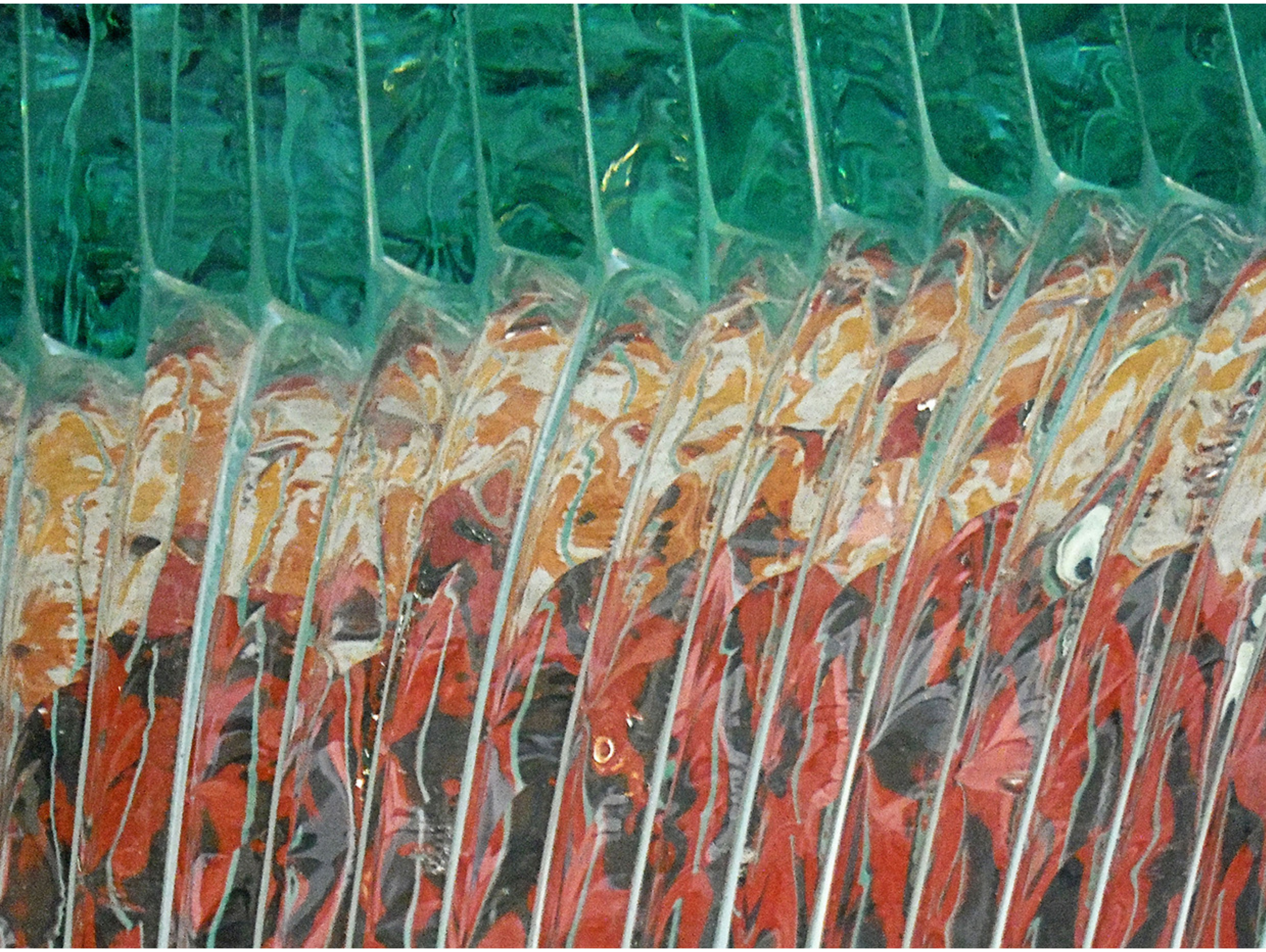
ICBC Standard Bank

Unaudited interim results

for the period ended 30 June 2017



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Overview and summary of results

Introduction

ICBC Standard Bank Plc (‘the company’) and its subsidiaries (together ‘the group’) is a leading financial markets and commodities bank, benefiting from its unique Chinese and African parentage, providing a strategic platform to serve the growing demands of its clients for global markets products, while continuing to distribute 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, and was the first UK bank to obtain clearing membership on the Moscow Exchange’s Foreign Exchange Market. The company also owns two seats on the New York Mercantile Exchange (Comex division) and a seat on the Shanghai Gold Exchange International Board.

Market conditions

Market conditions were varied during the first half of 2017, with a number of factors impacting group performance, including a falling dollar, weakness in oil prices, further declines in volatility and rising interbank borrowing rates.

US President Trump’s market friendly position began to lose impact early in the first half of 2017, causing support to wane and US yields to fall back from year end 2016 highs. The Federal Reserve raised interest rates 25bps in March and June, however, these moves were well signalled and financial markets saw minimal impact as a result. Short-term inflation expectations began easing as the year-on-year base effects of energy prices started to fall away. Against the background of a continuation of accommodative monetary policy, equity markets continued to do well in North America, Europe and most emerging markets, but Japanese stocks fell back as the Yen appreciated. Volatility remained subdued across equities, FX and most commodities and so with markets becoming more directionless, good trading opportunities were fewer.

Capital outflows from China slowed during the period as the People’s Bank of China (PBOC) sought to keep foreign reserves above the US$3 trillion threshold. Tightening liquidity pushed on-shore interbank rates higher, having a subsequent impact on borrowing costs for Chinese corporates. Selective restrictions targeted at real estate speculation also continued to dampen property prices. Nevertheless, both the manufacturing and service sectors Purchasing Managers Indices (PMIs) remained robust and the slow recovery in private fixed asset investment continued.

Political risk in the Eurozone eased somewhat following the Dutch election outcome early in the year, further aided by the success of EU supporter President Macron in the French elections in May 2017. Both elections helped reinforce the view that anti-EU parties in the Eurozone are being pushed back, adding to the positive mood in the euro.

In contrast, political concerns in the UK escalated, with a hung parliament outcome following an early general election. Tensions in the US also rose with President Trump at odds with other world leaders over issues such as climate change and global protectionism. With the balance of political risk changing, the momentum in the FX market shifted away from the dollar and pound to favour the euro.

Financial results

The group's results for the six months ended 30 June 2017 are shown in the consolidated income statement on page 8.

The profit attributable to shareholders for the six months ended 30 June 2017 of US$9.4 million compares favourably to a loss of US$56.6 million for the six months ended 30 June 2016 and a loss of US$98.8 million for the year ended 31 December 2016.

The improvement in market conditions that commenced in the latter part of 2016 continued in the first half of 2017, with increased volumes and client activity both contributing to the improved performance. As in 2016, FICE performed particularly strongly, generating revenues significantly ahead of prior year. In Commodities, strong performance in precious metals was partially offset by slower growth in Energy, primarily due to declines in oil prices, and Base Metals, where revenues were muted due to reduced client volumes.

The group's improved performance was further enhanced by Treasury's continued focus on funding cost efficiencies.

Operating costs of US$180.8 million were lower than prior year (US$191.2 million). The decrease is primarily due to the further savings achieved in other operating expenses as a result of various cost reduction initiatives commenced in 2016 and continuing into 2017. These reductions were achieved while maintaining investment in business development through strategic additions to front office headcount.

Total assets at 30 June 2017 were US$23.4 billion, representing an increase of 16.8% on prior year (US$20.1 billion) and 15.9% on year end (US$20.2 billion).

The increase on prior year was primarily attributable to increases in cash placements with the Bank of England, collateralised lending activities and the liquid asset portfolio. These were partially offset by a US$1.2 billion decrease in derivative financial assets.

Capital resources

At 30 June 2017, the group's equity capital resources amounted to US$1,253.3 million (2016: US$1,000.4 million) and total capital resources qualifying for prudential purposes amounted to US$1,591.8 million (2016: US$1,345.6 million).

The group's capital resources at 30 June 2017 reflect the receipt of additional ordinary share capital of US$265.0 million from the group's shareholders on 13 January 2017 (tier 1 capital) and a further US$150.0 million of floating rate subordinated debt from ICBC on 15 June 2017 (tier 2 capital), in accordance with the group's capital plans formed as part of its strategic planning process. The additional capital was intended to replenish the group's capital base and ensure that it can meet its growth and profitability objectives throughout 2017 and into 2018.

Following the receipt of the additional capital, the group is strongly capitalised, with a total capital adequacy ratio at 30 June 2017 of 23.5% (2016: 18.4%), a tier 1 ratio of 17.7% (2016: 13.6%) and risk weighted assets of US$6,771.2 million (2016: US$7,322.5 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 5.1% at 30 June 2017 (2016: 5.9%). A minimum leverage ratio of 3% is expected to be applied by the PRA from 2019.

Key financial results, ratios and statistics

at 30 June 2017

Income statement	June 2017 $m Unaudited	June 2016 $m Unaudited	December 2016 $m Audited
Operating income (after impairments)	**195.5**	135.3	285.9
Operating expenses	**(180.8)**	(191.2)	(382.9)
Profit / (loss) attributable to equity shareholders	**9.4**	(56.6)	(98.8)
Balance sheet			
Equity attributable to ordinary shareholders	**1,253.3**	1,000.4	956.9
Total assets	**23,444.3**	20,067.0	20,223.6
Capital adequacy			
Risk-weighted assets	**6,771.2**	7,322.5	6,362.8
Common equity tier 1	**1,195.4**	996.9	928.6
Common equity tier 1 capital adequacy ratio (%)	**17.7**	13.6	14.6
Total capital adequacy ratio (%)	**23.5**	18.4	19.3

Consolidated balance sheet

at 30 June 2017

Assets	June 2017 $m Unaudited	June 2016 $m Unaudited	December 2016 $m Audited
Cash and balances with central banks	**2,658.7**	1,173.9	1,174.3
Due from banks and other financial institutions	**1,522.0**	1,957.3	1,842.3
Financial assets held for trading	**1,926.0**	1,859.1	970.5
Financial assets designated at fair value through profit or loss	**1,323.5**	7.5	1,339.2
Derivative financial assets	**3,730.1**	4,976.6	4,715.0
Reverse repurchase agreements	**3,987.9**	3,029.2	3,601.1
Loans and advances to customers	**952.3**	689.1	855.3
Financial investments	**1,565.6**	589.8	1,300.7
Property and equipment	**20.2**	16.7	22.6
Current tax assets	**-**	-	0.4
Deferred tax assets	**1.4**	3.0	1.4
Other assets	**5,756.6**	5,764.8	4,400.8
Total assets	**23,444.3**	20,067.0	20,223.6
Liabilities and equity			
Liabilities	**22,191.0**	19,066.6	19,266.7
Financial liabilities held for trading	**1,362.9**	971.6	781.7
Financial liabilities designated at fair value through profit or loss	**1,385.0**	-	1,313.3
Derivative financial liabilities	**3,657.5**	5,047.0	4,849.3
Due to banks and other financial institutions	**9,102.0**	9,722.5	8,022.7
Repurchase agreements	**2,529.8**	796.9	2097.7
Certificates of deposit	**41.3**	60.3	63.3
Due to customers	**492.6**	928.7	519.3
Current tax liabilities	**3.1**	0.1	0.5
Subordinated debt	**676.0**	546.8	529.2
Other liabilities	**2,940.8**	992.7	1,089.7
Equity			
Equity attributable to ordinary shareholders	**1,253.3**	1,000.4	956.9
Share capital	**1,083.5**	1,083.5	1,083.5
Ordinary share premium	**996.0**	731.0	731.0
Reserves	**(826.2)**	(814.1)	(857.6)
Total liabilities and equity	**23,444.3**	20,067.0	20,223.6

- Total balance sheet increased by 15.9% from 31 December 2016
- Increase of US$1.5 billion in cash and balances with central banks due to increased placement of liquid asset holdings with the Bank of England
- Increase of US$1.0 billion in financial assets held for trading due to increase in bond trading activities and commodity reverse repos
- Decrease in derivative financial assets of US$1.0 billion offset by corresponding decrease in derivative financial liabilities of US$1.2 billion, leaving net derivatives position broadly unchanged
- Increases in other assets and other liabilities principally due to increases in precious metals balances, reflecting continuing expansion of the clearing and vaulting business. This was partially offset by a decrease in base metals stocks
- Increase in equity and subordinated debt due to receipt of US$265.0 million additional capital injection in January 2017 and US$150.0 million of subordinated debt from ICBC in June 2017 respectively

Consolidated income statement

for the period ended 30 June 2017

	June 2017 $m Unaudited	June 2016 $m Unaudited	December 2016 $m Audited
Net interest income	**35.2**	13.6	36.1
Interest income	**81.9**	41.3	90.2
Interest expense	**(46.7)**	(27.7)	(54.1)
Non-interest revenue	**156.0**	121.6	250.1
Net fees and commission	**18.3**	4.9	17.7
Fees and commission income	**25.8**	5.0	19.3
Fees and commission expense	**(7.5)**	(0.1)	(1.6)
Trading revenue	**138.1**	116.7	215.9
Net (loss) / gain on financial assets and liabilities at fair value through profit or loss	**(0.4)**	-	19.0
Loss on commodity reverse repurchase agreements	**-**	-	(2.5)
Total operating income	**191.2**	135.2	286.2
Credit impairment recovery / (charge)	**4.3**	0.1	(0.3)
Income after impairments	**195.5**	135.3	285.9
Operating expenses	**(180.8)**	(191.2)	(382.9)
Staff costs	**(127.1)**	(123.9)	(251.8)
Other operating expenses	**(50.8)**	(63.5)	(124.6)
Indirect taxation	**(2.9)**	(3.8)	(6.5)
Profit / (loss) before taxation	**14.7**	(55.9)	(97.0)
Income tax charge	**(5.3)**	(0.7)	(1.8)
Profit / (loss) attributable to equity shareholders	**9.4**	(56.6)	(98.8)

- The group recorded a profit of US$9.4 million for the period ended 30 June 2017, which represents a significant improvement on the losses reported in the prior year
- Revenue performance continued to improve, most notably within the FICE business, maintaining the momentum from the improving revenue performance in the second half of 2016
- Increase in net interest income reflects continued growth of the group's collateralised lending activities
- Credit impairment recoveries comprise US$3.0 million from the recovery of a loan previously written off and a reduction of US$1.3 million in the collective impairment provision, reflecting the improving credit quality of the group's loan book and related collateral
- Lower operating expenses achieved primarily from continuation of a number of cost saving initiatives commenced in 2016, while continuing to invest in front office headcount
- Income tax charge principally relates to withholding tax charges

Consolidated statement of comprehensive income

for the period ended 30 June 2017

	June 2017 $m Unaudited	June 2016 $m Unaudited	December 2016 $m Audited
Profit / (loss) attributable to equity shareholders	**9.4**	(56.6)	(98.8)
Items that may be subsequently reclassified to profit or loss[1]			
Foreign currency translation reserve	**1.7**	(1.8)	(5.2)
Net investment hedge	**(0.7)**	-	-
Cash flow hedging reserve[2, 3]	**15.4**	(16.0)	(13.6)
Effective portion of changes in fair value	**7.0**	(21.8)	(29.6)
Net amount transferred to profit or loss	**8.4**	5.8	16.0
Changes in fair value of available-for-sale assets	**5.6**	(0.2)	(0.5)
Total comprehensive profit / loss attributable to equity shareholders	**31.4**	(74.6)	(118.1)

1. Amounts are presented net after tax
2. Movements relate to continuing operations for all periods
3. The cash flow hedges relate to hedges of the group's cost base for future highly probable expenses in currencies other than US dollars (i.e. the functional currency) and hedges of the long term incentive liability due to changes in the ICBC and Standard Bank Group share prices

- The cash flow hedging reserve movement of US$15.4 million is primarily due to the partial recovery of the pound versus the US dollar following its substantial decline as a result of the UK's vote to leave the European Union in June 2016.

Consolidated statement of changes in equity

for the period ended 30 June 2017

	Ordinary share capital and share premium[1] $m Unaudited	Cash flow hedging reserve $m Unaudited	Available-for-sale reserve $m Unaudited	Foreign currency translation reserve $m Unaudited	Net investment hedge reserve $m Unaudited	Retained earnings $m Unaudited	Total equity $m Unaudited
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
Balance at 1 January 2017	**1,814.5**	**(22.0)**	**1.0**	**(2.1)**	-	**(834.5)**	**956.9**
Total comprehensive profit / (loss) for the year	**-**	**15.4**	**5.6**	**1.7**	**(0.7)**	**9.4**	**31.4**
Shares issued including share premium	**265.0**	**-**	**-**	**-**	-	**-**	**265.0**
Balance at 30 June 2017	**2,079.5**	**(6.6)**	**6.6**	**(0.4)**	**(0.7)**	**(825.1)**	**1,253.3**

1. On 13 January 2017, the company issued an additional 25 ordinary shares of US$1 each to ICBC (15 shares) and Standard Bank London Holdings Limited (10 shares), at a share premium of US$10.6 million per share.

Accounting policies

The financial results and financial position set out on pages 7 to 10 have been prepared on a consistent basis to the group's consolidated annual financial statements for the year ended 31 December 2016. They do not include all information required for full annual financial statements or condensed consolidated financial statements prepared in accordance with IAS 34 *Interim Financial Reporting*.

The group's annual financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and in accordance with the going concern principle.

The group's annual financial statements were prepared on the historical cost basis except as modified by the fair value accounting for certain assets and liabilities where required or permitted by IFRS. The accounting policies were consistent with those adopted in the previous year.

Financial instruments measured at fair value

The tables that follow analyse financial instruments carried at fair value at the end of the reporting period by valuation methodology (fair value hierarchy). Fair values are classified into levels 1, 2 or 3, depending on the extent to which quoted prices are used in the calculation of the fair value of financial instruments, with the levels defined as follows:

Level 1 – quoted market price: financial instruments with quoted prices for identical instruments in active markets that the group can access at the measurement date.

Level 2 – valuation technique using observable inputs: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.

Level 3 – valuation technique with significant unobservable inputs: financial instruments valued using valuation techniques where one or more significant inputs are unobservable.

June 2017 – unaudited	Composition %	Asset $m	Composition %	Liability $m
Level 1	**18.3**	**1,562.7**	**13.2**	**844.3**
Level 2	**79.3**	**6,774.2**	**80.3**	**5,146.6**
Level 3	**2.4**	**208.3**	**6.5**	**414.5**
Financial instruments at fair value	**100.0**	**8,545.2**	**100.0**	**6,405.4**
Reconciled as follows:				
Available-for-sale		**1,565.6**		**-**
Held for trading		**5,656.1**		**5,020.4**
Designated at fair value		**1,323.5**		**1,385.0**
		8,545.2		**6,405.4**
June 2016 – unaudited				
Level 1	27.7	2,057.6	16.0	960.6
Level 2	71.2	5,293.3	76.0	4,577.0
Level 3	1.1	82.1	8.0	481.0
Financial instruments at fair value	100.0	7,433.0	100.0	6,018.6
Reconciled as follows:				
Available-for-sale		589.8		-
Held for trading		6,835.7		6,018.6
Designated at fair value		7.5		-
		7,433.0		6,018.6
December 2016 – Audited				
Level 1	26.7	2,219.5	11.5	802.4
Level 2	72.4	6,029.0	81.5	5,656.5
Level 3	0.9	76.9	7.0	485.4
Financial instruments at fair value	100.0	8,325.4	100.0	6,944.3
Reconciled as follows:				
Available-for-sale		1,300.7		-
Held for trading		5,685.5		5,631.0
Designated at fair value		1,339.2		1,313.3
		8,325.4		6,944.3

Credit quality

The table below shows the maximum credit risk exposure of the group in the event of other parties failing to perform on their obligations before taking account of any collateral held or other credit enhancements.

	Performing		Non-performing			
	Neither past due nor impaired		Past due but not specifically impaired		Specifically impaired	Gross credit exposure
	Normal monitoring[1]	Close monitoring[1]	< 90 days	>= 90 days		
June 2017 - Unaudited	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
Financial assets designated at fair value through profit or loss	**1,317.2**	**-**	**-**	**-**	**-**	**1,317.2**
Derivative financial assets	**3,725.2**	**4.9**	**-**	**-**	**-**	**3,730.1**
Due from banks and other financial institutions	**1,521.3**	**0.7**	**-**	**-**	**-**	**1,522.0**
Reverse repurchase agreements	**3,944.1**	**43.8**	**-**	**-**	**-**	**3,987.9**
Loans and advances to customers	**904.2**	**53.5**	**-**	**-**	**-**	**957.7**
Gross on balance sheet credit exposure	**11,412.0**	**102.9**	**-**	**-**	**-**	**11,514.9**
June 2016 – Unaudited						
Financial assets designated at fair value through profit or loss	-	-	-	-	-	-
Derivative financial assets	4,961.3	15.3	-	-	-	4,976.6
Due from banks and other financial institutions	1,956.9	0.4	-	-	-	1,957.3
Reverse repurchase agreements	3,029.2	-	-	-	-	3,029.2
Loans and advances to customers	632.6	62.8	-	-	-	695.4
Gross on balance sheet credit exposure	10,580.0	78.5	-	-	-	10,658.5
December 2016 - Audited						
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 on balance sheet credit exposure	12,187.2	164.5	-	-	-	12,351.7

1. Normal and close monitoring exposures within this category are exposures rated 1 to 21 (AAA to B-) and 22 to 25 (CCC+ to CCC-) respectively on the group's master rating scale.

Deposits

Due to banks and other financial institutions

	June 2017 $m Unaudited	June 2016 $m Unaudited	December 2016 $m Audited
Due to banks	**8,544.2**	9,550.6	7,739.5
Other financial institutions	**557.8**	171.9	283.2
	9,102.0	9,722.5	8,022.7

Repurchase agreements

	June 2017 $m Unaudited	June 2016 $m Unaudited	December 2016 $m Audited
Banks and other financial institutions	**2,529.8**	796.9	2,097.7
	2,529.8	796.9	2,097.7

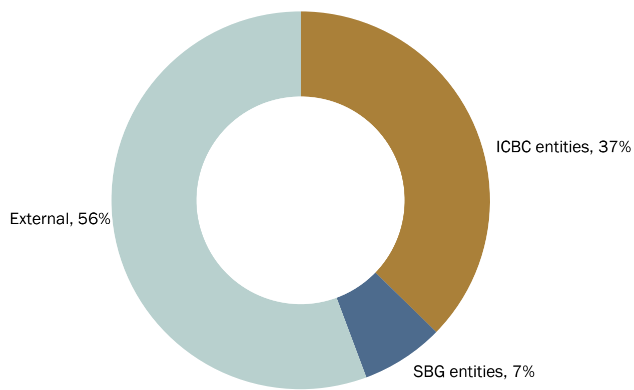
Certificates of deposit

	June 2017 $m Unaudited	June 2016 $m Unaudited	December 2016 $m Audited
Commercial paper	**41.3**	60.3	63.3
	41.3	60.3	63.3

Due to customers

	June 2017 $m Unaudited	June 2016 $m Unaudited	December 2016 $m Audited
Call deposits	**267.4**	639.9	355.7
Term deposits	**225.2**	288.8	163.6
	492.6	928.7	519.3

Deposit providers



Value at risk

Analysis of trading book market risk exposures

The table below 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 period. Stop loss triggers are used to contain losses for individual business units by enforcing management intervention at predetermined loss levels. 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 82% of the trading days in the six months ended 30 June 2017 (2016: 72%). The average daily trading revenue earned in the period ended 30 June 2017 was US$1.3 million (2016: US$1.0 million), with a standard deviation of US$2.0 million (2016: US$2.0 million). During the period, there were no back-testing exceptions at a 99% confidence level.

		Normal VaR[2]		
	Maximum[1]	**Minimum[1]**	**Average**	**Period end**
June 2017	**$m**	**$m**	**$m**	**$m**
Commodities	**2.2**	**1.0**	**1.5**	**1.0**
Foreign exchange	**2.5**	**0.9**	**1.5**	**1.0**
Equities	**0.7**	**0.3**	**0.5**	**0.6**
Debt securities	**2.6**	**1.5**	**1.9**	**2.5**
Diversification benefit[4]				**(2.1)**
Total				**3.0**

		Stress VaR[3]	
	June 2017 $m Unaudited	June 2016 $m Unaudited	December 2016 $m Audited
Commodities	**7.4**	10.5	6.5
Foreign exchange	**6.9**	3.8	2.8
Equities	**3.1**	1.0	1.7
Debt securities	**27.4**	25.8	19.4
Diversification benefit[4]	**(13.2)**	(6.1)	(6.8)
Total	**31.6**	35.0	23.6

		Normal VaR[2]		
	Maximum[1]	Minimum[1]	Average	Period end
June 2016	$m	$m	$m	$m
Commodities	2.9	1.0	1.8	2.1
Foreign exchange	1.2	0.6	0.9	0.6
Equities	0.3	0.1	0.2	0.2
Debt securities	2.8	1.7	2.0	2.2
Diversification benefit[4]				(1.7)
Total				3.4

		Normal VaR[2]		
	Maximum[1]	Minimum[1]	Average	Year end
December 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

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 10 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.

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