 1 month**	**Maturing after 1 month but within 3 months**	**Maturing after 3 months but within 6 months**	**Maturing after 6 months but within 12 months**	**Maturing after 12 months but within 5 years**	**Maturing after 5 years**	**Undated**	**Total**
	$m	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
Assets									
Cash and balances with central banks	**1,174.3**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,174.3**
Due from banks and other financial institutions	**1,679.4**	**7.4**	**0.9**	**23.5**	**19.1**	**30.9**	**-**	**-**	**1,761.2**
Financial assets held for trading	**6.8**	**24.6**	**124.7**	**12.3**	**65.0**	**367.2**	**354.9**	**15.0**	**970.5**
Financial assets designated at fair value through profit or loss	**-**	**-**	**-**	**-**	**1,331.4**	**-**	**-**	**7.8**	**1,339.2**
Derivative financial assets	**36.5**	**399.6**	**701.2**	**435.3**	**786.3**	**1,839.2**	**516.9**	**-**	**4,715.0**
Reverse repurchase agreements	**809.5**	**297.8**	**69.4**	**151.8**	**199.3**	**2,073.3**	**-**	**-**	**3,601.1**
Loans and advances to customers	**223.8**	**20.8**	**79.6**	**51.5**	**150.3**	**324.8**	**4.5**	**-**	**855.3**
Financial investments	**-**	**-**	**5.0**	**13.5**	**13.2**	**1,185.7**	**79.9**	**3.4**	**1,300.7**
Property and equipment	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**14.6**	**14.6**
Other assets	**131.4**	**-**	**-**	**-**	**-**	**0.6**	**-**	**4,266.6**	**4,398.6**
Investment in group companies	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**29.5**	**29.5**
Total assets	**4,061.7**	**750.2**	**980.8**	**687.9**	**2,564.6**	**5,821.7**	**956.2**	**4,336.9**	**20,160.0**
Liabilities									
Financial liabilities held for trading	**10.8**	**12.6**	**2.2**	**81.8**	**167.4**	**184.7**	**322.2**	**-**	**781.7**
Financial liabilities designated at fair value through profit or loss	**-**	**-**	**-**	**-**	**1,313.3**	**-**	**-**	**-**	**1,313.3**
Derivative financial liabilities	**58.8**	**437.8**	**662.9**	**498.3**	**736.9**	**1,792.4**	**662.1**	**-**	**4,849.2**
Due to banks and other financial institutions	**1,762.7**	**2,924.0**	**2,050.4**	**966.6**	**301.6**	**8.6**	**6.6**	**-**	**8,020.5**
Repurchase agreements	**65.2**	**34.8**	**1,449.4**	**198.3**	**-**	**350.0**	**-**	**-**	**2,097.7**
Certificates of deposit	**-**	**5.0**	**-**	**23.5**	**19.1**	**15.7**	**-**	**-**	**63.3**
Due to customers	**366.4**	**13.3**	**21.3**	**52.3**	**66.0**	**-**	**-**	**-**	**519.3**
Current tax liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**0.5**	**0.5**
Subordinated debt	**-**	**-**	**-**	**-**	**-**	**529.2**	**-**	**-**	**529.2**
Other liabilities	**1,021.8**	**-**	**-**	**-**	**-**	**0.4**	**-**	**59.5**	**1,081.7**
Total liabilities	**3,285.7**	**3,427.5**	**4,186.2**	**1,820.8**	**2,604.3**	**2,881.0**	**990.9**	**60.0**	**19,256.4**

Group - 31 December 2015	Repayable on demand	Maturing within 1 month	Maturing after 1 month but within 3 months	Maturing after 3 months but within 6 months	Maturing after 6 months but within 12 months	Maturing after 12 months but within 5 years	Maturing after 5 years	Undated	Total
	$m	$m	$m	$m	$m	$m	$m	$m	$m
Assets									
Cash and balances with central banks	3,254.2	-	-	-	-	-	-	-	3,254.2
Due from banks and other financial institutions	1,315.5	1.2	2.6	34.9	23.0	133.7	-	-	1,510.9
Financial assets held for trading	74.5	131.3	137.3	35.4	116.1	1,538.2	391.1	20.0	2,443.9
Financial assets designated at fair value through profit or loss	-	-	-	-	-	-	-	7.9	7.9
Derivative financial assets	104.8	592.4	994.6	697.6	999.6	2,223.8	610.2	-	6,223.0
Reverse repurchase agreements	977.4	1,031.9	254.4	80.3	294.0	46.5	-	-	2,684.5
Loans and advances to customers	251.4	9.0	8.3	15.2	94.0	47.8	1.4	-	427.1
Financial investments	-	-	-	-	62.1	40.8	-	2.4	105.3
Property and equipment	-	-	-	-	-	-	-	21.1	21.1
Current tax assets	-	-	-	-	-	-	-	1.1	1.1
Deferred tax assets	-	-	-	-	-	-	-	3.0	3.0
Other assets	120.9	-	-	-	-	3.0	6.6	3,325.0	3,455.5
Total assets	6,098.7	1,765.8	1,397.2	863.4	1,588.8	4,033.8	1,009.3	3,380.5	20,137.5
Liabilities									
Financial liabilities held for trading	8.3	9.1	159.5	10.5	145.8	382.8	268.3	-	984.3
Derivative financial liabilities	78.8	439.1	802.3	773.8	918.7	2,096.4	817.2	-	5,926.3
Due to banks and other financial institutions	3,864.8	3,441.4	1,913.9	625.7	372.2	21.6	19.6	-	10,259.2
Repurchase agreements	91.1	93.2	30.5	41.4	105.2	-	-	-	361.4
Certificates of deposit	-	-	-	35.5	-	61.9	-	-	97.4
Due to customers	393.6	89.5	52.4	16.3	20.1	1.5	-	-	573.4
Subordinated debt	-	-	-	-	144.7	538.2	-	-	682.9
Other liabilities	93.9	-	-	-	-	2.9	6.2	74.6	177.6
Total liabilities	4,530.5	4,072.3	2,958.6	1,503.2	1,706.7	3,105.3	1,111.3	74.6	19,062.5

36. Maturity analysis (continued)

Company - 31 December 2015	Repayable on demand	Maturing within 1 month	Maturing after 1 month but within 3 months	Maturing after 3 months but within 6 months	Maturing after 6 months but within 12 months	Maturing after 12 months but within 5 years	Maturing after 5 years	Undated	Total
	$m	$m	$m	$m	$m	$m	$m	$m	$m
Assets									
Cash and balances with central banks	3,254.2	-	-	-	-	-	-	-	3,254.2
Due from banks and other financial institutions	1,259.9	1.2	2.6	34.9	24.5	133.7	-	-	1,456.8
Financial assets held for trading	74.7	131.3	137.3	35.4	116.1	1,538.1	391.1	52.5	2,476.5
Financial assets designated at fair value through profit or loss	-	-	-	-	-	-	-	7.9	7.9
Derivative financial assets	104.9	590.4	994.7	699.0	999.6	2,223.7	610.3	-	6,222.6
Reverse repurchase agreements	977.3	1,032.0	254.4	80.3	294.0	46.5	-	-	2,684.5
Loans and advances to customers	236.7	9.0	8.3	15.2	94.0	47.8	1.4	-	412.4
Financial investments	-	-	-	-	62.1	40.8	-	2.4	105.3
Property and equipment	-	-	-	-	-	-	-	12.3	12.3
Current tax assets	-	-	-	-	-	-	-	0.3	0.3
Deferred tax assets	-	-	-	-	-	-	-	-	-
Other assets	115.9	-	-	-	-	3.0	6.6	3,289.1	3,414.6
Investment in group companies	-	-	-	-	-	-	-	29.5	29.5
Total assets	6,023.6	1,763.9	1,397.3	864.8	1,590.3	4,033.6	1,009.4	3,394.0	20,076.9
Liabilities									
Financial liabilities held for trading	8.3	9.1	159.5	10.5	145.8	382.8	268.3	-	984.3
Derivative financial liabilities	78.8	437.7	802.3	774.9	918.8	2,096.3	817.2	-	5,926.0
Due to banks and other financial institutions	3,864.8	3,441.4	1,913.9	625.7	372.2	21.6	19.6	-	10,259.2
Repurchase agreements	91.1	93.2	30.5	41.4	105.2	-	-	-	361.4
Certificates of deposit	-	-	-	35.5	-	61.9	-	-	97.4
Due to customers	393.6	89.5	52.4	16.3	20.1	1.5	-	-	573.4
Subordinated debt	-	-	-	-	144.7	538.2	-	-	682.9
Other liabilities	104.2	-	-	-	-	2.9	6.2	69.3	182.6
Total liabilities	4,540.8	4,070.9	2,958.6	1,504.3	1,706.8	3,105.2	1,111.3	69.3	19,067.2

37. Risk management

37.1 Overview and executive summary

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

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

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

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

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

37. Risk management (continued)

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

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

37.2 Risk management framework

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

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

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

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

The Board establishes the parameters for risk appetite by:

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

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

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

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

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

37. Risk management (continued)

Stress testing

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

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

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

The appropriateness and severity of the relevant stress scenarios for enterprise wide stress testing are approved by the capital risk management committee (CapCom) and are reviewed at least annually.

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

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

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

During 2016, the group performed stress tests on scenarios defined by the Prudential Regulation Authority (PRA) in addition to internal group defined scenarios, which included "risk off hits emerging markets" and "China delayed crisis" scenarios. The "risk off hits emerging markets" scenario models the impact of a sharp deterioration in emerging market risk appetite, likely to be driven by US Federal Reserve interest rate increases. The scenario also incorporates a slowdown in China. The "China delayed crisis" scenario envisages a debt crisis in China with its epicentre in Q1 2018 and provides a severe negative economic stress in the group's key markets based upon heavy reliance on natural resource exports.

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

Risk profile

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

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

37.3 Risk categories

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

37. Risk management (continued)

Credit risk

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

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

Country risk

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

Liquidity risk

Liquidity risk arises when the group, despite being solvent, cannot maintain or generate sufficient cash resources to meet its obligations when they are expected to fall due, either at all or only at excessive cost. This risk may arise due to a range of group specific or market wide events; for example, when counterparties who provide the group with funding do not roll over that funding, due to perceived risks around the group's financial position, concerns around general market conditions or a combination of both.

The group's liquidity risk framework in note 37.6 also captures funding risk, as the two horizons overlap due to the short dated nature of the business model.

Market risk

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

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

Operational risk (unaudited)

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

37. Risk management (continued)

Operational risk is divided into the following sub-types:

- Business disruption and system failure
  - Business continuity management (BCM)
  - Technology risk management
  - Information risk management
- Execution, delivery and process management
  - Model risk
- Internal fraud
  - Financial crime control
- External fraud
  - Physical commodities
- Clients, products and business practices
  - Tax risk
  - Legal risk
  - Compliance risk
- Employment practices and workplace safety
  - Occupational health and safety.

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

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

37.4 Credit risk

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

The group manages credit risk through:

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

37. Risk management (continued)

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

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

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

Framework and governance

Strategy and process to manage risk
The group's head of credit has functional responsibility for credit risk across the group and reports to the CRO.

Structure and organisation of credit risk management function
A formal structure exists for the approval of credit limits, which are agreed through delegated authority derived from the Board.

The Board awards the highest level of delegated authority to the credit committee to exercise responsibility of granting credit risk. The credit committee is convened as a sub-committee of the risk management committee (RMC) with a mandate to:

- Exercise responsibility for the independent assessment, approval, review, and monitoring of credit and country risk limits and exposures relating to the group's business under a delegated authority construct;
- Ensure that the origination and management of credit and country risk exposures (including structured transactions) in the portfolio are in line with the credit risk policy and any other guidance given to it by the RMC from time to time;
- Escalate matters to RMC as appropriate, including breaches of risk appetite and proposed corrective actions; and
- Monitor and review non-performing loan and watchlist exposures.

Methodology to assign credit limits
The group uses internal models and practices to measure and manage credit risk to ensure that it is properly understood, managed and controlled.

The credit modelling framework includes the use of PD, LGD, EAD, UL, expected loss (EL), Ecap consumption and economic profit (EP). The group's risk appetite is in part calibrated to these economic risk drivers.

PD models are used to assess the probability of a counterparty not making full and timely repayment of credit obligations over a specific time horizon. The models use a combination of forward looking qualitative factors and quantitative inputs. Each customer is assigned an internal credit rating which in turn is mapped to a statistically calibrated PD as is illustrated in the table below. Different models are used for each discrete credit portfolio and counterparty, and each model has its own particular set of risk factors and inputs used for assessing the rating. All models are statistically tested and independently validated to ensure that they have an acceptable level of predictive power, provide an accurate forward looking rating assessment suitable for use in regulatory and economic capital assessment and are stable through an economic cycle. For Ecap management, the group uses forward-looking ratings but also explores point in time (PIT) versus through the cycle (TTC) impacts through stress testing and deploys a credit migration model to assess the impact of risk rating downgrades.

The group's 25 point master rating scale below is indicatively mapped against external rating agencies' alphanumerical rating scales and group grading categories.

37. Risk management (continued)

Group master rating scale	Moody's Investor Services	Standard & Poor's	Fitch	Grading	Credit quality
1 - 4	Aaa to Aa3	AAA to AA-	AAA to AA-	Investment grade	Normal monitoring
5 - 7	A1 to A3	A+ to A-	A+ to A-		
8 - 12	Baa1 to Baa3	BBB+ to BBB-	BBB+ to BBB-		
13 - 21	Ba1 to B3	BB+ to B-	BB+ to B-	Sub-investment grade	
22 - 25	Caa1 to Ca	CCC+ to CCC-	CCC+ to CCC-		Close monitoring
Default	C	D	D	Default	Default

Exposure to credit risk

For the tables that follow, the definitions below have been used for the different categories of exposures:

- **Neither past due nor impaired** represents exposures that are current and fully compliant with all contractual terms and conditions. Normal and close monitoring exposures within this category are exposures rated 1 to 21 and 22 to 25 respectively using the group's master rating scale.
- **Past due but not specifically impaired** includes those exposures where the counterparty has failed to make its contractual payment or has breached a material covenant, but impairment losses have not yet been incurred due to the expected recoverability of future cash flows, including collateral. Ultimate loss is not expected but could occur if the adverse condition persists. These exposures are analysed further between those that are less than 90 days past due and those that are 90 days or more past due.
- **Specifically impaired** exposures include those where there is objective evidence that an impairment loss has been incurred and for which there has been a measurable decrease in the estimated future cash flows as a result of the borrower's payment status or objective evidence of impairment. Other criteria that are used by the group to determine that there is objective evidence of impairment include:
  - known cash flow difficulties experienced by the borrower;
  - breach of loan covenants or conditions;
  - the probability that the borrower will enter bankruptcy or other financial reorganisation; and
  - a significant downgrading in credit rating by an external credit rating agency, where, owing to the borrower's financial difficulties, concessions are granted to the counterparty.

  Specifically impaired exposures are further analysed into the following categories:

  - sub-standard items that show underlying well-defined weaknesses and are considered to be specifically impaired;
  - doubtful items that are not yet considered final losses because of some pending factors that may strengthen the quality of the items; and
  - loss items that are considered to be uncollectible in whole or in part. The group provides fully for its anticipated loss, after taking any security into account.
- **Non-performing exposures** are those exposures for which the group has identified objective evidence of default, such as breach of a material covenant or condition or instalments are due and unpaid for 90 days or more.

37. Risk management (continued)

Maximum exposure to credit risk

	Performing		Non-performing			
	Neither past due nor impaired		Past due but not specifically impaired		Specifically impaired	Gross credit exposure
	Normal monitoring	Close monitoring	< 90 days	>= 90 days		
2016	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
Financial assets designated at fair value through profit or loss	**1,331.4**	**-**	**-**	**-**	**-**	**1,331.4**
Derivative financial assets	**4,715.0**	**-**	**-**	**-**	**-**	**4,715.0**
Due from banks and other financial institutions	**1,838.8**	**3.5**	**-**	**-**	**-**	**1,842.3**
Reverse repurchase agreements	**3,558.3**	**42.8**	**-**	**-**	**-**	**3,601.1**
Loans and advances to customers	**743.7**	**118.2**	**-**	**-**	**-**	**861.9**
Gross loans and advances & derivative financial assets	**12,187.2**	**164.5**	**-**	**-**	**-**	**12,351.7**
Cash and balances with central banks						**1,174.3**
Financial assets held for trading						**955.5**
Financial investments						**1,297.3**
Total balance sheet exposure to credit risk						**15,778.8**
Irrevocable unutilised facilities						**41.1**
Commodity leases						**988.2**
Total off-balance sheet exposure to credit risk						**1,029.3**
Total exposure to credit risk						**16,808.1**
Reconciliation to the balance sheet						
Add: Equity instruments (disclosed in notes 5, 6 and 10)						**26.2**
Add: Non-financial assets						**4,425.2**
Less: Impairments for loans and advances						**(6.6)**
Less: Off-balance sheet exposures						**(1,029.3)**
Total assets						**20,223.6**

	Performing		Non-performing			
	Neither past due nor impaired		Past due but not specifically impaired		Specifically impaired	Gross credit exposure
	Normal monitoring	Close monitoring	< 90 days	>= 90 days		
2015	$m	$m	$m	$m	$m	$m
Derivative financial assets	6,198.2	24.8	-	-	-	6,223.0
Due from banks and other financial institutions	1,510.4	0.5	-	-	-	1,510.9
Reverse repurchase agreements	2,684.5	-	-	-	-	2,684.5
Loans and advances to customers	346.3	87.1	-	-	-	433.4
Gross loans and advances & derivative financial assets	10,739.4	112.4	-	-	-	10,851.8
Cash and balances with central banks						3,254.2
Financial assets held for trading						2,424.2
Financial investments						102.9
Total balance sheet exposure to credit risk						16,633.1
Commodity leases						1,101.7
Total off-balance sheet exposure to credit risk						1,101.7
Total exposure to credit risk						17,734.8
Reconciliation to the balance sheet						
Add: Equity instruments (disclosed in notes 5, 6 and 10)						30.0
Add: Non-financial assets						3,480.7
Less: Impairments for loans and advances						(6.3)
Less: Off-balance sheet exposures						(1,101.7)
Total assets						20,137.5

There are no impaired or past due but not impaired exposures at the end of 2016 (2015:US$ nil).

37. Risk management (continued)

Performing portfolio impairments
Portfolio credit impairments provide for latent losses in a group of loans which have not yet been identified as specifically impaired. The calculation of portfolio credit impairments is based on the EL of the group's loan portfolio. The EL represents losses over a one year time horizon. EL is calculated by applying a PIT PD for the core portfolio. LGD, based on the foundation internal ratings based (FIRB) approach under Basel II, combined with a stressed component, is then also applied to the exposure. An emergence period is used to calibrate the one year EL calculated for incurred losses. The emergence period is the time lapsed from the loan default trigger to the point of identifying the loss. The emergence period is currently assessed as 12 months (2015: 12 months).

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 2016 (2015: US$ nil).

The primary aim of providing forbearance facilities to customers is to enable the complete recovery of the exposure through the full repayment of arrears. The group does not follow a general forbearance policy but each facility is treated on its own merits. Watchlist review is an early warning mechanism which identifies any deterioration in counterparty performance. These exposures are immediately subject to independent scrutiny and, where necessary, a programme of intensive monitoring and review until such time as the position can be transferred back to line management. In cases where the remedial strategy does not produce the expected corrective action, the group may consider an alternative remedial strategy or referral to the BS&R team for active recovery management. An impairment charge is raised if the new terms are less favourable and result in the discounted cash flows being lower than the carrying value of the exposures. At 31 December 2016, US$8.6 million (2015: US$ nil) of performing exposures were under BS&R watchlist review.

The collective provision on the watchlist portfolio, including forbearance facilities, is mainly dependent on the internal credit grade allocated to it. Additionally, management adjustments to the model also capture the enhanced risks attached to this portfolio.

Credit risk mitigation and hedging
Collateral, guarantees, credit derivatives and netting are widely used by the group for credit risk mitigation. The amount and type of credit risk mitigation depends on the circumstances of each case.

The amount and type of collateral required depends on the nature of the underlying risk, an assessment of the credit risk of the counterparty as well as requirements or intentions with respect to reductions in capital requirements.

Derivative netting
For derivative transactions, the group typically uses internationally recognised and enforceable International Swaps and Derivatives Association (ISDA) agreements, with a credit support annexure, where collateral support is considered necessary. Other credit protection terms may be stipulated, such as limitations on the amount of unsecured credit exposure acceptable, collateralisation if mark-to-market credit exposure exceeds acceptable limits and termination of the contract if certain credit events occur, for example, a downgrade of the counterparty's external credit rating.

Master netting agreements
Where it is appropriate and likely to be effective, the group seeks to enter into master netting agreements. Although master netting agreements do not generally result in an offset of balance sheet assets and liabilities for accounting purposes, as transactions are usually settled on a gross basis in the ordinary course of business, they do reduce the credit risk exposure and capital requirements to the extent that, if an event of default occurs, all amounts with the counterparty are 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.

37. Risk management (continued)

Guarantees/standby letters of credit

A guarantee is a contract whereby a third party guarantor promises to recompense the lender in the event of failure by a customer to meet their obligations. Regulatory capital relief is only taken through the use of risk weighted substitution for guarantees provided by appropriate central governments, central banks or similar institutions. Where regulatory capital relief is sought to reflect the risk mitigating effect of a guarantee, there are minimum operational and legal requirements that are required to be met. On the basis that these are met, alternative forms of protection, for example indemnities, may be classified as guarantees for regulatory capital purposes.

Credit derivatives

Credit derivatives are a method of transferring credit risk from one counterparty (the protection buyer) to another (the protection seller). In return for a risk premium, the protection seller agrees to make a payment (or series of payments) to the protection buyer in the event of the occurrence of a stipulated event. Capital relief under regulatory requirements is restricted to the following types of credit derivative:

- credit default swaps;
- total return swaps; and
- credit-linked notes (to the extent of their cash funding).

In respect of a credit default swap, various credit events defined in the ISDA affecting the obligor (including bankruptcy, failure to pay and restructuring), can trigger settlement. Settlement usually takes place by the protection buyer being paid by the protection seller the notional amount minus the recovery as determined by an auction of the eligible securities of the obligor governed by ISDA.

Under a total return swap, the protection buyer will pass on to the seller all payments it receives on the underlying credit obligation, plus any decrease in the market value of the credit obligation, in return for an interest related payment (market rate and spread). Where the deterioration in the value of the asset that is protected is not recorded (either through reductions in fair value or by an addition to reserves), the credit protection must not be recognised as eligible for capital relief.

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

Exposures are monitored to prevent an excessive concentration of risk or single name concentrations.

Collateral required in respect of a rating downgrade

The group enters into derivative contracts with rated and unrated counterparties. To mitigate counterparty credit risk, the group stipulates credit protection terms such as limitations on the amount of unsecured credit exposure it will accept, collateralisation requirements if mark-to-market credit exposure exceeds those amounts and the collateralisation and termination requirements of the contract if certain credit events occur, which may include but not be limited to a downgrade of the counterparty's public credit rating.

Certain counterparties require that the group provides similar credit protection terms. From time to time, the group may agree to provide those terms on a restrictive basis. Rating downgrades as a collateralisation or termination event are generally conceded only to highly rated counterparties and, whenever possible, on a bilateral and reciprocal basis. Exceptionally, such rating downgrades may be conceded to unrated counterparties when their size, credit strength and business potential are deemed acceptable. In these cases, the concessions must be approved by Treasury and the CRO.

The impact on the group of the amount of collateral it would have to provide given a credit downgrade would be determined by the then negative mark-to-market on derivative contracts where such a collateralisation trigger has been conceded. The impact on the group’s liquidity of a collateral call linked to a credit downgrading is approved by CapCom and included in the stress testing model.

37. Risk management (continued)

Financial effect of collateral and other credit enhancements

The table below indicates the estimated financial effect that collateral has on the group's maximum exposure to credit risk. The collateral disclosed is in relation to the gross credit exposure reported under IFRS and does not represent the collateral qualifying for prudential reporting purposes. The table displays the on-balance sheet and off-balance sheet credit exposures for the group, further divided between netting arrangements, and unsecured and secured exposures, with an additional breakdown of collateral coverage for the secured portion.

Netting arrangements represent amounts which are legally enforceable upon default, totalling US$4,291.3 million (2015: US$4,363.8 million). This is in addition to balances meeting the offsetting principles as described in accounting policy 5.

Unsecured exposures of US$6,016.5 million (2015: US$8,154.5 million) largely represent corporate and government bonds, precious metal leases, cash collateral placed with recognised exchanges and short-term placements with highly rated banks and non-banking financial institutions.

A significant portion of the secured exposures relates to reverse repo type securitised lending, where the collateral is typically highly rated, liquid and tradeable. For loans and advances, the collateral accepted includes property, other tangible assets across diverse jurisdictions, personal guarantees and credit enhancements such as credit default swaps. However, guarantees received based on future revenue streams, assets whose value is highly correlated to the counterparty and floating charges over assets have been excluded from the table. Total exposures of US$5,412.8 million (2015: US$2,831.3 million) are covered by more than 100%, primarily relating to the reverse repurchase lending activity.

Collateral obtained by the group

It is the group's policy to dispose of repossessed assets in an orderly manner. The proceeds are used to reduce or repay the outstanding claim. Generally, the group does not use repossessed assets for business purposes. No collateral has been repossessed in 2016 or 2015.

Financial effect of collateral and other credit enhancements[5]

	Total exposure to credit risk	Netting arrangements[1]	Exposure after netting	Unsecured exposures	Secured exposures	Extent of collateral and risk mitigation:		
						1 - 50%[2]	51 - 100%[3]	> 100%[4]
2016	$m	$m	$m	$m	$m	$m	$m	$m
Cash and balances with central banks	1,174.3	-	1,174.3	1,174.3	-	-	-	-
Due from banks and other financial institutions	1,842.3	689.2	1,153.1	992.2	160.9	160.9	-	-
Financial assets held for trading	955.5	-	955.5	831.2	124.3	-	33.2	91.1
Financial assets designated at fair value through profit or loss	1,331.4	-	1,331.4	-	1,331.4	-	-	1,331.4
Derivative financial assets	4,715.0	2,714.1	2,000.9	1,369.3	631.6	80.7	210.9	340.0
Reverse repurchase agreements	3,601.1	-	3,601.1	-	3,601.1	1.9	204.7	3,394.5
Loans and advances to customers	861.9	-	861.9	210.9	651.0	81.6	313.6	255.8
Financial investments	1,297.3	-	1,297.3	1,297.3	-	-	-	-
Total balance sheet exposure to credit risk	15,778.8	3,403.3	12,375.5	5,875.2	6,500.3	325.1	762.4	5,412.8
Guarantees	-	-	-	-	-	-	-	-
Irrevocable unutilised facilities	41.1	-	41.1	41.1	-	-	-	-
Commodity leases	988.2	888.0	100.2	100.2	-	-	-	-
Total off-balance sheet exposure to credit risk	1,029.3	888.0	141.3	141.3	-	-	-	-
Total exposure to credit risk	16,808.1	4,291.3	12,516.8	6,016.5	6,500.3	325.1	762.4	5,412.8

[1] Represents netting arrangements that can be applied in the event of default. This is in addition to offsetting applied in the balance sheet, as permitted by IAS 32.
[2] Represent exposures secured between 1% and 50%.
[3] Represent exposures secured between 51% and 100%.
[4] Represent exposures secured in excess of 100%.
[5] Collateral valuations are performed based on the nature and price volatility of the underlying collateral.

37. Risk management (continued)

	Total exposure to credit risk	Netting arrangements[1]	Exposure after netting	Unsecured exposures	Secured exposures	Extent of collateral and risk mitigation:		
						1 - 50%[2]	51 - 100%[3]	> 100%[4]
2015	$m	$m	$m	$m	$m	$m	$m	$m
Cash and balances with central banks	3,254.2	-	3,254.2	3,254.2	-	-	-	-
Due from banks and other financial institutions	1,510.9	640.5	870.4	422.3	448.1	258.9	189.2	-
Financial assets held for trading	2,424.2	-	2,424.2	2,056.4	367.8	-	257.1	110.7
Derivative financial assets	6,223.0	3,723.3	2,499.7	1,119.5	1,380.2	575.5	649.0	155.7
Reverse repurchase agreements	2,684.5	-	2,684.5	-	2,684.5	-	157.9	2,526.6
Loans and advances to customers	433.4	-	433.4	97.5	335.9	21.5	276.1	38.3
Financial investments	102.9	-	102.9	102.9	-	-	-	-
Total balance sheet exposure to credit risk	16,633.1	4,363.8	12,269.3	7,052.8	5,216.5	855.9	1,529.3	2,831.3
Guarantees	-	-	-	-	-	-	-	-
Irrevocable unutilised facilities	-	-	-	-	-	-	-	-
Commodity leases	1,101.7	-	1,101.7	1,101.7	-	-	-	-
Total off-balance sheet exposure to credit risk	1,101.7	-	1,101.7	1,101.7	-	-	-	-
Total exposure to credit risk	17,734.8	4,363.8	13,371.0	8,154.5	5,216.5	855.9	1,529.3	2,831.3

[1] Represents netting arrangements that can be applied in the event of default. This is in addition to offsetting applied in the balance sheet, as permitted by IAS 32.
[2] Represent exposures secured between 1% and 50%.
[3] Represent exposures secured between 51% and 100%.
[4] Represent exposures secured in excess of 100%.
[5] Collateral valuations are performed based on the nature and price volatility of the underlying collateral.

Wrong-way risk exposure

Wrong-way risk (WWR) is defined as the risk that arises due to adverse correlation between counterparty credit exposure and credit quality. WWR is present where the risk of default by the counterparty increases as the group's credit exposure to the counterparty increases or as the value of the collateral held by the group decreases.

This risk is addressed by taking into consideration the high correlation between the default event and exposure to the counterparty when calculating the potential exposure and security margin requirements on these transactions.

37.5 Country risk

All countries to which the group is exposed are reviewed at least annually. Internal rating models are employed to determine ratings for jurisdiction, sovereign and transfer and convertibility risk. In determining the ratings, extensive use is made of the group's network of operations and external information sources. These ratings are also a key input into the group's credit rating models.

The model inputs are continuously updated to reflect economic and political changes in countries. The model outputs are internal risk grades that are calibrated to a jurisdiction risk grade (JR) from JRaaa to JRc, or sovereign risk grade, transfer and convertibility (RG) rating scale from RG01 to RG25. Countries rated bbb+ and weaker, referred to as medium- and high-risk countries, are subject to increased analysis and monitoring.

Country risk is mitigated through a number of methods, including:

- political and commercial risk insurance;
- co-financing with multilateral institutions; and
- structures to mitigate transferability and convertibility risk such as collection, collateral and margining deposits outside the jurisdiction in question.

The following table illustrates customer risk by geographical segment.

37. Risk management (continued)

Geographic analysis of gross loans & advances (notes 4, 8 and 9)[1]

	2016		2015	
	$m	%	$m	%
United Kingdom	**1,662.0**	**26.3**	1,500.0	32.4
Eurozone				
Luxembourg	**149.3**		2.0	
France	**109.2**		228.4	
Other	**167.6**		205.8	
	426.1	**6.8**	436.2	9.4
Rest of Europe				
Turkey	**187.0**		249.1	
Switzerland	**29.0**		67.6	
Other	**62.3**		42.8	
	278.3	**4.4**	359.5	7.8
Asia-Pacific				
Hong Kong	**316.1**		232.6	
China	**303.2**		175.5	
Other	**180.4**		201.5	
	799.7	**12.7**	609.6	13.2
Sub-Saharan Africa				
Angola	**1,974.3**		0.3	
Nigeria	**149.1**		400.6	
Other	**110.3**		248.0	
	2,233.7	**35.4**	648.9	14.0
North America				
British Virgin Isles	**266.6**		231.1	
Canada	**145.9**		189.3	
Other	**231.4**		279.5	
	643.9	**10.2**	699.9	15.1
Latin America				
Chile	**34.0**		47.8	
Panama	**29.0**		23.1	
Other	**4.1**		24.5	
	67.1	**1.1**	95.4	2.1
Middle East & North Africa				
Bahrain	**114.9**		8.2	
Oman	**50.1**		-	
Other	**29.5**		271.1	
	194.5	**3.1**	279.3	6.0
	6,305.3	**100.0**	4,628.8	100.0

[1] Based on the borrower's country of risk

Geographic analysis of financial assets held for trading[1]

	2015		2014	
	$m	%	$m	%
North America	**11.9**	**0.6**	780.1	38.1
Sub-Saharan Africa	**1,740.6**	**80.9**	488.4	23.9
Asia-Pacific	**169.3**	**7.9**	296.2	14.5
Eurozone	**12.1**	**0.6**	247.2	12.1
Rest of Europe	**28.7**	**1.3**	175.1	8.6
Middle East & North Africa	**59.4**	**2.7**	55.1	2.7
Latin America	**129.5**	**6.0**	3.0	0.1
	2,151.5	**100.0**	2,045.1	100.0
Composition of Eurozone				
Slovenia	**10.0**	**82.6**	-	-
Slovak Republic	**1.4**	**11.6**	0.2	0.1
Other	**0.7**	**5.8**	247.0	99.9
	12.1	**100.0**	247.2	100.0

[1] Analysis of 'Government, utility bonds and treasury bills' and 'Corporate bonds and floating rate notes' included in notes 5 and 6.

37. Risk management (continued)

37.6 Liquidity risk

Summary of performance
The group has complied with the requirements of the EU Liquidity Coverage Requirements (LCR) Delegated Regulation since it came into effect on 1 October 2015. Over 2016, the group has maintained an LCR ratio in excess of the minimum PRA regulatory requirement of 80%[1]. At 31 December 2016, the group's LCR was 159% (2015: 212%).

The group's risk appetite statement (RAS) also requires that the group holds sufficient liquid assets to meet the requirement of the 91-day internal stress test in addition to the LCR. Throughout 2016, the group adhered to both RAS limits.

Objectives
The group's liquidity risk management links its business plan and objectives, funding plan and liquidity risk management and monitoring. The liquidity risk management framework is documented in the annual Board reviewed and approved ILAAP.

The core objectives of the framework are:

- To ensure that the group has adequate liquidity resources for both regulatory and internal purposes on a daily and forward-looking basis, both under normal and stressed conditions;
- To ensure strong policies, governance and escalation mechanisms and risk and control structure; and
- To maintain a prudent funding profile, with early warning indicators in place to alert to potential liquidity and funding deterioration.

Organisation and structure
A clear segregation of roles and responsibilities is in place to support the group's end to end liquidity risk management and monitoring.

The Board delegates day-to-day liquidity and funding management responsibility to the capital management committee (CapCom) and its sub-committees, the liquidity sub-committee (LSC) and the liquidity contingency management team (LCMT). CapCom is the primary forum for maintaining oversight of the size and composition of the balance sheet in matters relating to liquidity and funding, and is responsible for reviewing the current and projected liquidity and funding positions. The LSC and LCMT are responsible for:

- **LSC**: overseeing the management of liquidity and funding in 'business as usual' and during stressed conditions if an extraordinary LSC meeting is convened.
- **LCMT**: instituting an accelerated senior management response to heightened liquidity risk, such as the invocation of the liquidity contingency plan in times of severe stress and for the management actions undertaken.

Board level second line of defence oversight is provided primarily by the BRMC. The risk management committee (RMC) and the market and liquidity risk committee (MLRC), as sub-committees of the governance committee (Govco), are primarily responsible for ensuring that liquidity risk is monitored appropriately in both the ordinary course of business and stressed conditions, including overall adherence to the RAS.

These committees are supported on a daily basis by Treasury and Liquidity Risk:

- **Treasury**: Ensures funding and liquidity is managed efficiently and reports the daily liquidity position, the production of the EWI dashboard and effective analysis of headroom movements
- **Liquidity Risk**: Responsible for ensuring the group's adherence to the Board approved liquidity RAS and EWI thresholds and limits on a daily basis

Liquidity and funding risk management policies and processes
The group incorporates various elements into its cohesive liquidity risk management process such as policies, analysis, limit setting and monitoring as part of its liquidity risk management framework:

[1] The minimum PRA regulatory requirement increased to 90% on 1 January 2017 and increases further to 100% on 1 January 2018.

37. Risk management (continued)

- **Risk appetite statement and framework**: Establishes the liquidity risk appetite, ensuring alignment to the group's strategy, resource availability and business requirements.
- **Early warning indicators framework**: Uses group specific and macroeconomic indicators to alert senior management to potential liquidity deficiencies. It also details the escalation procedures in the event of non adherence to RAS limits and EWI thresholds to maximise time available to execute appropriate mitigation actions.
- **Internal stress test methodology**: Helps the group understand potential vulnerabilities to severe stress events across all liquidity risk drivers. This assists in determining business-as-usual risk management actions and constructing the liquidity contingency plan.
- **Contingent liquidity charge mechanism**: Ensures appropriate reallocation of the cost of funding the liquid asset buffer according to the desks' liquidity consumption based on the internal stress test parameters.
- **Short-term and long-term cash flow management and forecasting**: Active monitoring of the group's forecast liquidity position and ensures sufficient LAB headroom is maintained.
- **Liquidity contingency plan / recovery plan**: Establishes a framework to respond to liquidity stress events; includes a suite of management actions and roles and responsibilities for their enactment.
- **Funding plan**: Articulates the group's funding strategy across the planning horizon, while ensuring alignment with the overall budget process and risk appetite.

Structural requirements

The maturity analysis of financial liabilities represents the basis for the management of exposure to structural liquidity risk. The table below shows the notional cash flows for all financial liabilities on a contractual basis based on the earliest date on which the group can be required to pay. This basis of disclosure differs from the balance sheet carrying value of financial liabilities since those values 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.

2016	**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**
Financial liabilities						
Financial liabilities held for trading	**207.5**	**5.5**	**95.8**	**199.7**	**650.6**	**1,159.1**
Financial liabilities designated at fair value through profit or loss	**-**	**-**	**23.3**	**1,367.3**	**-**	**1,390.6**
Derivative financial liabilities	**41.2**	**471.4**	**1,158.1**	**736.6**	**2,455.0**	**4,862.3**
Deposit and current accounts [1]	**1,610.8**	**3,562.1**	**4,772.4**	**396.9**	**396.3**	**10,738.5**
Subordinated debt	**-**	**-**	**20.3**	**20.3**	**581.3**	**621.9**
Total balance sheet financial liabilities	**1,859.5**	**4,039.0**	**6,069.9**	**2,720.8**	**4,083.2**	**18,772.4**
Guarantees	**-**	**-**	**-**	**-**	**-**	**-**
Irrevocable unutilised facilities	**41.1**	**-**	**-**	**-**	**-**	**41.1**
Total off-balance sheet financial liabilities	**41.1**	**-**	**-**	**-**	**-**	**41.1**
Total financial liabilities	**1,900.6**	**4,039.0**	**6,069.9**	**2,720.8**	**4,083.2**	**18,813.5**

2015	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
Financial liabilities						
Financial liabilities held for trading	524.7	0.2	22.2	70.4	387.6	1,005.1
Derivative financial liabilities	29.1	491.3	1,575.3	923.3	2,907.3	5,926.3
Deposit and current accounts [1]	4,208.2	3,760.2	2,768.8	503.0	106.2	11,346.4
Subordinated debt	24.0	168.7	40.6	40.6	540.6	814.5
Total balance sheet financial liabilities	4,786.0	4,420.4	4,406.9	1,537.3	3,941.7	19,092.3
Guarantees	-	-	-	-	-	-
Irrevocable unutilised facilities	-	-	-	-	-	-
Total off-balance sheet financial liabilities	-	-	-	-	-	-
Total financial liabilities	4,786.0	4,420.4	4,406.9	1,537.3	3,941.7	19,092.3

[1] Includes deposits due to banks and other financial institutions, repurchase agreements, and deposits due to customers.

37. Risk management (continued)

37.7 Market risk

Definition
The purpose of market risk management is to identify, measure, assess, monitor, report and manage market risk exposures within acceptable parameters, while optimising the return on risk. Major exposures to market risk occur in markets served by formal financial exchanges and over-the-counter markets. These exposures arise primarily as a result of the execution of customers' orders. The group's exposure to market risk can be categorised as follows:

Trading book market risk
These risks arise in trading activities where the group acts as a principal with clients in the market.

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

Foreign currency risk
These risks arise as a result of changes in the fair value or future cash flows of financial exposures as a result of changes in foreign exchange rates other than those changes included in the VaR analysis.

Equity investments
These risks arise from equity price changes caused by listed and unlisted investments, which are monitored and authorised by the investment committee.

Framework and governance
The Board approves the market risk appetite for all types of market risk and grants general authority to take on market risk exposure to the BRMC which delegates responsibility for limit setting and exposure monitoring to the risk management committee (RMC) at a legal entity level. The RMC also sets market risk standards to ensure that the measurement, reporting, monitoring and management of market risk associated with operations across the group follow a common governance framework. The MLRC, a subcommittee of Govco, is in charge of the close supervision of the market risk activities and the correct application of the market risk policies.

Market risk management, independent of trading operations, monitor market risk exposures from both trading activities and banking activities. All exposures and any limit excesses are monitored daily, and reported monthly to MLRC. Level 1 limit breaches are also reported quarterly to the RMC.

Market risk measurement
The techniques used to measure and control market risk include:

- daily value at risk (VaR) and stressed value at risk (SVaR);
- stress tests;
- risk factor market risk measures;
- annual net interest income at risk; and
- economic value of equity.

Daily VaR and stressed VaR
The group uses the historical VaR and SVaR approach to quantify market risk under normal conditions and under stressed conditions.

For risk management purposes, VaR is based on 251 days of equally weighted recent historical data, a holding period of one day and a confidence level of 95%. The historical VaR results are calculated in four steps:

- Calculate 250 daily market price movements based on 251 days' historical data.
- Calculate hypothetical daily profit or loss for each day using these daily market price movements.

37. Risk management (continued)

- Aggregate all hypothetical profits or losses for day one across all positions, giving daily hypothetical profit or loss, and then repeat for all other days.
- VaR is the 95th percentile selected from the 250 days of daily hypothetical total profit or loss.

Daily losses exceeding the VaR are likely to occur, on average, 13 times in every 250 days.

SVaR uses a similar methodology to VaR, but based on a one year period of financial stress, selected from 1 January 2007 to the present in order to maximise the losses and assumes a 10-day holding period with a 99% confidence interval.

Where the group has received internal model approval, the market risk regulatory capital requirement is based on VaR and SVaR, both of which use a confidence level of 99% and a 10-day holding period.

Limitations of historical VaR and SVaR are acknowledged globally and include:

- The use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature.
- The use of a one-day or 10-day holding period assumes that all positions can be liquidated or the risk offset in one day or 10-days respectively. This may not fully reflect the market risk arising at times of severe illiquidity, when a one-day or 10-day holding period may be insufficient to liquidate or hedge all positions fully.
- The use of a 95% or 99% confidence level, by definition, does not take into account losses that might occur beyond this level of confidence.
- VaR is calculated on the basis of exposures outstanding at the close of business and, therefore, does not necessarily reflect intraday exposures.
- VaR is unlikely to reflect loss potential on exposures that only arise under significant market moves.

Stress tests
Stress testing provides an indication of the potential losses that could occur under extreme but plausible market conditions, including where longer holding periods may be required to exit positions. Stress tests comprise individual market risk factor testing, combinations of market risk factors per trading desk and combinations of trading desks using a range of historical, hypothetical and point of weakness scenarios. Daily losses experienced during the year ended 31 December 2016 did not exceed the maximum tolerable losses as represented by the group's stress scenario limits.

Other market risk measures
Other market risk measures specific to individual business units include permissible instruments, concentration of exposures, gap limits, maximum tenor and stop loss triggers.

The model validation department independently validate and document new pricing models and perform an annual review of existing models to ensure they are still relevant and behaving within expectations.

Analysis of trading book market risk exposures
The table on the following page shows the aggregated historical VaR for the group's trading positions. The maximum and minimum VaR amounts show the bands in which the values at risk fluctuated during the periods specified. Stop loss triggers are designed to contain losses for individual business units by enforcing management intervention at predetermined loss levels measured against the individual high-water mark year-to-date profit and loss. Other risk measures specific to individual business units are also used. These include permissible instruments, concentration of exposures, gap limits and maximum tenor.

The group's trading units achieved a positive actual income for over 74% of the trading days in 2016 (2015: 68%). The average daily trading revenue earned in 2016 was US$1.0 million (2015: US$0.7 million) with a standard deviation of US$1.9 million (2015: US$1.8 million). During the year, there were no back-testing exceptions at a 99% confidence level (2015: none).

37. Risk management (continued)

	Normal VaR[2]			
	Maximum[1]	**Minimum[1]**	**Average**	**Year end**
2016	**$m**	**$m**	**$m**	**$m**
Commodities	**2.9**	**1.0**	**1.7**	**1.7**
Foreign exchange	**1.2**	**0.6**	**0.9**	**0.9**
Equities	**0.5**	**0.1**	**0.3**	**0.4**
Debt securities	**2.8**	**1.5**	**2.1**	**2.6**
Diversification benefit[4]				**(1.9)**
Total				**3.7**

	Stress VaR Year end[3]
2016	**$m**
Commodities	**6.5**
Foreign exchange	**2.8**
Equities	**1.7**
Debt securities	**19.4**
Diversification benefit[4]	**(6.8)**
Total	**23.6**

	Normal VaR[2]			
	Maximum[1]	Minimum[1]	Average	Year end
2015	$m	$m	$m	$m
Commodities	2.4	0.8	1.3	1.7
Foreign exchange	2.1	0.4	0.9	1.1
Equities	0.6	-	0.2	0.1
Debt securities	3.7	1.3	2.6	2.5
Diversification benefit[4]				(2.1)
Total				3.3

	Stress VaR Year end[3]
2015	$m
Commodities	8.5
Foreign exchange	5.4
Equities	2.5
Debt securities	15.9
Diversification benefit[4]	(0.9)
Total	31.4

[1] The maximum and minimum VaR figures reported for each market variable did not necessarily occur on the same days. As a result, the aggregate VaR will not equal the sum of the individual market VaR values, and it is inappropriate to ascribe a diversification effect to VaR when these values may have occurred on different dates.
[2] Normal VaR is based on a holding period of one day and a confidence interval of 95%.
[3] Stress VaR is based on a holding period of ten days and a confidence interval of 99%.
[4] Diversification benefit is the benefit of measuring the VaR of the trading portfolio as a whole, i.e. the difference between the sum of the individual VaRs and measuring the VaR of the whole trading portfolio.

Commodity exposure

The group has capabilities in physical precious and base metals, predominantly in London and Singapore, with access into all major physical markets in Europe, Asia, and North and South America. The business consists of a diversified client base including producers, consumers (including jewellers), hedge funds, private banks, recycling and refining companies, financial institutions and central banks. The commodities business is primarily client-driven, with price risk hedged on major exchanges, offering all standardised products such as forwards, European and Asian options, swaps, leases and lease rate swaps.

To mitigate trading risk, a number of strategies are employed. Firstly, the group trades on a cleared basis with counterparties posting margins to a central clearer. Alternatively, the group executes credit support annex (CSA) agreements such that margin or collateral is posted on a daily basis to offset any exposure arising from any live trades. The group may also actively manage any embedded credit spread via the contingent credit protection (CCP) process or take a credit calculation adjustment where no credit mitigation is possible.

Operational risk is managed through a dedicated commodities management unit and the group's operations team, using a number of automated systematic confirmations with exchanges, brokers, warehouses and clients. A daily reconciliation is performed for open trades, cash accounts, inventory, collateral and client account balances with any discrepancies being escalated to the appropriate relationship manager for resolution directly with the client. The group's separate operational risk department monitors key risk indicators (KRIs) around key business processes which are monitored and discussed with the business on a regular basis.

37. Risk management (continued)

Analysis of banking book interest rate risk exposure

Banking related market risk exposure principally involves the management of the potential adverse effect of interest rate movements on net interest income and equity. This risk is transferred to and managed within the group's liquidity risk team under monitoring of the MLRC and CapCom.

The main analytical techniques used to quantify banking book interest rate risk are earnings and valuation-based measures. The results obtained assist in evaluating the optimal hedging strategies on a risk-return basis. Desired changes to a particular interest rate risk profile are achieved through the restructuring of the balance sheet and, where possible, the use of derivative instruments, such as interest rate swaps. Interest rate risk limits are set in terms of both changes in forecast net interest income and economic value of equity.

The repricing gaps for the group's non-trading portfolios are shown below. This view is for the purpose of illustration only, as positions are managed by currency to take account of the fact that interest rate changes are unlikely to be perfectly correlated. All assets, liabilities and derivative instruments are sited in gap intervals based on their repricing characteristics.

Repricing gap for non-trading portfolios

2016	0-3 months $m	3-6 months $m	6-12 months $m	>12 months $m
Interest rate sensitivity gap	**2 153.2**	**(958.1)**	**(250.6)**	**3.7**
Cumulative interest rate sensitivity gap	**2 153.2**	**1 195.1**	**944.5**	**948.2**
Cumulative interest rate sensitivity gap as a percentage of total banking assets	**27.3%**	**15.2%**	**12.0%**	**12.0%**

2015	0-3 months $m	3-6 months $m	6-12 months $m	>12 months $m
Interest rate sensitivity gap	1,626.2	(326.5)	(300.9)	37.2
Cumulative interest rate sensitivity gap	1,626.2	1,299.7	998.8	1,036.0
Cumulative interest rate sensitivity gap as a percentage of total banking assets	33.5%	26.8%	20.6%	21.4%

Sensitivity of net interest income

The table below indicates the sensitivity in US Dollar equivalents of the group's net interest income in response to a change in interest rates, after taking into account all risk mitigating instruments, with all other variables held constant.

2016	Increase in basis points	1 month $m	2 months $m	3 months $m	4 - 6 months $m
1% up (interest-rate increase)	**100**	**(0.7)**	**0.6**	**(2.1)**	**3.4**
1% down (interest-rate decrease)	**100**	**0.7**	**(0.6)**	**2.1**	**(3.4)**

2015	Increase in basis points	1 month $m	2 months $m	3 months $m	4 - 6 months $m
1% up (interest-rate increase)	100	(1.5)	0.4	1.6	1.2
1% down (interest-rate decrease)	100	1.5	(0.4)	(1.6)	(1.2)

It is the group's policy that banking book assets and liabilities with a duration greater than one week be match funded with the money markets desk, thus removing interest rate risk. However, a few business areas are exempt from this requirement where their banking book interest rate risk is monitored in the same way as if it was a trading book exposure, i.e. PV01 sensitivities are calculated. This is then aggregated in a similar manner to the other traded risks as detailed earlier.

Foreign currency risk

The group's foreign exchange positions arise mainly from foreign exchange trading activities, which are governed by position limits approved by the RMC in accordance with the group's market risk policy. These position limits are subject to review at least annually and foreign exchange exposures are monitored daily by the market risk function and reviewed monthly to ensure they remain within the approved risk appetite.

37. Risk management (continued)

The group policy is not to hold open exposures in respect of the banking book of any significance. Gains or losses on derivatives that have been designated in terms of cash flow hedging relationships are reported directly in equity, with all other gains and losses on derivatives being reported in profit or loss.

Net investment in foreign operations

Functional currency	2016 $m	2015 $m
Chinese Renminbi	**68.6**	80.7

Market risk on equity investments
Market risk on equity investments is managed in accordance with the purpose and strategic benefits of such investments rather than purely on mark-to-market considerations. Periodic reviews and reassessments are undertaken on the performance of the investments.

37.8 Operational risk (unaudited)

Introduction
Operational risk exists in the natural course of business activity. It is not an objective to eliminate all exposure to operational risk, as this would be neither commercially viable nor possible. The group's approach to managing operational risk is to adopt fit-for-purpose operational risk practices that assist business line management in understanding their inherent risk and reducing their risk profile while maximising their operational performance and efficiency.

The operational risk management function is independent from business line management and is part of the second line of defence. It is responsible for the development and maintenance of the operational risk policy, facilitating business's adoption of the framework, oversight and reporting, as well as for challenging the risk profile.

The team proactively analyses root causes, trends and emerging threats, advises on the remediation of potential control weaknesses and recommends best practice solutions. Team members have expertise in the key functions they are responsible for to ensure effective challenge.

Framework and governance
BRMC, as the appropriately delegated risk oversight body on behalf of the Board, has ultimate responsibility for operational risk. BRMC ensures that the operational risk management (ORM) framework for the management and reporting of operational risk is implemented across the group, while ensuring regulatory compliance where applicable.

The operational risk committee (OpCo) serves as the main operational risk management committee within the group. The committee's primary responsibility is to monitor and control operational risk for the group and oversee adherence to the agreed risk appetite. It is responsible for ensuring a robust operational risk framework is embedded across the organisation and promoting strong risk culture within the three lines of defence model.

The roles and responsibilities for managing operational risks are stipulated in the operational risk policies. These policies indicate the responsibilities of operational risk specialists at all levels and of the risk owners. Local heads of ORM may develop their own policies and procedures that better suit their unique environments. These policies and procedures must align to the group's policies and procedures and must be approved by their respective governance committees.

The management and measurement of operational risk
The current framework follows a primarily qualitative approach, being focused on ensuring underlying risks are identified and owned and that the residual risk is maintained within an acceptable level in the opinion of the relevant management, overseen by an independent operational risk function within risk management. Independent assurance on the satisfactory management of operational risk is provided by internal audit.

37. Risk management (continued)

ORM forms part of the day-to-day responsibilities of management at all levels. The ORM framework includes qualitative and quantitative methodologies and tools to assist management to identify, assess and monitor operational risks and to provide management with information for determining appropriate controls and mitigating measures. The framework is based around risk and control self-assessments (RCSA), key risk indicators (KRIs) and incident reporting. Escalation criteria are in place to ensure that management action can be applied in the event that RCSAs or KRIs 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.

As the operational risk profile of the group's business tends to be focused on high impact, low frequency losses, the actual loss experience has limited value in terms of assessing future exposures. However, historical losses are reviewed – both to ensure that adequate management action is taken in respect of the root cause of loss and near miss incidents and also to consider whether there is a level of loss experience that challenges the absolute level of the pillar I capital requirement. Losses are recorded in the operational incident database in accordance with the operational risk incident reporting policy.

Given the broad and diverse nature of the above definition, there are specialist operational risk sub-types which are governed under specific governance standards or equivalent documents and are enforced through independent dedicated specialist functions. These are:

- Legal risk is risk of any of the following descriptions, namely:
  - That business is or may be carried on otherwise than in accordance with applicable laws and regulations;
  - That contractual arrangements either are or may not be binding or enforceable as intended against counterparties or are or may be binding or enforceable against the group otherwise than as intended;
  - That property rights of any description are or may be infringed; or
  - That liability to others may be incurred.
- Compliance risk is the risk that the group may suffer legal or regulatory sanctions, material financial loss or other adverse impact on its reputation as a result of a failure to fully comply with laws, regulations, rules, standards or codes of conduct applicable to its financial services activities.
- Financial crime risk is the possibility of legal or regulatory actions, financial loss or damage to reputation that the group may suffer as a result of its failure to comply with anti-money laundering, counter terrorist financing, anti-bribery and corruption, fraud and sanctions laws, regulations, codes of conduct and regulatory / industry standards of good practice that are applicable to the group's activities.
- Tax risk is the risk of financial or other loss resulting from (among others) the following:
  - An incorrect technical position being taken on the treatment of any item in the tax return and / or forming part of the calculation of a tax liability;
  - Tax authority challenge of a filed position taken in a tax return;
  - Failure to submit a tax return or to make a tax payment within the relevant statutory deadline;
  - Errors in the computation of a tax liability or in the submitted return;
  - Change in tax law or practice affecting a filed position;
  - Operational / process errors in the computation of the group's tax assets or liabilities;
  - Missing claims / elections / deadlines, etc.; and
  - Incorrect financial accounting information being used in the tax return or the calculation of a tax liability.
- Insurance risk including:
  - Repudiation of claim – non-payment of a perceived loss under specific insurance where the loss is repudiated by insurers due to insufficient proof of loss.
  - Delay in claims settlement – delay caused by the need to provide more / detailed information in support of a claim settlement, which results in the use of capital held by the group to mitigate the insurance loss.

37. Risk management (continued)

- Information risk is defined as the risk of accidental or intentional unauthorised use, modification, disclosure or destruction of information resources, which would compromise the confidentiality, integrity or availability of information. Information technology risk is defined as a risk associated with the use, ownership, operation, involvement, influence and adoption of information technology within the group. It consists of information technology related events and conditions that could potentially impact the business. Information technology risk can occur with both uncertain frequency and magnitude and it creates challenges in meeting strategic goals and objectives.
- Included in the operational risk framework and standards are:
  - Model risk arises from potential weaknesses in a model that is used in the measurement, pricing and management of risk. These weaknesses include incorrect assumptions, incomplete information, inaccurate implementation, limited model understanding, inappropriate use or inappropriate methodologies leading to incorrect conclusions by the user. Model risk can lead to financial loss, poor business and strategic decision making, or damage to the group's reputation.
  - Change risk is defined as a risk that emerges through changes, updates or alterations made to the IT infrastructure, systems or applications that could affect service reliability and availability. The group relies heavily on technology to support complex business processes and handle large volumes of critical information. As a result, a technology failure can have a significant impact on the group's brand and reputation. Change, whether internal in the form of people, process and technology, or external in the form of market conditions or regulations, is a significant driver of risk. Change risk can, individually or collectively, affect the business and technology operations and service delivery, introduced by technology changes.

37.9 Reputational risk (unaudited)

Reputational risk is the risk caused by damage to an organisation's reputation, name or brand. Such damage may result from a breakdown of trust, confidence or business relationships. Safeguarding the group's reputation is of paramount importance to its continued success and is the responsibility of every member of staff. As a banking group, good reputation depends upon the way in which the group conducts its business, but it can also be affected by the way in which clients, to whom the group provides services, conduct themselves.

37.10 Capital management

The group manages its capital resources and requirements to:

- achieve a prudent balance between maintaining capital ratios to support business strategy and depositor confidence, and providing competitive returns to shareholders;
- ensure that each group entity maintains sufficient capital levels for legal and regulatory compliance purposes; and
- ensure that its actions do not compromise sound governance and appropriate business practices and it minimises any negative effect on payment capacity, liquidity or profitability.

The group is subject to regulation and supervision by the Prudential Regulation Authority (PRA) and at year end, formed part of the ICBC group which is supervised by the China Banking Regulatory Commission (CBRC).

The group is subject to the Basel III regulatory framework for calculating minimum capital requirements as adopted by the European Banking Authority (EBA) for reporting to the PRA. The impact of the Basel III regulations has been reviewed by the group and has been factored into capital projections.

The group calculates credit and counterparty risk capital requirements using the PRA's standardised rules. Market risk capital is calculated as a combination of approved VaR models and standardised methods. Operational risk is calculated using the standardised approach.

As part of the pillar II process, the group updates its ICAAP (internal capital adequacy assessment process) document which is the firm's self-assessment of capital requirements including for those risks not captured by pillar I. The group has implemented a macroeconomic stress testing model to assess the additional capital requirements and the impact on capital resources of adverse economic conditions. This forms part of the governance process and is incorporated into the ICAAP.

37. Risk management (continued)

Economic capital

In addition to managing against the regulatory capital requirements, management also increasingly utilise more risk sensitive internal economic capital models to monitor and control the risk profile of the organisation. These cover:

- capital adequacy as measured by the ratio of available financial resources to economic capital consumption which forms part of the risk appetite;
- concentrations in exposures which are reviewed against limits and managed by the risk management committee; and
- economic capital utilisation and various related performance metrics which are reviewed by management and form part of the capital allocation process.

Regulatory capital

In addition to compliance with the requirements prescribed by the PRA, the group is required to meet minimum capital requirements of regulators in those countries in which it operates. Banking regulations are generally based on the guidelines developed by the Basel Committee under the auspices of the Bank for International Settlements. In addition to the requirements of host country regulators, all banking operations are also expected to comply with the capital adequacy requirements on a consolidated basis. The group maintained surplus capital over the minimum requirements prescribed by the PRA throughout the year.

The capital adequacy ratio, which reflects the capital strength of an entity compared to the minimum regulatory requirement, is calculated by dividing the capital held by that entity by its risk-weighted assets.

Capital is split into two tiers:

- Common equity tier I represents permanent forms of capital such as share capital, share premium and retained earnings less regulatory deductions; and
- Tier II includes medium to long-term subordinated debt, revaluation reserves and performing portfolio credit impairments.

Risk-weighted assets are determined by applying prescribed risk weightings to on- and off-balance sheet exposures according to the relative credit risk of the counterparty. Included in overall risk-weighted assets is a notional risk weighting for market risks, counterparty risks and large exposure risks relating to trading activities.

Capital resources

The table below sets out the qualifying capital of the regulated entity.

	2015 $m	2014 $m
Regulatory capital		
Common equity tier I		
Share capital	**1,083.5**	1,083.5
Share premium	**731.0**	731.0
Qualifying reserves	**(857.5)**	(739.5)
Less regulatory deductions	**(28.4)**	(24.0)
Total common equity tier I	**928.6**	1,051.0
Tier II		
Subordinated debt instruments	**292.1**	392.3
Credit impairment against performing loans	**6.6**	6.3
Less regulatory deductions	**-**	-
Total tier II	**298.7**	398.6
Total eligible capital	**1,227.3**	1,449.6

38. Encumbered assets

The group enters into transactions in the normal course of business by which it transfers recognised financial assets or commodities 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 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 2016 were US$1,725.7 million (2015: US$1,276.7 million). The balance as of 31 December 2016 includes security provided under the legal proceedings mentioned in note 30.4, amounting to US$6.0 million (2015: US$35.8 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$3,321.7 million (2015: US$5,121.8 million, including cash collateral of US$1,139.0 million). In addition, the group received cash collateral of US$1,144.8 million in 2016. The fair value of financial assets accepted as collateral that have been sold or re-pledged is US$2,015.6 million (2015: US$158.3 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 largest group in which the results of the company are consolidated is that headed by Industrial and Commercial Bank of China Limited, a company incorporated in the People's Republic of China.

Industrial and Commercial Bank of China Limited
No. 55 Fuxingmennei Avenue
Xicheng District
Beijing 100140
The People's Republic of China

For more information on ICBC, please visit www.icbc.com.cn

16. Acronyms and abbreviations

ALCO	Asset and liability committee
ALM	Asset and liability management
APB	Auditing Practices Board
BAC	Board audit committee
BIC	Business infrastructure committee
BRICS	Brazil, Russia, India, China and South Africa
BRMC	Board risk management committee
BS&R	Business support and recovery
CAM	Global markets core account management
Capcom	Capital and liquidity management committee
CCP	Contingent credit protection
CEEMECA	Central and Eastern Europe / Middle East / Central Asia
CEO	Chief Executive Officer
CFP	Contingency funding plan
CIB	Corporate and Investment Banking division
CGC	Credit governance committee
COMEX	Commodity exchange
Company	ICBC Standard Bank Plc company
CRD	Capital requirement directive
CRO	Chief Risk Officer
CRS	Common Reporting Standard
CSA	Credit Support Annex
CSE	Consolidated structured entity
CVA	Credit valuation adjustment
DCM	Debt Capital Markets
DVA	Own credit valuation adjustments
EAD	Exposure at default
Ecap	Economic capital
ECB	European Central Bank
EL	Expected loss
EMIR	European Market Infrastructure Regulation
EP	Economic profit
ERC	Equity risk committee
EU	European Union
EWI	Early warning indicator
FATCA	Foreign Account Tax Compliance Act
FCA	Financial Conduct Authority
FIRB	Foundation internal ratings based
FOA	Futures and Options Association
GAC	Group audit committee
GROC	Group risk oversight committee
Group	ICBC Standard Bank Plc, its subsidiaries and CSEs
IAS	International Accounting Standards
ICAAP	Internal Capital Adequacy Assessment Process
ICBC	Industrial and Commercial Bank of China Limited
ICBCS	ICBC Standard Bank Plc
ICMA	International Capital Market Association
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards as adopted by the EU
ILG	Individual liquidity guidance
IMF	International Monetary Fund
ISDA	International Swap Dealers Association
KRI	Key risk indicators
LGD	Loss given default
LCMT	Liquidity contingency management team
LME	London Metal Exchange
LRTS	Liquidity risk tolerance statement
LSC	Liquidity sub-committee
M&A	Merger and acquisition
MENA	Middle East and North Africa
MTF	Metal trading facilities
NBFI	Non-bank financial institution
OCI	Other comprehensive income
OIS	Overnight index based swap curves
OpCo	Operational risk committee
OTC	Over-the-counter
PBB	Personal and Business Banking
PCC	Pre-credit committee
PCMU	Physical commodities management unit
PCS	Private Client Services
PD	Probability of default
PFE	Potential future exposure
PIM	Principal Investment Management
PIT	Point in time
Plan	Quanto stock unit plan
PRA	Prudential Regulation Authority
PRMC	Portfolio risk management committee
QARM	Quantitative analytics and risk methods
Remco	Remuneration committee of the group
Repos	Repurchase agreements
RMC	Risk management committee
SARB	South African Reserve Bank
SBG	Standard Bank Group Limited and subsidiaries
SBLH	Standard Bank London Holdings Limited
SBSA	Standard Bank of South Africa Limited
SIFMA	Securities Industry and Financial Markets Association
SPA	Sale and purchase agreement
STC	Structured transactions committee
TTC	Through the cycle
UL	Unexpected loss
VaR	Value-at-risk
VAT	Value added tax
ZAR	South African Rand

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