ICBC Standard Bank

Consolidated Annual Report

ICBC Standard Bank Plc

FOR THE YEAR ENDED 31 DECEMBER 2021

AT A GLANCE

OVERVIEW

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

PURPOSE, VALUES AND STRATEGIC PRIORITIES

Our purpose statement

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

Underpinned by our values

- Integrity 诚 信
- Openness 开 放
- Prudence 稳 健
- Innovation 创 新
- Excellence 卓 越

Our strategic priorities

- Simplification for sustainable growth
- Focus our efforts where we are differentiated
- Maximise group franchise value through integration

OWNERSHIP STRUCTURE

ICBC — 20% → Standard Bank

World's largest bank by deposits, assets and Tier 1 capital

Pre-eminent Africa-focused financial services group

60%

40%

ICBC Standard Bank

CREDIT RATING - ICBC STANDARD BANK

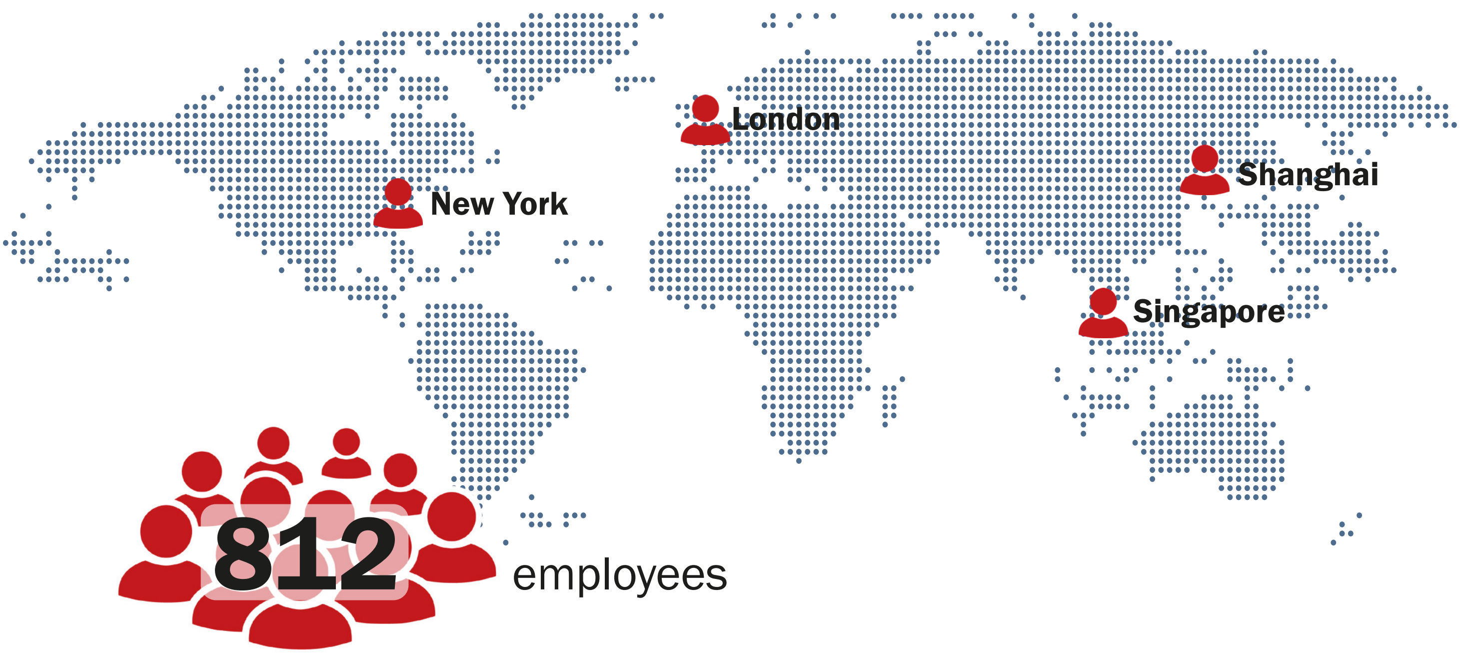
	Short Term	Long Term	Outlook
Fitch	F1	A-	Stable
Moody's	P2	Baa1	Stable

GROUP PERFORMANCE 31 DECEMBER 2021

$466.0m	$98.6m	7.3%
Total Operating Income	**Net Profit After Tax**	**Return on Equity**

$8.5bn	$26.3bn	15.3%
Total Risk Weighted Assets	**Balance Sheet Assets**	**Tier 1 Capital Adequacy Ratio**

OFFICES AND AVERAGE NUMBER OF EMPLOYEES



CHIEF EXECUTIVE'S REVIEW

"ICBCS' PERFORMANCE REFLECTS OUR COLLEAGUES' RELENTLESS COMMITMENT TO OUR UPDATED PURPOSE: TO SERVE OUR CLIENTS GLOBALLY AS THE COMMODITIES AND FINANCIAL MARKETS HUB OF ICBC"

Despite another year of unexpected challenges, ICBCS colleagues never lost focus on delivering for our clients and shareholders. The team adapted seamlessly to the ever-changing operating environment, balancing periods of working remotely with spending time in our offices, without significant interruption to their activities or to client service.

A profit of $98.6m delivered in 2021

ICBCS performance picked up where 2020 left off with a strong trading performance, particularly during H1 2021. Our leading Metals and Local Markets franchises navigated the markets well, supported by our uncompromising focus on prudent risk management. For the year ended 31 December 2021, ICBCS delivered a profit of $98.6 million. Achieving a profitable performance for a second consecutive year demonstrates our dedication to continue delivering value to our shareholders. Our performance also reflects our colleagues' relentless commitment to our updated Purpose "To serve our clients globally as the Commodities and Financial Markets hub of ICBC".

During 2021 we revisited our Culture and Strategy framework and updated our Corporate Values to be closely aligned to that of our majority shareholder ICBC.

Integrity
诚 信

Openness
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Prudence
稳 健

Innovation
创 新

Excellence
卓 越

Underpinning those values, we identified the complimentary target behaviours we expect all colleagues to display on a day to day basis. Our colleagues are now clear on what we want to achieve and, more importantly, on how we expect to get there.

Our strategic principles (Simplification, Specialisation and Integration) remain unchanged and can also be thought of as three stages to our evolution post change in control.

Most of the hard work is behind us in terms of our **Simplification** programme. During 2019 and 2020 we undertook a business restructuring exercise to reduce our regulatory and organisational complexity through closing a number of sub-scale business lines and regional offices.

Operating efficiently, leveraging our expertise, and enhancing our value continue to remain our key strategic priorities

During 2021 we completed the closure of our Hong Kong office which was one of the key outstanding items from that project. We can see the benefits of that work in terms of a more streamlined governance process and a reduced cost base. Needless to say, we will continue to challenge ourselves to operate as efficiently as we can going forward.

Our immediate focus is on **Specialisation** which is about preserving and building the strategic value of ICBCS to our shareholders. With our improved performance, we can make some prudent investments to maintain business competitiveness and operational resilience within our core franchises.

Our ultimate goal is **Integration** which will deliver on the strategic rationale of the original acquisition by ICBC. The prospect of connecting ICBCS products and capabilities into the client franchise of the largest Bank in the world remains a compelling proposition. We will continue to enhance our cooperation with, and contribution to ICBC, through striving for consistent profitability. It will be an organic and complex process but is always the right direction of travel.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Our ESG vision: We are committed to enabling our clients to pursue our shared goals of social and economic development, and environmental sustainability

Sound Environmental, Social, and Governance (ESG) practices remain an area of focus for the Board and Management. Our ESG ambitions have been captured within a Board approved vision of "**ICBCS is committed to enabling our clients to pursue our shared goals of social and economic development, and environmental sustainability**". This vision acknowledges that within Emerging Markets and Commodities, there are complex trade-offs between measures designed to alleviate environmental risks and efforts to promote social and economic development.

ICBCS is evaluating business activities and opportunities that support the transition to a lower-carbon economy, and we have continued to embed our climate-risk management programme across the organisation.

The new ESG section of this Report provide further details on our approach and next steps.

Our E,D & I vision: Be Yourself, Succeed Together

Our Emerging Leaders Sponsorship programme delivers on our commitment to identify and promote high-performing female colleagues to senior roles across the organisation

We remain committed to our Equity, Diversity & Inclusion vision statement of "**Be Yourself, Succeed Together**" and a desire for a culture of inclusion that is open, transparent and values difference. In 2021, we continued to celebrate our cultural diversity, heritage and international workforce, we progressed with our inclusion campaigns and embedded our E, D & I principles. We built strong momentum through our talent acquisition agenda, including our graduate and intern recruitment programmes which attracted talent from a range of backgrounds. We launched our inaugural Emerging Leaders Sponsorship Programme, designed to engage, grow and retain talent. The 2021 programme focused on high potential females in the context of our commitment to close the gender pay gap at more senior levels. We will continue to drive focus and accountability in this area through our E, D & I metrics and senior sponsorship.

The wellbeing of our colleagues continues to be a key priority with additional training and mental health resources being introduced to support colleagues during the ongoing pandemic

As we made the transition to a hybrid working model in 2021, our learning agenda focused on supporting our people and managers through a bespoke hybrid working training programme, delivered to all staff. We also continued with our commitment to management essentials, professional, and leadership development.

Through our wellbeing programmes, we encouraged our staff to focus on their physical and mental wellbeing through a suite of specialist speakers, webinars and development sessions. I'm also proud that we trained 19 employees in the London office as Mental Health First Aiders, to act as the first point of contact for employees who are experiencing mental health issues.

OUTLOOK

The tenacity and dedication of our colleagues has enabled us to continue delivering value to our stakeholders during these difficult times

Our performance over recent years and throughout the pandemic has been encouraging. After a difficult year in 2019, we have delivered two years of profitability and our capital position is strong.
In addition, in January 2022 we finalised the recovery of losses from the commodity inventory intermediation transaction from 2019, resulting in gains before tax of $230 million which further strengthens our capital base.
Whilst we can look ahead with confidence, we maintain a cautious stance, with a conservative approach to capital and funding that positions us appropriately to respond to the current environment. On behalf of Senior Management and the Board, I would like to thank ICBCS colleagues for their efforts, and our clients and shareholders for their ongoing support.

Wenbin Wang
Chief Executive Officer

Contents

1. Strategic report

The ICBC Standard Bank Plc Strategic Report 2021 was approved by the Board of Directors on 4 March 2022, and signed on its behalf by the Chairman.

Who we are

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

Industrial and Commercial Bank of China Limited ('ICBC') and Standard Bank Group Limited ('SBG'), hold 60% and 40% respectively of the issued share capital of ICBCS.

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

ICBC Group profile

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

On 28 October 2005, ICBC was restructured into a joint-stock limited company. On 27 October 2006, ICBC was listed on both the Shanghai and Hong Kong stock exchanges and has developed into one of the largest listed banks in the world, possessing 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 49 countries and regions. ICBC provides a comprehensive suite of financial products and services to over nine million corporate customers and 690 million personal customers through its various distribution channels. These consist of domestic institutions, overseas institutions and correspondent banks worldwide, as well as an e-banking network comprising a range of internet and telephone banking services and self-service banking centres.

Standard Bank Group profile

SBG is one of Africa's leading banking and financial services organisations. In 2007, SBG entered into a major strategic partnership with ICBC, which resulted in ICBC becoming a 20% shareholder in SBG.

SBG operates in three key segments: Consumer & High Net Worth Clients, Business & Commercial Clients and Wholesale Clients. These global client segments operate across South Africa, other African countries and selected international locations outside of Africa.

How we operate

Strategy

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

We also provide specialised financing solutions to clients that leverage our global markets capabilities and experience.

We are headquartered in London, with additional operations in Singapore and New York. We also maintain a commodities sales presence in Shanghai through our subsidiary, ICBC Standard Resources (China) Limited.

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

Our strategy is underpinned by three pillars:

Simplification

We initiated a strategic simplification programme in 2019 which involved sub-scale product and location rationalisation to reduce our cost base, operating risks, and regulatory complexity.

The programme was completed in August 2021 with the closure of our Hong Kong branch.

We continue to focus on delivering efficiencies by streamlining our operational processes, identifying opportunities to contain costs, and ensuring our decision-making processes are fit for purpose.

The capacity created through these initiatives, together with effective use of our capital, will enable us to build a scalable business model.

Specialisation

Our specialisation objective is about developing and preserving our capabilities in our core client franchises of commodities and emerging markets.

This will require prudent investments to maintain business competitiveness, robust operational infrastructure and stability, and relevance to our shareholders and client base.

For example:

- Automation and digitalisation of our Metals platform.
- Development of lower carbon products to complement our Energy offering.
- Connecting emerging markets to global investors, with an expanding focus on frontier markets.

Integration

From an integration perspective, we continue to proactively look for opportunities to partner with ICBC in offering complementary commodities and financial markets products to its extensive client base.

Over time, this will enable us to further strengthen our relationship with ICBC and demonstrate the value that we can contribute to the group franchise.

In doing so we will recognise our heritage, and, maintain our distribution role for Standard Bank group, and our deep-rooted expertise in African product and markets.

Business model

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

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

Commodities

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

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

Fixed Income and Currencies

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

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

The Debt Capital Markets team within our FIC business focus on providing origination, structuring and execution capabilities for our clients.

How we conduct business

Culture

Having a vision, purpose, and set of values provides our colleagues with a common, shared direction

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

To enable us to achieve this, we updated our Culture Framework during 2021. Our revised Purpose and Values are set out below:

Purpose

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

Values

Integrity

- We conduct business in the right way.
- We act with respect, transparency and honesty.
- We act responsibly in the societies in which we operate and treat our clients, colleagues and stakeholders fairly.

Openness

- We are an open, inclusive, and merit-based organisation.
- We embrace diversity in people, perspectives, and teamwork.
- We invest in our people and seek to identify and grow talent.

Prudence

- We exercise sound judgement in balancing risk and reward.
- We are accountable for our actions and to each other.
- We are rigorous in observing our own controls and the proper standards of conduct.

Innovation

- We develop and deliver the best solutions, services, and products for our clients and stakeholders.
- We find new ways to be agile and focused in delivering value.
- We are relentless in our drive to improve and simplify how we work.

Excellence

- We consistently challenge ourselves to deliver the highest quality.
- We are proud of our work.
- We deliver on our commitments.

Stakeholder engagement

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

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

Shareholders

Our relationship with shareholders is governed through a Shareholder Agreement

Our relationship with shareholders is governed through a Shareholder Agreement ('SHA'). The SHA is a key governance document that applies in conjunction with the articles of association and sets out specific matters that are reserved for shareholder decision. It also covers which matters are reserved for Board decision and sets out other administrative procedures such as those governing the composition of the Board, appointment of directors, administration of Board meetings, preparation of the business plan and budget, capital requests, shareholder communications and other related matters.

Through executive-level engagement with shareholder staff and shareholder representative directors being members of our Board, there are high levels of engagement with both shareholders. Our ongoing shareholder engagement ensures that our strategy and annual business plan (as agreed by the Board) takes consideration of shareholder feedback and views on strategic direction.

In agreeing the annual business and financial plan, the Board considered and incorporated feedback from shareholders

During the year, in agreeing the annual business and financial plan, the Board considered and incorporated feedback from shareholders. In addition, our Chief Executive Officer provided regular updates to the Board on other relevant communications and developments with our shareholders.

Clients

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

We are committed to delivering the best solutions, services, and products to our clients

To enable us to achieve these outcomes, we have embedded extensive policies and procedures within our client management activities. We also have a dedicated client management unit to support us in providing the best outcome for our clients.

Our counterparty risk management committee is responsible for ensuring that we have appropriate controls in place to consider the acceptability of client relationships that present heightened financial crime and reputational risks to ICBCS, or our existing clients.

In planning for Brexit, the Board considered the impact on our clients and we have sought to maintain access to as many relevant markets as possible, while not establishing an EU-based branch or subsidiary. The group will continue to follow the progress of financial services trade agreement discussions between the UK and the EU regarding financial services regulation and cross-border market access throughout 2022, and will respond to developments as appropriate.

In reviewing our Commodities business strategy, the Board supported the developments being made during 2021 on our automation and digitalisation capabilities, and infrastructure, to make products more accessible to clients.

Operational resilience continues to be a key area of focus and oversight

Operational resilience also continued to be a key area of oversight for the Board during the year, including monitoring enhancements being made to the firm's infrastructure to ensure continuity of services to clients, and adherence to new regulatory requirements.

Regulators

We strive to maintain an open and transparent relationship with Regulators

The Board seeks to maintain an open and transparent dialogue with the Regulators, both in the UK and our overseas jurisdictions.

The Chief Finance Officer keeps the Board apprised on relevant capital and liquidity regulations in the countries in which we operate. The Board is kept informed by the Chief Compliance Officer of our adherence to current regulatory obligations, any material compliance incidents, and any future regulatory developments.

The Board proactively reviews key regulatory correspondence and takes action to ensure that management address regulatory priorities and recommendations in a prompt and timely manner. In addition, there are various Executive and Non-Executive Directors meetings held with the PRA throughout the year.

Suppliers

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

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

There has been ongoing management liaison with key suppliers on their ongoing stability and resiliency during the Covid-19 pandemic, with the Board being apprised of any significant developments or supplier performance issues.

During the year, the Board also approved the group's supplier risk appetite, and continued to maintain oversight of our payment practices, including semi-annual reporting and filing requirements.

Employees

We engaged with our colleagues throughout the year via virtual townhalls, CEO communications, and employee surveys

The Board is provided with regular updates on headcount, Covid-19 related employee measures and initiatives, outcomes from employee surveys, scorecard metrics in relation to our people and culture, and any employee breaches and/or risks.

Aside from regular Board meetings, Board members maintained regular communications with the Chief Executive Officer as well as other Senior Management members.

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

During 2021, the Chief Executive Officer led regular virtual staff town hall sessions

During 2021, the Chief Executive Officer led regular virtual staff town hall sessions to update colleagues on key business developments, employee initiatives, and progress against our strategic priorities. These sessions also included updates from other executive directors and members of the senior management team.

We operate a comprehensive performance management and assessment process which ensures that the performance of our employees is linked to remuneration. During the year, in response to an active and competitive employment market in the Technology sector, the Board worked with Management to ensure that appropriate action was being undertaken to attract and retain key talent, and that our remuneration policy reflected market developments.

The Board ensures we remain focused on gender diversity

The Board also ensured that we continue to remain focused on gender diversity, and mandated for specific metrics to be included in future performance targets set for Management.

Community and Environment

Environmental, Social and Governance ('ESG') Practices continued to be a key area of discussion for the Board during the year.

During 2021, the Board approved our ESG vision

The Board discussed and approved our ESG vision, acknowledging that there could be complex trade-offs between measures designed to alleviate environmental risks, and efforts to promote social and economic development.

The Board also recognised the importance of ensuring that the ESG practices are integrated within our overall purpose and strategy, and approved our proposed environmental risk appetite and associated implementation practices.

During the year, we proactively participated in various community initiatives

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

In the UK, we have partnered with 'Spread a Smile', a local charity which supports the well-being of sick children and their families. In 2021, a total of £9,000 was raised for the charity through various employee fundraising initiatives.

2021 in review

Operating environment

Global markets continued to experience significant volatility

The global markets continued to experience significant volatility during 2021. Economic growth in developed markets far exceeded market expectations with multi-year high commodity prices and primary market issuances across the Atlantic.

The S&P 500 registered 70 closing highs. Performance of emerging market assets failed to recover, with stock prices continuing to decline. The performance of fixed income assets remained firmly negative by year-end.

Economic recoveries diverged across sectors and countries

Having started the year at a loss of 5% GDP, the economic and market prospects remained highly uncertain due to the continued impact of the Covid-19 pandemic. Economic recoveries diverged across sectors and countries, reflecting the variation in pandemic-induced disruptions and the different outcomes of policy support.

In the first half of 2021, governments and central banks around the world extended the ultra-loose monetary policy to help rebuild growth, with the U.S. providing additional fiscal support. These extraordinary policy measures eased financial conditions, supported recoveries, and to some extent contained the risk of financial crises.

However, in the second half of 2021, the market became increasingly sensitive and vulnerable to risks around inflation and yield surprises, amidst rising commodity prices and volatile US treasury yields. In addition, structural adjustments introduced by China exerted new short-term transitional pressure on specific sectors, and on economic growth.

The commodities market experienced significant volatility during the year

In commodities markets, crude oil prices began rallying in May 2021 exceeding more than USD 85 pbbl in October 2021. Volatility was also experienced in the prices of industrial metals. Although precious metals remained range-bound with a benign outlook, base metals outperformed with record highs of copper spreads as the feature in mid-November 2021.

In emerging markets, large fixed income markets experienced several months of outflows at the end of 2021

In emerging markets, large fixed income markets experienced several months of outflows at the end of 2021. In contrast, frontier markets fared better through 2021. With risk-aversion prevailing through global markets since September 2021, the performance of emerging markets lagged behind other markets. Fixed income markets delivered a negative total return of c.3% in 2021 and equities markets were also down 1% for the year.

Outlook for 2022

Subsequent to the year end, the conflict between Russia and Ukraine has led to the imposition of widespread sanctions on certain entities in Russia, including a number of state controlled banks. At the time of writing, we are actively managing our exposures as the situation continues to evolve.

During 2022, additional challenges are expected due to the ongoing Covid-19 pandemic. Although vaccine approvals and rollout in advanced economies will lift market sentiments, global prospects remain highly uncertain.

Efforts by central banks to control rising inflation are set to continue into 2022, with global growth projected to reach 4.4% according to the International Monetary Fund ('IMF'). Therefore, the return of non-transitory inflation (or persistent inflationary pressure) remains a key global market concern.

IMF has also highlighted that various countries will not be able to continue utilising policy measures to navigate through the highly uncertain inflation movements anticipated for the year.

Outlook for emerging markets is expected to remain binary

The outlook for emerging markets is expected to remain binary. Fixed-income markets could perform well as a result of low investor positioning, attractive valuations across local and external markets, and central banks in emerging markets being ahead of the curve. However, an entrenched inflation could lead to an earlier rate hike cycle in G10 countries, which would cause a negative impact for emerging markets.

As Beijing heads into its 20th Party Congress, a target of minimum 5% GDP growth in China will likely bring some reassurance for global growth and commodity markets.

Strategic measures

We continually assess our progress against our strategy using a range of metrics

We rely on a range of financial and non-financial measures to assess if our strategy is working effectively, and to ensure that we adapt and evolve so that we can continue to meet the needs of our stakeholders.

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

Key Performance Indicators

We measure performance using both financial and non-financial indicators. Selected metrics are detailed below.

Financial KPIs

	2021	2020
Total operating income	**US$466.0 million**	US$489.1 million
Net profit after tax	**US$98.6 million**	US$115.5 million
Total assets	**US$26.3 billion**	US$27.7 billion
Return on equity	**7.3%**	9.4%
Total capital adequacy ratio	**18.3%**	18.3%

Business performance

Our results for the year are shown in the consolidated income statement, with the key performance indicators being discussed within this report.

Commodities

Commodities operating income = $176m

Total operating income was US$176.0 million in 2021 compared to US$214.1 million in 2020.

Our Metals franchise had another strong performance with the Precious Metals business delivering robust revenues from healthy client flow. We also benefited from having built a diversified platinum group metals business, which enabled the desks to take advantage of market volatility and high prices. Despite the outperformance versus budget, there was a year-on-year decrease in revenue reflecting the one-off gains in 2020 resulting from dislocations between futures and physical bullion markets due to Covid-19. Our restructured base metals desk continued its positive momentum, making excellent progress with the physical financing business and related client franchise.

Performance of the energy business increased by 84%

Our Energy franchise surpassed budget and significantly outperformed the previous year by 84%. We saw strong momentum in both the physical and derivatives product sets, as the business deepened client relationships and expanded the product offering.

FIC

FIC operating income = $290m

Total operating income was US$290.0 million in 2021 compared to US$275.0 million in 2020.

Our Emerging Markets ('EM') Sales & Trading franchise ended 2021 27% ahead of budget. Disciplined risk management decisions and a strong client franchise enabled our Local Markets desk to outperform in a volatile year which saw rising energy prices and disruption in global supply chains. We also continued to enjoy strong wallet share from global asset managers where we are highly valued in Frontier Markets for local markets and credit trading.

An increase of 22% in the performance of the structured solutions and debt capital markets

Our Structured Solutions and Debt Capital Markets business continued their year-on-year revenue growth ending 2021 22% ahead of the prior year. Our Origination, Structuring and Trading teams executed over 30 new transactions contributing to a balanced portfolio of structured financing solutions for our clients. Our DCM business achieved strong year-on-year growth in fee income, number of deals completed, and revenues per deal.

Capital resources

Total equity = $1,370m

At the end of the reporting period, our equity capital resources totalled US$1,370.0 million (2020: US$1,301.5 million), and total capital resources qualifying for prudential purposes amounted to US$1,558.4 million (2020: US$1,482.9 million).

Capital adequacy ratio = 18.3%
Tier 1 capital ratio = 15.3%
CET1 ratio = 13.5%
RWA = $8,526.3m

We remain strongly capitalised at 31 December 2021, with a total capital adequacy ratio of 18.3% (2020: 18.3%), a tier 1 capital ratio of 15.3% (2020: 15.2%), a common equity tier 1 (CET1) ratio of 13.5% (2020: 13.2%) and risk weighted assets of US$8,526.3 million (2020: US$8,122.8 million). We maintain capital resources in excess of the minimum regulatory requirement.

The UK implementation of the second Capital Requirements Regulation (CRR2) came into force on 1 January 2022. We remain strongly capitalised under the new legislation. Further details are included within the financial statements.

In 2019, we incurred material losses on our commodity inventory intermediation activities following a fire at a client's oil refinery site and their subsequent bankruptcy. In January 2022, a settlement agreement for the company's insurance claim was approved by the US Bankruptcy Court. Under the terms of the settlement, we received approximately $230 million from the resultant insurance proceeds as compensation for the losses we incurred.

Liquidity

LCR at year-end = 199%

We maintained a strong liquidity profile throughout the year and at the end of the reporting period. Under our internal stress testing scenarios, we maintained a survival horizon in excess of the internally established limit. Under the regulatory Liquidity Coverage Ratio ('LCR'), we maintained liquidity in excess of the regulatory requirement. As at 31 December 2021, our LCR position was 199% (2020: 200%).

Credit rating

Moody's **Baa1**

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

FitchRatings **A-**

Moody's and Fitch Ratings' long-term credit ratings as at 31 December 2021 were Baa1 and A- respectively, with stable outlooks. Whilst the Fitch rating remained unchanged throughout the year, the Moody's rating was upgraded from Baa3 based on their updated methodology, alongside our improved profitability, risk profile, and the expectation that we would continue to leverage ICBC's client base.

Non-Financial Performance

Risk & Control

We operate a robust risk and control environment

Despite continuing to operate throughout 2021 under varying COVID-19 lock-down restrictions in its different jurisdictions, the financial impacts of operational risk events suffered during 2021 were lower in comparison to the prior year.

In line with industry practice, we continued to record some of the costs incurred in responding to the COVID-19 pandemic as operational risk losses. In addition, in response to new regulatory requirements, we have established a framework for assessing and managing our operational resilience.

Culture

Our culture agenda continued to progress during the course of 2021 with the launch of our revised purpose and values. During the year, we also launched an “Our People Matter” campaign, focused on how staff and managers can maintain productivity and well-being, as staff adapt to prolonged working from home arrangements.

Our culture agenda continues to progress with the launch of our revised Purpose and Values during 2021

A number of staff pulse surveys were performed to gauge employees’ wellbeing and engagement during the pandemic. Feedback from these surveys showed that over 95% of respondents agreed that we are showing concern and providing the support they need.

Technology

During 2021, we increased investment in our technology infrastructure. The initiatives carried out during the year resulted in:

- Compliance with seven new regulatory regimes
- Elimination of additional resources via automation of specific business functionalities
- Improved data quality feeds for effective operation of our control environment
- Remediation of key risks identified in respect of our technology end-of-life products and services
- Enhancements to our overall operational resilience capabilities
- Opportunities for further collaboration with ICBC through the joint development of applications for client services
- Capacity and infrastructure creation for optimisation of existing client solutions, and future revenue growth

Integration

Integration with ICBC remains the critical strategic success factor over the medium to long-term. We continue to make strong progress on our goal to further develop our business cooperation with ICBC as measured by the franchise revenues generated during 2021.

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

Enhancing our contribution and value continues to be our key strategic driver to enable future integration with ICBC

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

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

How we manage risk

An established framework of responsibility and accountability is used to identify and manage risk

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

We operate a three lines of defence risk management model

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

A series of frameworks, policies, and procedures are in place to manage each major risk type

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

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

The credit portfolio continued to be closely managed through 2021, with a focus on management actions in relation to the impacts of Covid-19 and the subsequent level of economic recovery. No major credit losses occurred during 2021. The group remained within its liquidity risk appetite and regulatory limits at all times during the year.

Risk Type		Mitigating Actions
Liquidity and Funding Risk	Liquidity risk is the risk that a firm, although solvent, does not have available sufficient financial resources to enable it to meet its obligations as they fall due. Funding risk is the risk that a firm does not have stable sources of funding in the medium and long term to enable it to meet its financial obligations, such as payments or collateral calls, as they fall due, either at all or only at excessive cost. Specific liquidity and funding risks include: 1. Reliance on shareholder funding 2. Depositor concentration 3. Dependency on management actions in stress 4. Net stable funding ratio (NSFR) compliance from 1 January 2022	• The group operates a liquidity stress testing framework based on regulatory and internal stress scenarios. The group has a forecasting process, to assist with management of the funding profile and ensure compliance with the liquidity risk appetite statement limits. The group also has a number of tailored early warning indicators that are monitored daily with escalation procedures. • To mitigate external depositor concentration, deposit maturities are staggered to minimise the funding risk arising from single large maturities or single counterparties. The group's stress tests contain prudent rollover assumptions. • To comply with NSFR, and mitigate risks associated with reliance on shareholder funding, majority of shareholder deposits are placed on notice structures, including $3bn of ICBC HO funding placed on 370 day notice. • The group has past experience of being able to monetise assets in stress conditions. Management actions available to the group are updated annually and their quantification is reported monthly to executive forums. • To ensure on-going NSFR compliance, desk level NSFR limits are monitored daily and feed into the early warning indicator framework. In addition, a regulatory waiver is in place for Precious Metal clearing balances, term funding has been raised to match fund term assets, and regulatory engagement on potential future rule modifications of the punitively treated Base & Energy commodity businesses. For more information on the group's maturity profile as at 31 December 2021, please refer to note 36, Maturity analysis, as well as note 37.6, Structural requirements.
Market Risk	The risk of a change in market value, earnings (actual or effective) or future cash-flows of a portfolio of financial instruments (including commodities), caused by moves in market variables such as bond, commodity and equity prices, currency exchange rates, interest rates, credit spreads and recovery rates, and correlations and implied volatilities in all of these variables. Climate-related risks can manifest through market value loss due to societal, legal and technological response to climate change. Assets could be subject to a change in investor perception of profitability and a consequent revaluation. Physical risk channels can also result in market value loss due to weather impacts particularly affecting commodities and property.	The group seeks to manage market risk by: • measuring the group's market risk portfolios under both normal market conditions (Value at Risk ('VAR') at 99% confidence one-day and ten-day holding periods) and stressed market conditions (VAR at 99% confidence ten-day holding period); • supplementing that market risk portfolio measures are within the concentration limit measures aligned to the group's risk factors such as notional, rates and credit sensitivities for linear traded products and Greek measures for non-linear traded products; • taking actions to keep exposures within approved risk appetite limit tolerances. Where breaches in limits occur, they will be dealt in accordance with the breach management and escalation selection of the market risk policy; and • applying risk controls to all portfolio and concentration limits i.e. stress testing, back testing, stop loss monitoring and front office supervisory controls associated with the trading mandates. The group runs a short-term trading book and does not hold any material long-term investments when excluding subsidiary companies. The group has applied the carbon pricing stress test (as per credit risk) to its suite of stress tests that are run each month. The outputs of the stress test are reviewed through the relevant fora.
People Risk	The risk that the group fails to maintain organisational skills, capability, resilience and capacity levels in response to internal and/or external change, adversely affecting the group's operations and its ability to deliver on its strategic aims.	The group manages people risk by: • investing in training and development; • focused initiatives to attract and retain talent; • reinforcing behaviours that drive the best outcomes for clients and employees; and • effective remuneration structures to support performance-based reward. The 2021 learning and development agenda focused on the implementation of our "Future Ways of Working" hybrid training. Adjustments were made to people policies and processes where appropriate, alongside suitable wellbeing initiatives.

Operational Risk	The risk of loss suffered as a result of inadequacy of, or a failure in, internal processes, people, and systems or from external events. It incorporates losses arising from insurance risk and physical commodities. Operational risk sub-types include: • Business disruption and system failures, including cyber incidents • Damage to physical assets • Execution and process management • Internal and external fraud • Clients, products, and business practices • Employment practices and workplace safety • Access and security controls to key systems • Climate-related impact due to physical risks	The group manages these risks by: • adopting operational risk practices that assist business and IT line management in understanding their inherent risk and reducing their risk profile while seeking to maximise their operational performance and efficiency; • monitoring and challenging the management of the business and IT operational risk profile; • analysing incident root causes, trends and emerging threats, advising on the remediation of potential control weaknesses and recommending best practice solutions; and • maintaining a minimal physical presence with single offices located in London, New York, Singapore and Shanghai. These offices may be supported by a disaster recovery site and data centres in separate locations. The group engaged external advisors to undertake physical hazard modelling during 2021 based on Intergovernmental Panel on Climate Change ('IPCC') scenarios (SSP1-RCP2.6, SSP2-RCP4.5, SSP5- RCP8.5) and utilising data provided by Jupiter Intelligence. The hazards covered floods, wind, heat, drought, thunderstorm, wildfire and precipitation. ICBCS' new products process has been enhanced to include first and second line of defence assessment of climate-related risks.
Country Risk	Cross-border country risk is the uncertainty that obligors (including the relevant sovereign, and including the obligations of the group's branches and subsidiaries in a country) may not be able to fulfil their obligations to the group outside the host country because of political or economic conditions in the host country. The definition includes group equity investments and physical inventories owned by the group in a host country.	Country risk may be fully or partially reduced or transferred to another country through a number of mitigants. Examples of how the group manages country risk include: • maintaining a culture of responsible risk taking and an established risk policy and control framework; • identifying, assessing and measuring country risk clearly and accurately across the group; • monitoring country risk relative to limits; • 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 group has higher appetite for certain key jurisdictions such as Nigeria and Turkey. Country limit requests are notified to ICBC Group to ensure ICBCS does not exceed ICBC Group appetite for a specific country. Country limits are approved for use through the ICBCS governance structure and exposures are managed to these limits. Regular stress tests are run to ensure exposures remain within risk appetite with results reviewed by senior management, including at Board level.
Business Risk	Business risk is the residual earnings variability after taking into account the effects of market risk, credit risk, structural interest rate risk, and operational risk. It covers the risk that the group fails to meet its financial objectives as a result of factors such as: • Competition and margin reduction • Failed client / financing strategies • Unplanned increase in costs • Delays in further integration/co-operation with ICBC group • Changes in the GBP/USD FX rates	Business risk is managed through: • co-operation with ICBC group on new revenue sharing opportunities and systems/infrastructure initiatives; • improving profitability through a strong focus on cost control while continuing to invest to grow the franchise; and • managing regulatory change deliverables to strict budgets while not compromising on requirements. Competition remains high across the group's business lines; however, the group continues to leverage the strength of its shareholders to grow the client franchise.

Credit Risk	Credit risk is the risk of loss from failure of counterparties to meet their financial or contractual obligations when due. • Counterparty risk – loss arising from a counterparty being unwilling or unable to meet its financial or contractual obligations when due. This includes primary (lending) risk, pre-settlement (trading) risk and issuer risk in the banking book. • Credit concentration – loss arising from an excessive concentration of exposure, inter alia, to a single counterparty, counterparty segment, industry, country or geography. • Contingent risk is the risk that approved credit risk mitigation techniques applied prove to be less effective than expected. Exit (in relation to physical commodities), gap and credit insurance risk are components of contingent risk, although gap risk is largely a "hybrid" between market and credit risk. • A counterparty could be exposed to climate-related risk either through physical or transition risks.	The group manages credit risk by: • maintaining a culture of responsible risk taking and an established risk policy and control framework; • identifying, assessing and measuring credit risk clearly and accurately across the group; • defining, implementing and re-evaluating risk appetite under actual and stress conditions; • monitoring credit risk relative to limits; • ensuring expert scrutiny and independent approval of credit risks and their mitigation; • the Credit Limit Appetite Guideline ('CLAG') which linked the amounts of unsecured credit risk the group is willing to accept against any single entity consistent with the group's underlying risk appetite statement; and • operating the Notional Inventory Risk Framework ('NIRF') - a set of commodity product/grade triggers that are a measurement of the quantum of exchange liquidity available for hedging and/or physical delivery of commodity inventories against their respective hedging benchmarks. The framework includes single counterparty triggers per underlying commodity. Additionally, the group has developed a stress test where accelerated and unexpected carbon pricing is introduced by the US, UK and EU as well as key Asian economies such as China and Japan. This scenario is being applied monthly to the counterparty credit risk exposures.
Conduct Risk	The risk that intentional or unintentional business practices and behaviours will lead to poor outcomes for clients, counterparties or the markets operated in by the group. Conduct risk may arise from, for example, selling products which may not meet client needs, entering into finance arrangements that fund activities that do not align with the group's values or from exhibiting behaviours that may distort the market or not meet regulatory standards.	The group manages conduct risk through: • a conduct risk framework which sets the standard of behaviour expected of all staff; • monitoring conduct risk metrics and providing senior managers with metrics relevant for their function; • taking appropriate and proportionate action when an issue or incident arises and learning from these incidents through root cause analysis; and • reviewing all significant new products and transactions, assessing the intended outcome and end to end life cycle of the product/transaction. Throughout 2021 conduct risk has remained a key focus of the organisation and the group has continued to refine the conduct framework in response to the challenges presented by operating in a pandemic. This was characterised by increased volatility from the end of the first quarter and the additional supervisory challenges posed by a workforce functioning largely from home. During this time the conduct framework has adapted and has performed effectively.
Reputational Risk	The potential or actual damage to the group's image which may impair the profitability and/or sustainability of its business. Such damage may result from a breakdown of trust, confidence, or business relationships with stakeholders that can adversely affect the group's ability to manage business relationships, and continue having access to funding.	The group has an established governance framework to assess the potential reputational risk that may be introduced to the group through the use of a product, transacting with a client or executing a specific transaction. If reputational risk is deemed to be outside of the group's tolerance level, action will be taken to mitigate the impact to the group including: • terminating a client relationship; or • declining participation in a transaction. The group continued to manage reputational risk through its established governance model during 2021.

Regulatory and Legal Risk	The risk that the group may suffer legal or regulatory sanctions, material financial loss or adverse impact on its reputation as a result of a failure to fully comply with laws, regulations, rules, standards or codes of conduct applicable to its financial services activities.	The group seeks to manage these risks by: • working closely with UK and local regulators in all relevant jurisdictions; • developing compliance and financial crime risk assessments to assess areas of weakness in the group's business model; • conducting horizon scanning and impact analysis on regulatory change initiatives; • responding to new and ongoing regulatory prudential and conduct requirements; • continued investment in training, systems and processes; • having an established governance and control framework with responsibility for the approval of new products and transactions; • maintaining a prudent capital position. The group continues implementation to align with key market regulations including: UK European Market Infrastructure Regulation; collateral requirements (IOSCO initial margin), UK Securities Financing and Transactions Regulation, the Central Securities Depositories Regulation, and the UK implementation timelines for the amended Capital Requirements Regulation with effect from 1 January 2022. The group's IBOR exposure is predominantly weighted to US Dollar LIBOR across multiple products and maturities, and, is heavily linked to secondary market hedging products, as well as a small number of primary issuance loans. Further details are included in note 7.5 of the annual financial statements. Legal proceedings currently being pursued against the group are summarised in the notes to the group's annual financial statements (note 29.3).
Environmental Risk	Environment-related risks refer to risks that may arise due to the exposure of the group or financial sector to activities that may cause or be affected by environmental degradation. Climate-related risks refer to risks posed by the exposure of the group or financial sector to physical and transition risks caused by or related to climate change. Environmental risk is considered to be cross-cutting risk as it can arise through, or impact on, other risk types such as credit, market and operational risk.	During 2021 the group has completed the following: • enhanced risk type policies with environmental risk considerations; • updated committee mandates to include environmental risk responsibilities; • implemented a transition risk stress test in the market and counterparty credit risk frameworks; • undertaken physical hazard modelling for specific locations; • developed an environmental scoring framework, which will determine a counterparty risk score that may need lead to an internal rating adjustment; • enhanced the new products process to consider environmental risk; and • provided relevant external training for all credit managers.
Financial Crime Risk	Financial crime risk consists of: • The risk that criminal parties will abuse the products and services of the group; • The risk that regulators/law enforcement authorities will apply civil sanctions, civil penalties and/or criminal penalties for failure to comply with anti-money laundering, counter terrorist financing, anti-bribery & corruption, tax evasion, fraud, slavery and sanctions laws, regulations, codes of conduct and regulatory/industry standards of good practice; and • The risk that through the markets and/or media outlets, the group's reputation is harmed by unfavourable media or market word-of-mouth, due to financial crime risk events, allegations, or the actions of regulators/law enforcement authorities.	The group has an established financial crime risk management framework. This framework consists of a suite of systems and controls as follows: • Board mandated financial crime risk appetite statement; • ongoing screening of all counterparties and payments for sanctions-related and other financial crime risks; • enhanced due diligence measures to assess sanctions and other financial crime touchpoints in transactions and across the Bank's counterparty population; • periodic risk assessments, monitoring and assurance reviews; • monitoring regulatory and enforcement developments; • suspicious activity monitoring and reporting; and • staff training and breaches.

Covid-19

We followed Government guidance in all the jurisdictions in which we operate and implemented a hybrid working model for our colleagues. No operational resilience or business continuity issues were identified during the year.

A comprehensive review of our health and safety measures was carried out, including conducting regular Covid-19 risk assessments of our office environments. Enhanced cleaning and social distancing measures were also implemented and maintained across our offices.

Free meals and lateral flow test kits were offered to colleagues during their phased return to the office.

Training sessions and extensive support was made available for our colleagues as they transitioned to hybrid working with health, safety and wellbeing continuing to remain a top priority.

We also ensured prompt payment to our suppliers, and maintained ongoing dialogue to ensure continued stability of services and proactive identification of any potential issues that could impact client outcomes.

Environmental, Social, and Governance Practices

During 2021, the Board approved our vision in respect of our Environmental, Social and Governance ('ESG') Practices:

Our ESG vision: ICBCS is committed to enabling our clients to pursue our shared goals of social and economic development, and environmental sustainability

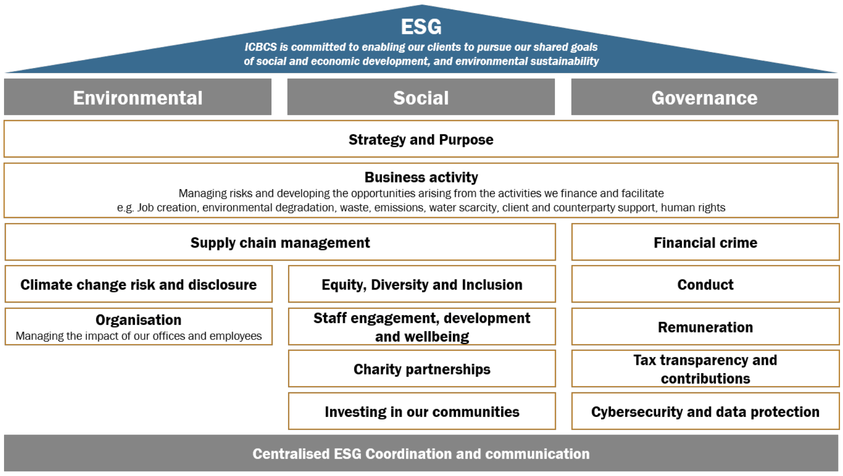
ICBCS is committed to enabling our clients to pursue our shared goals of social and economic development, and environmental sustainability.

In agreeing this vision, the Board acknowledged that in our business operations within emerging markets and commodities, there could be complex trade-offs between measures designed to alleviate environmental risks and efforts to promote social and economic development.

Accordingly, we will remain committed to working with stakeholders to actively address the pressing issues of climate change, inclusive social development, and environmental and biodiversity conservation, so as to jointly facilitate sustainable development.

The Board also recognised the importance of ensuring that our ESG practices are integrated within our overall purpose and strategy, and in adopting a proactive and transparent approach when assessing and reporting on our progress.

An ESG Framework has been developed to define the scope of what our ESG practices will include:



In developing our ESG vision and framework, we identified four key areas that would enable us to engage with our stakeholders, develop specific practices for implementation across our businesses, and assess our progress:

1 Risks
   - How do we understand our exposure to ESG risks?
   - How do we mitigate, monitor and manage the identified risks in a responsible way?

2 Responsibilities
   - How do we understand our corporate responsibilities to our stakeholders?
   - How do we embed the identified responsibilities into our day-to-day processes?

3 Revenues
   - How do we play our part in meeting shared global goals?
   - How do we maximise the commercial opportunities arising from the transition?

4 Results
   - How do we measure and maximise the positive impact that we have on the environment and our society?
   - How do we measure and minimise the negative impact that we have on the environment and our society?

Our assessment of the materiality of our ESG risks and opportunities has identified transition as a key risk for our clients. Conversely, the risks we identify could result in potential opportunities as we develop our products to support our clients in their transition.

Specific metrics will be agreed in 2022 to measure our progress against our ESG vision.

A summary of our existing ESG practices has been included below together with an overview of some of the new measures being considered for implementation during 2022.

STRATEGIC REPORT

Environmental

Environmental

Streamlined Energy and Carbon Reporting

We monitor our energy use and proactively identify ways to generate energy efficiencies. This includes complying with the UK Government's policy on Streamlined Energy and Carbon Reporting.

Our current year reporting is detailed below:

Summary

	2021	2020
Scope 1 emissions / tCO2e[1]	**-**	-
Scope 2 emissions, location-based / tCO2e	**799**	834
Scope 3 emissions / tCO2e	**2**	11
Total gross emissions /tCO2e	**801**	845
Energy consumption: emissions: / kWh[2]	**3,771,026**	3,626,538
Intensity ratio: tCO2e / m2[3]	**0.0580**	0.0612

[1] tCO2e – tonnes of carbon dioxide equivalent
[2] kWh – kilowatt-hour
[3] m2 - square metre

Our report is compiled by a third party.

2020 was the first year for our SECR disclosures; during the course of 2021 we enhanced our disclosure reporting approach. Consequentially, we have revised our 2020 figures within this report to reflect the emissions across our UK operations.

Our 2021 energy consumption across individual utilities is as follows:

Energy consumption

Utility	Energy Consumption		GHG[1] Emissions	
	kWh/year	%	tCO2e/year	%
Office Electricity (Scope 2)	2,120,391	56.2	450	55.9
Data Centre Electricity (Scope 2)	1,642,376	43.6	349	43.9
Transport (Scope 3)	8,259	0.2	2	0.2
Total	**3,771,026**	**100**	**801**	**100**

[1] GHG – Greenhouse Gases

Definitions and methodology

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

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

Scope 3 – All Other Indirect Emissions from activities of the organisation but occur from sources that they do not own or control.

The methodology used to calculate kWh, Carbon emissions and Intensity Measurement metrics are consistent with ISO 50001:2018 energy reporting principles. kWh consumption is measured by monthly meter readings provided by the landlord. This is converted into GHG emissions using conversion factors published by the Department for Environment, Food and Rural Affairs ('DEFRA').

The intensity metric used is tonnes CO2e per metre squared. The total floor area of ICBC Standard Bank's head office is 13,805 m2.

Energy Efficiency Actions
Fan coil unit run times and schedules on floors have been adjusted throughout the course of 2021 based on the number of staff onsite.

Our data centre was moved in-house to our offices in 20 Gresham Street. As part of this move, all redundant kit was removed.

During 2022, we are aiming to continue driving energy efficiencies by upgrading our computer monitors and audio-visual equipment.

Climate change
We are progressing with our implementation of the eleven recommendations prescribed by the Financial Stability Board's Task Force on Climate-related Financial Disclosures ('TCFD').

Environmental

Focus	TCFD recommendation	Progress in 2021
Governance	• Describe the Board's oversight of climate-related risks and opportunities. • Describe management's role in assessing and managing climate-related risks and opportunities.	• The Board Risk Management Committee received climate-related updates each quarter. • Climate-related considerations are being embedded within the group's governance structure.
Strategy	• Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term. • Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning. • Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	• Transition risk is considered a more immediate risk to the group than physical risk given the group's business model. • The group is assessing climate-related opportunities, and is exploring lower-carbon energy sources and transition metals given expected increased client demand. • Limited scenario analysis has been undertaken though a pilot exercise was completed at the end of 2020. Further work is required here on how this impacts business planning.

Focus	TCFD recommendation	Progress in 2021
Risk Management	• Describe the organisation's processes for identifying and assessing climate-related risks. • Describe the organisation's processes for managing climate-related risks. • Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	• The group's principle risk policies and committee mandates have been updated for climate-related risks. • Climate-related considerations are being embedded within the group's enterprise risk management framework. • Climate risk is considered a cross-cutting risk type.
Metrics & Targets	• Describe metrics used to assess climate-related risks and opportunities in-line with strategy & risk management. • Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 GHG emissions, and the related risks. • Describe the targets used to manage climate-related risks and performance against targets.	• The group has not set any targets as yet but will review this once risk processes have been enhanced. • Scope 1, 2 and 3 emission details included within SECR disclosures.

Environmental

Strategy

Our strategy is to focus on the following areas:

- Identifying and managing the climate risk profile of our clients
- Assisting clients in their transition to a lower carbon economy
- Supporting clients in building resilience to physical climate risks

Given the generally short-dated (less than one year) nature of our balance sheet assets, chronic physical risks are thought to be minimal to the group's current portfolio of assets. Though over the long-term, they are likely to have a material impact on certain regions and sectors where the group has exposures and clients.

The transition to a lower carbon economy potentially poses risk to the group in the short to medium term given our focus on emerging markets (and the different pace of transition), and commodities.

Scenario analysis

Towards the end of 2020, we engaged external advisors to undertake a pilot level scenario analysis focusing on the countries of counterparties where we have material oil and gas credit exposure. The exercise leveraged the following scenarios:

- Transition Risk - Network for Greening the Financial System
- Temperature – Scenario

  1.5°C – Limited CDR disorderly
  2.0°C – Limited CDR orderly / disorderly
  4.0°C – Current policies (hot house world)

  Time horizons of 2025 and 2040 were assessed.

- Physical Risk - Representative Concentration Pathways (RCP)
- Temperature – Scenario

  2.0°C – RCP2.6
  4.0°C – RCP8.5

  Time horizon of 2040 was assessed.

The group will seek to expand on the exercise to develop a proportionate approach that can inform longer term planning.

Environmental

Metrics & Targets

Credit exposure to sectors with elevated transition risk is summarised below:

Sector	2021 ($m)	2020 ($m)	YoY % change	2021 as % of total exposure
Coal[1]	**88.0**	161.4	(45.50)	0.60%
Power Generation[2]	**63.7**	80.1	(20.50)	0.40%
Oil and Gas[3]	**745.2**	322.7	130.90	4.80%
Automobiles	**138.6**	75.7	83.10	0.90%
Mining	**197.3**	221.5	(10.90)	1.30%
Metals[4]	**228.3**	466.7	(51.10)	1.50%
Airlines	**100.0**	28.9	(100.00)	0.00%
Chemicals	**9.3**	214.1	(95.70)	0.10%
Manufacturing[5]	**24.9**	15.9	56.50	0.20%

Notes:
Credit exposure represents lending and derivative (measured as potential future exposure at 95% confidence interval) exposure. Total credit exposure as at 31 December 2021 was $15,536m.
The SECR disclosures earlier in the report reflect our greenhouse gas emissions.
1 Represents exposure to power generation from coal-fired power plants
2 Represents exposure to all other forms of power generation excluding coal
3 Represents exposure across the value chain i.e. upstream, midstream and downstream
4 Represents exposure to manufacturing of metals including smelting. It does not include metal traders.
5 Represents exposure to manufacturers other than automobiles and metals

Due to the complexity of trade-offs between measures designed to alleviate environmental risks and efforts to promote social and economic development, the group is not in a position to make a commitment to become net zero within a specific timeframe.

Risk Management

Climate-related risk will be managed in line with the relevant risk framework and governance process. Certain counterparties and industries may benefit from the transition which will require adjusting their current risk assessment for the upside.

The results of stress tests are reviewed monthly at the respective risk governance fora. Stress tests will be periodically reviewed to ensure they remain fit for purpose for the group's business model. The group's reverse stress testing programme is also used to assess remote but plausible climate-related events.

Supplier due diligence
During 2021, we updated our supplier due diligence process to include environmental risk within the assessment process. Our existing supplier management framework, policies, and procedures were also updated to reflect the inclusion of environmental risk.

Additional measures that we will be considering during 2022 include:

Client due diligence

Enhancing our existing client on-boarding process to capture environmental risk data. The data will be used to rank the client's environmental impact, and the level of due diligence required.

Physical climate risk

Further development of scenario analysis and modelling to assess the impact of physical climate risks, particularly where we hold physical assets or use ports and warehouses to store commodities.

Environmental

Activities that we will not engage in
Not engaging in activities with an adverse environmental impact:

- The production, maintenance, or trade of any defence weapons or their key components
- The removal of mountain tops as part of mining activities
- Drilling and exploration activities in the arctic circle or on tar sands
- Deforestation and / or burning of tropical rainforests
- The production or trading of palm oil
- Commercial drift net / bottom trawling fishing activities

Activities that we will monitor
Maintaining a balance between the environmental and social impact of the following activities:

- Mining, trading, or processing dedicated to uranium or thermal coal
- The development of new thermal coal-fired power plants
- The growing, trading, processing, and / or manufacturing of tobacco products

Social

Colleague engagement
We continually engage with and listen to the feedback from our colleagues. During 2021, we implemented additional engagement measures whilst our colleagues continued to work remotely.

This included 'pulse' surveys to ensure that we were capturing and addressing any concerns raised by our colleagues in a timely manner. Training sessions were also carried out to ensure that we focused on prioritising the wellbeing of our colleagues, and optimising their performance whilst they were away from the office.

Social

Colleague development

We operate a comprehensive graduate scheme within our Operations and Technology, and Finance functions. We are also a participant of the apprenticeship scheme operated by the UK Government.

We offer a range of training to our experienced professionals including courses on product-related knowledge, interpersonal skills, and leadership. During 2021, 105 virtual modules were available, including nine new classes focused on individual and family wellbeing.

Gender equality

We are committed to gender equality and ensure that it is integral in our recruitment, retention, and talent management practices.

Female colleagues represent 32% of our workforce; 15% are Directors, MDs or Executive MDs, and 24% are Senior Managers. In 2021, we launched our Emerging Leaders Sponsorship Programme which focuses on high potential female colleague development and retention.

We are also compliant with the UK Gender Pay Gap reporting requirements, with our reports being available on our website.

Diversity & Inclusion

We foster a diverse and inclusive work environment which does not discriminate based on race, sex, family status, gender reassignment, disability, religion or belief, sexual orientation, age, pregnancy or maternity, or representative status.

Colleague health and safety

We believe that the health of our colleagues is fundamental in enabling us to maintain a sustainable business model.

We continue to provide a safe working environment for our colleagues, and ensure that health and safety at work regulations are observed.

We also provide a suite of benefits to all our colleagues including medical insurance, independent advisory services, and family care support.

Supporting third-party staff

During the Covid-19 pandemic, we ensured that staff sourced from suppliers that were on the UK Government's furlough scheme, had any difference in their wages normalised.

Supporting our community

During 2021, we organised several fundraising initiatives, including raffles, food boxes, donation drives, and football tournaments. We also raised funds for the British Red Cross Covid appeal, donated 1,100 meals to our local communities in South East London, and supported school students in developing their business skills.

Modern Slavery

Anti-modern slavery principles are incorporated within our processes, systems and controls, client relationships, and supply chains.

Governance

Governance

Responsible business

We remain resolute in our commitment to operating as a responsible business. This includes adhering to all relevant local, legislative, and regulatory requirements in countries in which we operate.

Board and Management oversight

We remain resolute in our commitment to operating as a responsible business. This includes adhering to all relevant local, legislative, and regulatory requirements in countries in which we operate.

Board and Management oversight

We operate a streamlined and robust governance structure to ensure effective decision-making and oversight across the organisation.

Our Board provides independent oversight of our strategic priorities, business activities, and culture to ensure that we maintain high standards of business conduct. Our Board is supported by the following sub-committees:

- **Board Audit Committee**: responsible for monitoring processes used by the organisation for identifying, evaluating and managing risks and controls. This includes the quality, integrity and reliability of financial and accounting control systems.
- **Board Risk Management Committee**: responsible for reviewing our risk and compliance policies, the composition of our risk portfolio, and all aspects in relation to management of our principal risks.
- **Board Remuneration Committee**: responsible for approving our staff remuneration policy and long-term incentive schemes, setting the remuneration of executive directors and other senior executives, and assessing guidelines for annual salary and incentive reviews.
- **Board Information Technology Committee**: responsible for overseeing our overall technology strategy, governance practices, cyber security resilience, enterprise data management, technology investment, and digital transformation initiatives.
- **Executive Committee**: responsible for our day-to-day management, including developing the business strategy, monitoring financial performance, risk management, and capital / liquidity requirements.

Further details on our Board and its sub-committees are included in our Directors' Report.

Our culture

We remain committed to ensuring that our culture and values underpin everything we do. Some of the measures used to ensure that our culture is embedded across the organisation include:

- **Managing conduct risk**: a summary of our conduct risk environment, including any breaches is reported to the Executive Committee and Board on a quarterly basis.
- **Client engagement**: our engagement is managed with transparency and integrity. This involves ensuring that we fully understand our clients' needs before offering any solutions, and that our advice enables informed and effective decision-making.
- **Operational incidents and remediation**: we adopt a proactive approach in our identification and remediation of operational risk incidents, including prompt communication if the incidents cause any client detriment. All operational risk events are reported to the Executive Committee and Board on a quarterly basis.

Governance

Responsible sourcing

We operate a responsible sourcing framework and policy for precious metals, which includes detailed due diligence and risk assessment in relation to the trading of physical precious metals. In addition, we deal with counterparties and clients who take an ethical approach to the responsible sourcing of precious metals.

An annual declaration of the activities undertaken to ensure responsible sourcing of precious metals is published on our website. We are also working on extending our responsible sourcing to cover base metals and energy.

Climate-related risks

Oversight of climate-related risks is currently managed through the Board Risk Management Committee. A new governance forum will be responsible for oversight of climate-related risk from 2022.

Data privacy

We safeguard the data that our clients trust us with. This includes ensuring that our colleagues comply with our data privacy policies, and mitigating any cyber-related risks by operating a robust control environment.

Financial crime

We ensure that our colleagues operate with integrity and adhere to our financial crime policies and standards. This includes annual mandatory training, and comprehensive assessments of financial crime risk on a regular basis.

Tax

We fulfil our tax obligations in accordance with the local requirements across the jurisdictions that we operate. We also maintain a transparent relationship with the relevant tax authorities.

Our Tax Strategy is approved by our Board on an annual basis, and published on our website.

Politics

We operate as a politically neutral organisation and do not engage in any political campaigning or contribute any political donations.

Looking ahead

The group continued its strong performance with another year of profitability, and further strengthening of its capital base.

Management remains committed on delivering against the group's strategic priorities, and continues to make strong progress on further developing its business cooperation with ICBC.

This is demonstrable through the continued growth in franchise and client revenues generated during 2021. Additionally, during the year, the group also updated its corporate values to align more closely with ICBC.

In Q4 2021, the Board approved the group's ESG vision: "ICBCS is committed to enabling our clients to pursue our shared goals of social and economic development, and environmental sustainability".

During 2022, the group will continue to monitor and adapt its business strategy in response to changes in the macro environment. The group remains committed in its focus on delivering value to its stakeholders.

By order of the Board

A W Simmonds
Chairman
4 March 2022
20 Gresham Street
London EC2V 7JE
Public company limited by shares
Registered in England and Wales No. 2130447

2. Directors' report

The directors present their report and financial statements for the year ended 31 December 2021 for ICBC Standard Bank Plc ('the company' or 'ICBCS') and its subsidiaries (together 'the group').

In accordance with Section 414A of the Companies Act 2006, the directors have presented a strategic report on pages 8 to 35 of this annual report. This contains a review of the group's businesses, a description of the principal risks and uncertainties facing the group and a description of its future outlook in accordance with section 414C of the Companies Act 2006.

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

In January 2022, the US Bankruptcy Court approved a settlement agreement in relation to the Group's claims against the insurers of a former client for losses it incurred in 2019 on a commodity inventory intermediation transaction, resulting in the group receiving approximately US$230.0 million of net proceeds (before tax). As the Court's approval was not obtained until January 2022, the proceeds received will be recognised in the year ending 31 December 2022. Further details of this matter are provided in notes 30.5 and 35 to the financial statements. There have been no other material post balance sheet events, other than as set out in note 35 to the financial statements and as noted above.

Going concern basis

The financial statements have been prepared on a going concern basis as the directors are satisfied that the company and group have the resources to continue in business for a period of at least 12 months from approval of the financial statements. In making this assessment, the directors have considered a wide range of information relating to present and future conditions, the subsequent events disclosed in note 35, the business plan for the next and subsequent three years, which includes the impact of forthcoming regulatory changes, and the ability and willingness of the shareholders to provide support as and when required. This assessment also considered forecasts prepared by the group, which incorporated a severe but plausible downside scenario to stress test impacts on capital requirements and liquidity. The scenario envisages that the global economy stagnates, with significant falls in equity markets. There is a spike in corporate debt and a flow of capital from Emerging Markets to safe-havens as investor risk aversion increases. The initial rise in long-term bond yields is comparable with that seen during the Global Financial Crisis. The tightening in credit conditions is calibrated to be between a third and a half of that seen in the Global Financial Crisis and triggers a financial crisis.

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

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

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

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

Share Capital

During the year the company passed a Special Resolution to cancel its share premium account which was confirmed by an Order of the High Court of Justice, Chancery Division dated the 15th June 2021. The Order was registered pursuant to section 649 of the Companies Act, 2006, on the 18th June 2021. See Note 27 to the Financial Statements for further information.

Dividends

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

Internal control and financial reporting

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

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

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

Such procedures for the ongoing identification, evaluation and management of the significant risks faced by the group have been in place throughout the year and up to 4 March 2022, the date of approval of the consolidated annual report for the year ended 31 December 2021.

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

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

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

The effectiveness of the internal control system is reviewed regularly by the Board and the Board Audit Committee, which also receives reports of reviews undertaken by the internal audit function as well as reports from the external auditors, which include observations on internal control matters that they have identified. In reviewing the internal control system the Board also takes into account regulatory requirements and expectations.

Transactions with directors and related parties

There are no loans made to directors and details of related party transactions are included in Note 33 to the Financial Statements.

Directors' liability insurance and indemnities

The group maintained directors' and officers' liability insurance during the twelve months ended 31 December 2021. The company has entered into qualifying third-party indemnity arrangements for the benefit of all its directors in a form and scope which comply with the requirements of the Companies Act 2006 and which were in force throughout the year and remain in force.

Directors and directors' interests

The directors who held office during the course of 2021 or who hold office as at the date of this report are as follows:

Current directors:

Isabella da Costa Mendes	Independent non-executive director
Judith Eden	Independent non-executive director and Senior Independent Director
Andile Kenneth Fihla	Appointed as non-executive director on 12 May 2021
Ruixiang Han	Non-executive director
David Hodnett	Non-executive director
Yabing Hu	Non-executive director
Philip Hurley	Executive director
Binliang Jin	President and executive director
Garry Jones	Independent non-executive director
Li Li	Appointed as non-executive director on 10 September 2021
Andrew Simmonds	Independent non-executive director and Chairman
Shoujiang Wang	Executive director
Wenbin Wang	Chief executive and executive director

Former directors:

Barend Kruger	Resigned as non-executive director on 12 May 2021
Lubin Wang	Resigned as non-executive director on 10 September 2021

None of the directors held any beneficial interest in the ordinary share capital of the company during the year or at 31 December 2021.

Branches

The company has an operating branch in Singapore. The company previously ceased trading via its Hong Kong branch, for which the regulatory licence revocation was completed on 29 July 2021 and the corporate deregistration was confirmed on 12 August 2021. The company branch in the Dubai International Finance Centre ('DIFC') had previously ceased trading and its final deregistration was confirmed by DIFC effective 7 January 2022.

Political donations

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

Auditor

During the year, KPMG LLP completed their final audit of the group as a result of audit rotation requirements. Following a selection exercise overseen by the Board Audit Committee, Deloitte LLP were appointed as Auditors of the group at the annual general meeting held on 26 April 2021. Deloitte LLP has indicated its willingness to continue as auditor of the group for the year ended 31 December 2022. Accordingly, a resolution is to be proposed at the next annual general meeting for the re-appointment of Deloitte LLP as auditor of the group.

Employment of Disabled Persons

It is the group's policy to ensure that all employees and job applicants are given equal opportunities and that they do not face discrimination on disability or any other grounds. The group is committed to providing support to disabled employees to enable them to work to maximum effect within any limits imposed by their disability, including ensuring appropriate opportunities for training, career development and promotion. Should an employee become disabled during his or her career with the group, reasonable adjustments will be made where required.

Corporate Governance

The group has applied the Wates Corporate Governance Principles for Large Private Companies (published by the Financial Reporting Council ('FRC') in December 2018 and available on the FRC website), under The Companies (Miscellaneous Reporting) Regulations 2018, for the year ended 31 December 2021. Where appropriate the group additionally looks to follow corporate governance best practice in line with expectations of a regulated bank proportionate with its scale and size.

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

Principle 1 – Purpose and Leadership

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

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

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

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

Principle 2 – Board Composition

The Board is led by an independent non-executive Chairman and there are a further eight non-executive directors, three of whom are also independent. In addition, there are four executive directors including the chief executive. A list of the current Board directors and former directors who served during 2021 is provided above. The Board recognises the importance of diversity and that it is a much wider issue than gender. The Board agrees that its members should collectively possess the broad range of skills, expertise and industry knowledge, business and other experience necessary for the effective oversight of the group's business. Two of the three Board committees are chaired by female independent non-executive directors and four nationalities are represented on the Board.

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

Periodic Board skills self-assessments are carried out which assist with identifying Board training areas and also inform skills to be strengthened in future director appointments. In addition, periodic Board effectiveness evaluations are undertaken with the results used to inform discussions between the Chairman and individual directors, assisting the Chairman in strengthening effective performance of the Board. A Board effectiveness evaluation led by the senior independent director assisted by the Company Secretary has been scheduled to take place during 2022.

Principle 3 – Director Responsibilities

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

- agree the group's objectives and the strategies and plans for achieving these;
- ensure that an effective risk management process, including a robust and prudent risk appetite statement, exists and is maintained;
- ensure that an adequate budget and planning process exists, that performance is measured against budgets and plans, and approve annual budgets for the group;
- articulate and maintain a culture of risk awareness and ethical behaviour for the group to follow in pursuit of its business goals;
- ensure that reporting to the Board and/or Board committees is comprehensive across prudential requirements as well as conduct of business;
- assume ultimate responsibility for regulatory and legal compliance;
- assume ultimate responsibility for the integrity of accounting and financial reporting systems, the approval of financial statements, oversight of capital and liquidity adequacy including approval of Internal Capital Adequacy Assessment Process (ICAAP), Internal

Liquidity Adequacy Assessment Process (ILAAP) and Recovery and Resolution plans (RRP).

- review and approve the Operational Resilience self-assessment and provide oversight of operational performance against impact tolerances; and
- oversee the group's responsibilities and response to Environmental (including climate change) and Social Governance ("ESG") matters, such as reporting and disclosures, strategy development and setting risk appetite.

The Board has quarterly scheduled Board and Board committee meetings over a two-day period and additional ad-hoc meetings are arranged as required. The presence of four independent non-executive directors with extensive industry experience provides valuable independent challenge, which aids effective decision making. The Board also holds an additional Board Strategy day in the fourth quarter of the year, the output of which informs the updating of the Business Plan.

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

During the year, the Board delegated certain specific oversight and decision making to the following sub-committees:

Board Audit Committee
This independent non-executive board committee monitors the processes for identifying, evaluating and managing risks and controls. In particular, this includes the quality, integrity and reliability of financial and accounting control systems. The committee's other responsibilities are to review the scope of work of external and internal audit, to receive regular reports from internal audit and the external auditors and to review the financial statements focusing in particular on accounting policies, and areas of management judgement and estimates. The committee has scheduled quarterly meetings plus ad-hoc meetings as required and met a total of eight times during 2021.

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

Board Risk Management Committee
This non-executive board committee provides an independent review and challenge to the group's risk and compliance policies and the composition of the risk portfolio, its concentrations and the risk-taking

decisions of the group, covering all aspects of risk including market, credit, country, liquidity, operational, business and reputational risks. The committee is kept apprised of the group's plans to implement the management of financial risks arising from climate change. The committee oversees the formulation of a robust and prudent risk appetite statement, its ongoing adherence and monitors the implementation of corrective actions in event of a breach. The committee is also responsible for providing independent oversight of compliance across the group. The committee complements the audit committee which also studies, inter alia, risk controls and their operation, but from a different perspective. The committee has scheduled quarterly meetings plus ad-hoc meetings as required and met a total of four times during 2021.

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

Barend Kruger and Lubin Wang 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. The committee also acts in an advisory capacity to review and provide feedback to shareholders on proposed candidates for director appointments, including consideration of knowledge, skills and experience. The committee normally meets at least three times a year and had five meetings during 2021.

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

Barend Kruger and Lubin Wang served on this committee during the period until resigning as directors of the company.

Board IT Committee

This Board committee was newly formed in February 2021 with the purpose of assisting the Board in discharging its duties in relation to oversight, at the strategic level, of the group IT environment across the following areas:

- Technology strategy support and execution oversight
- Technology governance and resilience
- Cyber security and cyber resilience
- Technology investment
- Enterprise data management
- Regulatory interactions
- Digital transformation and e-commerce

The committee compliments the Board Audit Committee and Board Risk Management Committee and the latter continues to oversee IT Risk.

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

Executive Committee
This committee is responsible for the day-to-day management of the group. Subject to the overall authority of the Board, the committee meets regularly to develop business strategy, initiate and review strategic initiatives, review and recommend business plans to the Board, monitor financial performance against budget, monitor risk, oversee key capital management and liquidity planning documents and all matters related to regulatory responsibilities. The committee reviews the viability early warning indicators on a monthly basis and ensures appropriate actions are taken. At its monthly meetings the committee also reviews the activities of its sub-committees.

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

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

The major sub-committees supporting the Executive Committee in fulfilling its responsibilities during the year were the asset and liability management committee, risk management committee, regulatory compliance committee, counterparty risk management committee, new products and significant transactions approval committee, transaction acceptance committee, investment and change committee and Asia and New York regional management committees.

Principle 4 – Opportunity and Risk

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

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

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

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

Principle 5 – Remuneration

As described above, the Board delegates oversight of remuneration policy and practice to the Board remuneration committee. The group's remuneration policy statement is included within its consolidated annual report (see pages 47 to 48) and covers remuneration governance process, principles and strategy, and also the application of policies in relation to discretionary incentive awards, deferral and adjustment.

Principle 6 – Stakeholder Relationships and Engagement

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

Approved by the Board and signed on its behalf by

R. Otterson

R Otterson
Secretary
4 March 2022
20 Gresham Street
London EC2V 7JE

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

3. Remuneration policy statement

Introduction

This statement is intended to provide stakeholders with an understanding of the group's remuneration philosophy and practices as at February 2022.

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

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

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

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

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

Principles that underpin 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 and no remuneration schemes are linked by formula to revenue generation.
- Individual rewards are determined according to group, business unit and individual performance, based on financial and non-financial factors including behaviour. Wherever available and relevant, external market information is used to inform remuneration decisions.
- The reward focus is on total reward, being fixed and variable remuneration. The group seeks to be competitive in both elements, but annual incentives are not a function of a guaranteed package. The intention is to provide both total compensation, and its composition, at market-competitive levels, drawing on relevant information from various sources, including external advisers.
- The group operates a deferred discretionary incentive arrangement, the purpose of which is to strengthen the retention effect of incentive remuneration and also to enable the ICBCS Group to comply with regulatory requirements, including those in relation to deferrals and in relation to malus and clawback (see below).
- Employees identified as material risk takers (MRTs) as categorised under the qualitative and quantitative criteria of the UK FCA/PRA remuneration regulations, are subject to deferral conditions for any discretionary incentive awarded.
- The group does not discriminate between employees based on diversity or any protected characteristic. Gender Pay Gap reporting is submitted per legal requirements and the outputs are reviewed at Board level with any necessary action plans taken.
- Remuneration designs comply with all legal, regulatory and risk adjustment requirements (including the ability to apply positive adjustments for exceptional behaviours) and promote risk management in line with the group's stated strategy and risk tolerance. A robust risk adjustment policy is adhered to at an individual and pool level, discretionary incentive awards may be considered for risk and performance adjustment in the case of an adjustment event. This could include malus during the vesting period of a deferred portion

of an award and, for MRTs, clawback after vesting of any portion of an award.

Remuneration Governance

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

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

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

Stakeholders must be enabled to make a reasonable assessment of reward practices, and members of Remco have unrestricted access to information that informs their independent judgements on the possible effects that remuneration may have on compliance with risk, regulatory and behavioural controls across the group.

Remco annually approves the group's bonus pools and oversees the principles applied in allocating these pools to business units and individual employees. These pools are shaped by a combination of group and business unit profitability and multi-year financial metrics, taking account of capital utilised, risks assumed and an evaluation of the business area's future development and growth prospects.

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

Remco reviewed the changes required to the group's remuneration policy to comply with the UK implementation of the EU Capital Requirements Directive V (CRD V), which came into force on 28 December 2020, with the UK equivalent remuneration requirements first being applied for the 2021 performance year. The committee 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 group and company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and company financial statements for each financial year. Under that law, the directors have prepared the group and company financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRSs) as adopted by the United Kingdom (UK).

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

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

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

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

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

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

We confirm that to the best of our knowledge:

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

Approved by the Board and signed on its behalf by

R Otterson
Secretary
4 March 2022
20 Gresham Street
London EC2V 7JE

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

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

1. Opinion

In our opinion:

- the financial statements of ICBC Standard Bank Plc (the 'Company') and its subsidiaries (together the 'Group') give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2021 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB);
- the Company financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

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

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

2. Basis for opinion

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

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

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

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Valuation of fair value level 3 financial instruments; and • IT - privileged access
Materiality	The materiality that we used for the group financial statements was $9.6m which was determined as 0.7% of net assets.
Scoping	We focussed our approach on the London entity of the Group, which accounts for 99% of Group revenue and 96% of Group net assets.
Significant changes in our approach	This is the first year of our audit of the Group and the Company.

4. Conclusions relating to going concern

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

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

- performing a detailed risk assessment to identify factors that could impact the going concern basis of accounting including the effect of COVID-19 and the subsequent events disclosed in note 35;
- understanding and evaluating the Group's current and forecast performance, and key assumptions, including the expected profitability during the going concern assessment period;
- assessing the consistency of assumptions used in forecasts with the assumptions used in other key estimates;
- testing of clerical accuracy of those forecasts and assessing historical accuracy of forecasts prepared by management;
- evaluating management's assessment of the Group's capital and liquidity position taking into account the willingness and ability of the ultimate holding company (ICBC) to provide support to the Group and the Company, if needed;
- reviewing management's going concern assessment as well as the ICAAP and ILAAP submissions to the PRA with involvement of our in-house prudential risk specialists to assess management's capital and liquidity projections and the results of management's capital reverse stress testing;
- performing other audit procedures including management enquiries and review of regulatory correspondence to test management's conclusions; and
- assessing the appropriateness of the going concern disclosures made in the financial statements in view of the FRC guidance.

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

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

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

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

5.1. Valuation of fair value level 3 financial instruments

Key audit matter description	Financial assets and financial liabilities categorised as level 3 are those where significant unobservable inputs have been used in the valuation techniques to measure fair value. The Group's and Company's trading and financing activities result in certain positions where prices or inputs are not readily available due to market illiquidity and have limited price transparency. As at 31 December 2021, the Group as well as the Company had financial assets and financial liabilities measured at fair value amounting to $11,451.8m and $9,125.1m respectively, of which level 3 financial assets and financial liabilities were $175.5m and $312.8m respectively. Unlike other financial instruments whose values or inputs are readily observable and therefore more easily independently corroborated, the valuation of financial instruments classified as level 3 are inherently subjective and often involve the use of proprietary valuation models, whose underlying algorithms and valuation methodologies are complex, and unobservable inputs. This degree of subjectivity may also give rise to potential fraud through management intentionally manipulating fair values or incorporating management bias in determining fair values. Auditing the Group's and the Company's valuation of level 3 financial instruments is therefore subjective and presents certain challenges in evaluating the appropriateness of the Group's and the Company's valuation judgements and estimates. Significant judgements made by the Group include the derivation of key model inputs which are not observable in the marketplace; these are used by pricing models to determine an appropriate fair value. Performing our audit procedures to evaluate the appropriateness of these unobservable inputs involved a high degree of auditor's judgement, professionals with specialist skills and knowledge, and an increased extent of testing. The valuation of Level 3 financial instruments is a key source of estimation uncertainty as disclosed in note 25.3 to the financial statements, with a wide range of reasonable outcomes. The financial statements (notes 23 and 25) disclose the sensitivity estimated by the Group.
How the scope of our audit responded to the key audit matter	We performed following audit procedures to address the complexities associated with the valuation of level 3 financial instruments with involvement of our in-house valuation specialists. We obtained an understanding of and tested the Group's and the Company's key controls addressing the risk of material misstatement related to the valuation of level 3 financial instruments including: • Model risk management controls, which are designed to review a model's theoretical soundness and the appropriateness of its valuation methodology and calibration techniques developed by business units; • Independent price verification controls, which are designed to detect mispricing through independent repricing of transactions by a separate team, and comparison of those independent valuations to the fair values used in the Group's in the books and records; and • Proxy evaluation control, which is designed to evaluate the adequacy of proxies selected by management in cases where observable inputs are not available. We also performed the following substantive procedures on a sample of level 3 financial instruments: • Developed independent valuation estimates with the help of our valuation specialists, using externally sourced inputs wherever available and independent valuation models; and • Evaluated the proxies selected by management in absence of externally sourced inputs, as applicable. We also challenged the fair value levelling of the financial instruments measured at fair value to assess if they are appropriately classified. We also assessed financial statement disclosures related to financial instruments measured at fair value in accordance with IFRS 13, including information on the sensitivity of fair value measurements to key inputs and assumptions.
Key observations	We concluded with reasonable assurance that fair value level 3 financial instruments are valued appropriately.

5.2. IT – Privileged Access

Key audit matter description	The Group's and the Company's IT environment is inherently complex as it supports a broad range of trading and banking products and facilitates the processing of a significant volume of transactions. The IT systems within the Group form a critical component of the Group's financial reporting activities and impact all account balances with a reliance on automated and IT dependent manual controls. Due to the significant reliance on IT systems, effective General IT Controls ('GITCs') are critical to allow reliance to be placed on the completeness and accuracy of financial data and the integrity of automated system functionality (e.g. system calculations). We identified the IT systems that impact financial reporting as a key audit matter because of the: • Pervasive reliance on complex technology that is integral to the operation of key business processes and financial reporting; • Reliance on technology which continues to develop in line with the business strategy, such as the upgrade and migration of systems across the Group; • Importance of the IT controls in maintaining an effective control environment. A key interdependency exists between the ability to rely on IT controls and the ability to rely on financial data, system configured automated controls and system reports. Privileged access users are those with administrative rights to applications. The Group's key financial reporting processes are dependent on the effectiveness of controls around privileged user access protecting the Group's information systems. Weaknesses in these access controls could result in the financial and reporting records being materially misstated. IT controls, in the context of our audit scope, primarily relate to privileged access at the infrastructure level, user access security at the application level and change control. The Group's IT environment is discussed on pages 19 and 22 of strategic report.
How the scope of our audit responded to the key audit matter	Our IT audit scope tested the Group's IT controls over information systems deemed relevant to the audit based on the financial data, system configured automated controls and/or key financial reports that reside within it. We involved our IT specialists to support our evaluation of the risks associated with IT in the following areas: • General IT Controls, including user access and change management controls; • Key financial reports and system configured automated controls; and • Cyber security risk assessment. Where deficiencies in the IT control environment were identified, our risk assessment procedures included an assessment of those deficiencies to determine the impact on our audit plan. Where relevant, the audit plan was adjusted to mitigate unaddressed IT risks. Where we were able to identify and test appropriate mitigating controls over affected financial statement line items, our testing approach remained unchanged. In a limited number of areas, we adopted a non-controls reliance approach and we therefore performed additional substantive procedures.
Key observations	We identified IT control deficiencies in respect of privileged user access to IT infrastructure, which affected the reliability of data, reports and automated system functionality within the affected systems.

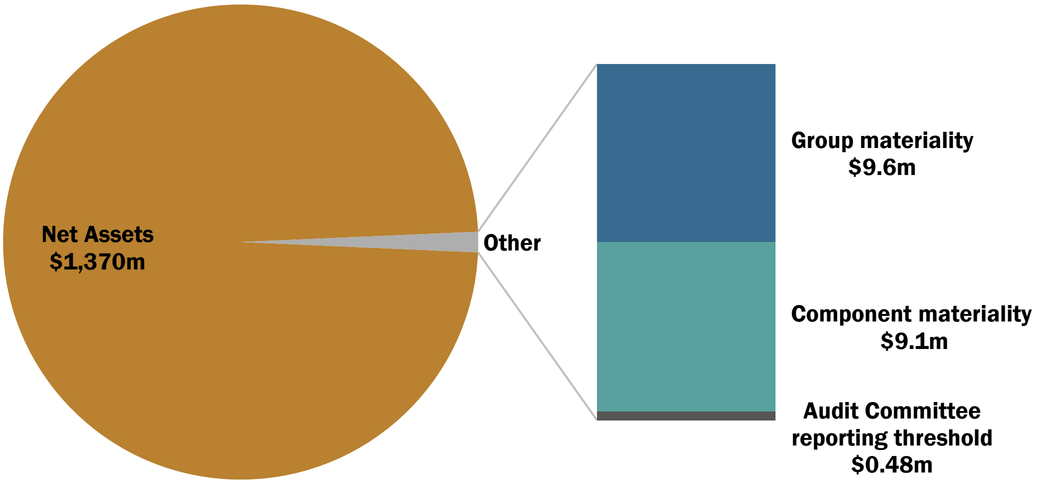
6. Our application of materiality

6.1. Materiality

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

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

	Group financial statements	Company financial statements
Materiality	$9.6m	$9.1m
Basis for determining materiality	0.7% of net assets	0.7% of net assets
Rationale for the benchmark applied	We have considered net assets to be the most appropriate benchmark as the Group is owned by ICBC Limited and Standard Bank Group and is a regulated entity where its capital position is of importance to the key users of the financial statements. These key users include regulators and shareholders. The benchmark selected is also consistent with comparable entities in the Group's industry.	We considered it appropriate to maintain the same benchmark as that for the Group as the Company is the most significant member of the Group and its solo capital position is of importance to the key users of the financial statements who are common with those for the Group.



6.2. Performance materiality

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

	Group financial statements	Company financial statements
Performance materiality	60% of Group materiality	60% of Company materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered the following factors: a. Our risk assessment, including our assessment of the Group's overall control environment and that we consider it appropriate to rely on controls for the purpose of our work on valuation of financial instruments measured at fair value; we also considered the identified IT control deficiencies in respect of privileged user access to IT infrastructure, which affected the reliability of data, reports and automated system functionality within the affected systems as discussed under section 5.2 of this report; b. this was first year of our audit of the Group and the Company.	

6.3. Error reporting threshold

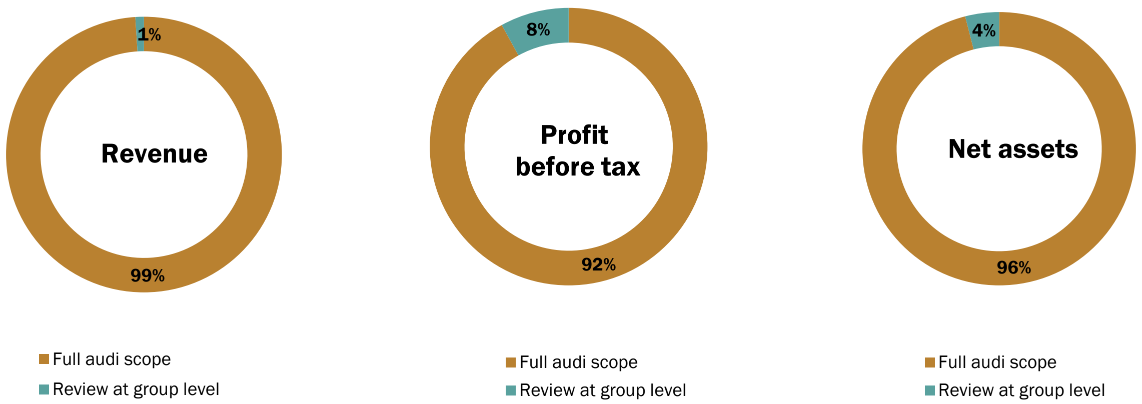
We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of $0.48m, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified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

7. An overview of the scope of our audit

7.1. Identification and scoping of components

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

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



7.2. Our consideration of the control environment

In order to test controls, a combination of re-performance, inquiry, observation and inspection was performed on a sample basis, tailored to the nature and timing of each control. We tested key IT controls related to the IT systems used for valuation of financial instruments measured at fair value addressing the risk of material misstatement related to valuation.

We have taken a controls reliance strategy over valuation of financial instruments measured at fair value, including over level 3 financial instruments (as discussed in section 5.1 above) but also over level 1 and level 2 instruments. We obtained an understanding and tested the following key valuation controls: model validation, independent price verification (IPV), Bid-Offer controls, fair value levelling and valuation adjustments (XVAs). Where deficiencies in the IT control environment were identified, our risk assessment procedures included an assessment of those deficiencies to determine the impact on our audit plan. Where relevant, the audit plan was adjusted to mitigate the unaddressed IT risk. Where we were able to identify and test appropriate mitigating controls over affected financial statement line items, our testing approach remained unchanged. In a number of areas, we adopted a non-controls reliance approach and we therefore performed additional substantive procedures.

7.3. Our consideration of climate-related risks

In planning our audit, we have considered the potential impact of climate change on the Group's business and its financial statements.

The Group continues to develop its assessment of the potential impacts of climate change and its risk management. As stated in the strategic report on page 25, given the generally short-dated (less than one year) nature of balance sheet assets, chronic physical risks are thought to be minimal to the Group's current portfolio of assets. However, over the long-term, they are likely to have a material impact on certain regions and sectors where the Group has exposures and clients. As also stated in the strategic report on page 25, towards the end of 2020, the Group carried out a pilot level scenario analysis with involvement of external advisors focusing on countries where the Group has material oil and gas credit exposure. The exercise leveraged the following scenarios: transition risk, temperature scenarios across time horizons of 2025 and 2040 and physical risk. The Group will seek to expand on the exercise to develop a proportionate approach that can inform longer term planning.

Based on the Group's ongoing assessment of the risks arising from climate change, we have performed our qualitative risk assessment based on the enquiries of management and did not identify any additional risk of material misstatement

8. Other information

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

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

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

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

We have nothing to report in this regard.

9. Responsibilities of directors

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

In preparing the financial statements, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

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

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

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

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

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

11.1. Identifying and assessing potential risks related to irregularities

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

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

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: (1) valuation of fair value level 3 financial instruments, (2) timing of recognition of revenue arising from two significant transactions that resulted in material day 1 profit or loss and (3) recognition of deferred tax asset. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

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

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

11.2. Audit response to risks identified

As a result of performing the above, we identified valuation of fair value level 3 financial instruments as a key audit matter related to the potential risks of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

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

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the audit committee and in-house and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC and other regulatory authorities including the PRA and FCA;
- in addressing the risk of fraud related to the recognition of deferred tax asset, obtaining and reviewing management's forecast of future taxable profits and assessing the criteria for recognition or not of any deferred tax asset with the help of our tax specialist;
- in addressing the risk of fraud in revenue arising from two significant transactions that resulted in material day 1 profit or loss, we gained assurance over the fair value of in scope significant trades through our independent valuation testing. We identified that there were significant unobservable inputs in the valuation and considered whether the inputs were sufficiently unobservable such that day 1 profit or loss should be reserved. For in scope trades, we assessed whether it was appropriate to amortise day 1 profit or loss over the life of the trade and, if so, whether the amortisation methodology was reasonable.
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

Report on other legal and regulatory requirements

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

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

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

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

13. Matters on which we are required to report by exception

13.1. Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

13.2. Directors' remuneration

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

We have nothing to report in respect of this matter.

14. Other matters which we are required to address

14.1. Auditor tenure

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

14.2. Consistency of the audit report with the additional report to the audit committee

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

15. Use of our report

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

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

4 March 2022

6. Consolidated balance sheet

at 31 December 2021

	Note	2021 $m	2020 $m
Assets			
Cash and balances with central banks	3	**6,056.5**	3,117.0
Due from banks and other financial institutions	4	**2,306.7**	2,777.7
Financial assets held for trading	5	**2,455.7**	2,187.6
Non-trading financial assets at fair value through profit or loss	6	**1,972.1**	1,971.5
Derivative financial assets	7	**4,392.1**	6,084.5
Reverse repurchase agreements	8	**2,287.8**	4,021.1
Loans and advances to customers	9	**1,608.7**	581.2
Financial investments	10	**925.5**	1,569.5
Property and equipment	11	**47.4**	57.9
Current tax assets		**3.5**	-
Deferred tax assets	12	**0.7**	0.7
Other assets	13	**4,211.8**	5,367.6
Non-financial assets held for trading - Commodities inventory		**3,902.1**	5,118.6
Other		**309.7**	249.0
Total assets		**26,268.5**	27,736.3
Liabilities and equity			
Liabilities		**24,898.5**	26,434.8
Financial liabilities held for trading	15	**1,566.5**	1,615.8
Non-trading financial liabilities at fair value through profit or loss	16	**2,099.9**	2,068.2
Derivative financial liabilities	7	**5,050.7**	6,558.5
Due to banks and other financial institutions	17	**11,646.5**	9,065.3
Repurchase agreements	18	**693.6**	2,417.1
Due to customers	19	**1,235.8**	2,273.8
Current tax liabilities		**1.9**	3.6
Subordinated debt	20	**250.8**	250.8
Other liabilities	21	**2,352.8**	2,181.7
Precious metal payables		**2,057.9**	1,903.5
Other		**294.9**	278.2
Equity			
Equity attributable to ordinary shareholders		**1,370.0**	1,301.5
Share capital	27	**1,083.5**	1,083.5
Ordinary share premium	27	**-**	996.0
Other equity instruments	28	**160.0**	160.0
Reserves		**126.5**	(938.0)
Total liabilities and equity		**26,268.5**	27,736.3

The accounting policies and notes on pages 69 to 163 should be read as part of the financial statements.

Approved by the Board of Directors and signed on its behalf on 4 March 2022.

W Wang, Chief Executive

A W Simmonds, Chairman

7. Consolidated income statement

for the year ended 31 December 2021

	Note	2021 $m	2020 $m
Net interest income		**112.0**	112.9
Interest income	30.1	**135.1**	180.6
Interest expense	30.2	**(23.1)**	(67.7)
Non-interest revenue	30.3	**354.0**	376.2
Net fees and commission		**32.9**	43.7
Fees and commission income		**52.0**	63.4
Fees and commission expenses		**(19.1)**	(19.7)
Net trading revenue		**260.6**	285.1
Net gain on non-trading financial assets and liabilities at fair value through profit or loss		**48.3**	24.0
Recoveries / (losses) on commodity inventory intermediation	30.5	**8.8**	(13.7)
Recoveries on commodity reverse repurchase agreements	30.4	**3.4**	37.1
Total operating income		**466.0**	489.1
Credit impairment recoveries / (charges)	30.6	**2.8**	(4.7)
Income after credit impairments		**468.8**	484.4
Operating expenses		**(348.1)**	(351.5)
Staff costs	30.7	**(216.1)**	(207.5)
Other operating expenses	30.8	**(127.7)**	(121.3)
Restructuring costs and other impairments	30.14	**1.4**	(18.8)
Indirect taxation	30.9	**(5.7)**	(3.9)
Profit before taxation		**120.7**	132.9
Income tax charge	31	**(22.1)**	(17.4)
Profit attributable to equity shareholders		**98.6**	115.5

The accounting policies and notes on pages 69 to 163 should be read as part of the financial statements.

8. Consolidated statement of comprehensive income

for the year ended 31 December 2021

	2021 $m	2020 $m
Profit attributable to equity shareholders	**98.6**	115.5
Other comprehensive income:		
Items that may be reclassified subsequently to profit or loss[1]		
Foreign currency translation reserve	**0.8**	1.8
Cash flow hedging reserve	**(19.3)**	10.2
Effective portion of changes in fair value	**(5.0)**	8.2
Net amount transferred to profit or loss	**(14.3)**	2.0
Changes in fair value of debt instruments measured at FVOCI	**0.6**	0.8
Items that will not be reclassified subsequently to profit or loss[1]		
Losses attributable to own credit risk	**(0.1)**	(0.3)
Total comprehensive gains attributable to equity shareholders	**80.7**	128.0

[1] No income tax is recognised in other comprehensive income.

9. Consolidated statement of changes in shareholders' equity

for the year ended 31 December 2021

	Ordinary share capital and share premium $m	Other equity instruments $m	Cash flow hedging reserve $m	FVOCI reserve $m	Foreign currency translation reserve $m	Net investment hedge reserve[1] $m	Own credit reserve $m	Retained earnings $m	Total equity $m
Balance at 1 January 2020	2,079.5	160.0	4.0	0.1	(2.5)	(1.7)	-	(1,065.9)	1,173.5
Total comprehensive gains / (losses) for the year	-	-	10.2	0.8	1.8	-	(0.3)	115.5	128.0
Balance at 31 December 2020	**2,079.5**	**160.0**	**14.2**	**0.9**	**(0.7)**	**(1.7)**	**(0.3)**	**(950.4)**	**1,301.5**
Balance at 1 January 2021	**2,079.5**	**160.0**	**14.2**	**0.9**	**(0.7)**	**(1.7)**	**(0.3)**	**(950.4)**	**1,301.5**
Total comprehensive gains / (losses) for the year	**-**	**-**	**(19.3)**	**0.6**	**0.8**	**-**	**(0.1)**	**98.6**	**80.7**
Share premium restructure[2]	**(996.0)**	**-**	**-**	**-**	**-**	**-**	**-**	**996.0**	**-**
Coupon payment on other equity instruments[3]	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(12.2)**	**(12.2)**
Balance at 31 December 2021	**1,083.5**	**160.0**	**(5.1)**	**1.5**	**0.1**	**(1.7)**	**(0.4)**	**132.1**	**1,370.0**

[1] No net investment hedges were entered into during 2020 and 2021.
[2] The share premium restructure took effect in June 2021 involving cancellation of the share premium account and transfer of the balance on that account to retained earnings.
[3] Additional Tier 1 capital coupon of US$12.2 million was paid in December 2021.

10. Consolidated statement of cash flows

for the year ended 31 December 2021

	Note	2021 $m	2020 $m
Cash flows from operating activities			
Profit before taxation		**120.7**	132.9
Adjusted for:			
Net interest income[1]		**(112.0)**	(112.9)
Amortisation of intangible assets		**11.2**	11.4
Depreciation of property and equipment[2]		**17.9**	17.9
Non-cash flow movements on fair value hedges		**-**	(23.6)
Cash-settled incentive payments		**10.4**	25.7
Equity-settled share-based payments		**(0.3)**	-
Net credit impairment (releases) / charges		**(2.8)**	4.7
Impairment of property and equipment[2]		**(0.9)**	2.9
Impairment of intangible assets		**-**	5.4
Provisions for commodity inventory intermediation costs		**(7.0)**	11.0
Restructuring provisions		**(5.3)**	(10.3)
Provisions for leave pay		**(0.3)**	1.9
Other		**-**	16.8
		31.6	83.8
Changes in operating funds		**2,129.0**	123.0
(Increase) / decrease in income-earning assets	32.1	**1,974.8**	(949.1)
Increase in deposits and other liabilities	32.2	**154.2**	1,072.1
Interest received		**146.2**	182.6
Interest paid		**(24.0)**	(85.5)
Corporation and withholding tax paid	32.3	**(27.0)**	(21.9)
Cash flows from operating activities		**2,255.8**	282.0
Cash flows used in investing activities			
Capital expenditure on intangible assets		**(9.4)**	(5.7)
Capital expenditure on property and equipment		**(3.1)**	(2.5)
Cash flows used in investing activities		**(12.5)**	(8.2)
Cash flows from / (used in) financing activities			
Coupon payment on other equity instruments	28	**(12.2)**	-
Principal payments on leasehold liabilities		**(12.5)**	(16.0)
Cash flows used in financing activities		**(24.7)**	(16.0)
Net increase in cash and cash equivalents		**2,218.6**	257.8
Effects of exchange rate changes on cash and cash equivalents		**(2.5)**	0.5
Cash and cash equivalents at beginning of the year	32.4	**3,906.4**	3,648.1
Cash and cash equivalents at end of the year	32.4	**6,122.5**	3,906.4

1 Includes interest paid on subordinated debt instruments and lease liabilities
2 Includes depreciation/impairment on right-of-use assets

11. Company balance sheet

at 31 December 2021

	Note	2021 $m	2020 $m
Assets			
Cash and balances with central banks	3	**6,056.5**	3,117.0
Due from banks and other financial institutions	4	**2,249.0**	2,722.9
Financial assets held for trading	5	**2,455.7**	2,187.6
Non-trading financial assets at fair value through profit or loss	6	**1,972.1**	1,971.5
Derivative financial assets	7	**4,392.1**	6,084.5
Reverse repurchase agreements	8	**2,287.8**	4,021.1
Loans and advances to customers	9	**1,608.7**	581.2
Financial investments	10	**925.5**	1,569.5
Property and equipment	11	**40.0**	47.8
Current tax asset		**3.3**	-
Other assets	13	**4,210.9**	5,366.6
Non-financial assets held for trading - Commodities inventory		**3,902.1**	5,118.6
Other		**308.8**	248.0
Investment in group companies	14	**29.5**	29.5
Total assets		**26,231.1**	27,699.2
Liabilities and equity			
Liabilities		**24,885.8**	26,419.1
Financial liabilities held for trading	15	**1,566.5**	1,615.8
Non-trading financial liabilities at fair value through profit or loss	16	**2,099.9**	2,068.2
Derivative financial liabilities	7	**5,050.7**	6,558.5
Due to banks and other financial institutions	17	**11,646.5**	9,065.3
Repurchase agreements	18	**693.6**	2,417.1
Due to customers	19	**1,235.8**	2,273.8
Current tax liabilities		**1.9**	3.6
Subordinated debt	20	**250.8**	250.8
Other liabilities	21	**2,340.1**	2,166.0
Precious metal payables		**2,057.9**	1,903.5
Other		**282.2**	262.5
Equity			
Equity attributable to ordinary shareholders		**1,345.3**	1,280.1
Share capital	27	**1,083.5**	1,083.5
Ordinary share premium	27	**-**	996.0
Other equity instruments	28	**160.0**	160.0
Reserves[1]		**101.8**	(959.4)
Total liabilities and equity		**26,231.1**	27,699.2

[1] The parent company recorded a profit after tax for the year of $96.2 million (2020: $105.7 million) (see note 30.12).

The accounting policies and notes on pages 69 to 163 should be read as part of the financial statements.

Approved by the Board of Directors and signed on its behalf on 4 March 2022.

W Wang, Chief Executive

A W Simmonds, Chairman

12. Company statement of changes in shareholders' equity

for the year ended 31 December 2021

	Ordinary share capital and share premium $m	Other equity instruments $m	Cash flow hedging reserve $m	FVOCI reserve $m	Own credit reserve $m	Retained earnings $m	Total equity $m
Balance at 1 January 2020	2,079.5	160.0	4.0	0.1	-	(1,079.9)	1,163.7
Total comprehensive gains / (losses) for the year	-	-	10.2	0.8	(0.3)	105.7	116.4
Balance at 31 December 2020	**2,079.5**	**160.0**	**14.2**	**0.9**	**(0.3)**	**(974.2)**	**1,280.1**
Balance at 1 January 2021	**2,079.5**	**160.0**	**14.2**	**0.9**	**(0.3)**	**(974.2)**	**1,280.1**
Total comprehensive gains / (losses) for the year	**-**	**-**	**(19.3)**	**0.6**	**(0.1)**	**96.2**	**77.4**
Share premium restructure[1]	**(996.0)**	**-**	**-**	**-**	**-**	**996.0**	**-**
Coupon payment on other equity instruments[2]	**-**	**-**	**-**	**-**	**-**	**(12.2)**	**(12.2)**
Balance at 31 December 2021	**1,083.5**	**160.0**	**(5.1)**	**1.5**	**(0.4)**	**105.8**	**1,345.3**

[1] The share premium restructure took effect in June 2021 involving cancellation of the share premium account and transfer of the balance on that account to retained earnings.
[2] Additional Tier 1 capital coupon of US$12.2 million was paid in December 2021.

13. Company statement of cash flows

for the year ended 31 December 2021

	Note	2021 $m	2020 $m
Cash flows from operating activities			
Profit before taxation		**117.9**	121.3
Adjusted for:			
Net interest income[1]		**(111.5)**	(112.2)
Amortisation of intangible assets		**11.2**	11.4
Depreciation of property and equipment[2]		**14.9**	15.0
Non-cash flow movements on fair value hedges		**-**	(23.6)
Cash-settled incentive payments		**7.3**	23.4
Equity-settled share-based payments		**(0.3)**	0.2
Impairment of property and equipment[2]		**(0.9)**	2.9
Impairment of intangible assets		**-**	5.4
Provisions for commodity inventory intermediation costs		**(7.0)**	11.0
Net credit impairment (releases) / charges		**(2.8)**	4.7
Restructuring provisions		**(4.1)**	(10.7)
Provisions for leave pay		**(0.3)**	1.9
Other		**-**	62.4
		24.4	113.1
Changes in operating funds		**2,149.3**	172.1
(Increase) / decrease in income-earning assets	32.1	**1,990.1**	(898.3)
Increase in deposits and other liabilities	32.2	**159.2**	1,070.4
Interest received		**145.4**	123.6
Interest paid		**(23.7)**	(85.2)
Corporation and withholding tax paid	32.3	**(26.4)**	(20.4)
Cash flows from operating activities		**2,269.0**	303.2
Cash flows used in investing activities			
Capital expenditure on intangible assets		**(9.4)**	(5.7)
Capital expenditure on property and equipment		**(2.9)**	(2.3)
Cash flows used in investing activities		**(12.3)**	(8.0)
Cash flows from / (used in) financing activities			
Coupon payment on other equity instruments	28	**(12.2)**	-
Principal payments on leasehold liabilities		**(10.0)**	(13.0)
Cash flows used in financing activities		**(22.2)**	(13.0)
Net increase in cash and cash equivalents		**2,234.5**	282.2
Effects of exchange rate changes on cash and cash equivalents		**(19.0)**	13.4
Cash and cash equivalents at beginning of the year	32.4	**3,898.9**	3,603.3
Cash and cash equivalents at end of the year	32.4	**6,114.5**	3,898.9

[1] Includes interest paid on subordinated debt instruments and lease liabilities
[2] Includes depreciation/impairment on right-of-use assets

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 accounting standards in conformity with the requirements of the Companies Act 2006 and in accordance with International Financial Reporting Standards (IFRSs) and interpretations (IFRICs) as issued by the IASB and adopted in the United Kingdom (UK). In publishing the company financial statements here together with the ICBC Standard Bank Plc consolidated (group) financial statements, the company has taken advantage of the exemption in Section 408 of the Companies Act 2006 not to present its separate income statement and related notes that form part of these financial statements.

The annual financial statements have been prepared on the historical cost basis except for the following:

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

Going concern

The financial statements have been prepared on a going concern basis as the directors are satisfied that the company and group have the resources to continue in business for a period of at least 12 months from approval of the financial statements. In making this assessment, the directors have considered a wide range of information relating to present and future conditions, the subsequent events disclosed in note 35, the business plan for the next and subsequent three years, which includes the impact of forthcoming regulatory changes, and the ability and willingness of the shareholders to provide support as and when required. This assessment also considered forecasts prepared by the group, which incorporated a severe but plausible downside scenario to stress test impacts on capital requirements and liquidity. The scenario envisages that the global economy stagnates, with significant falls in equity markets. There is a spike in corporate debt and a flow of capital from Emerging Markets to safe-havens as investor risk aversion increases. The initial rise in long-term bond yields is comparable with that seen during the Global Financial Crisis. The tightening in credit conditions is calibrated to be between a third and a half of that seen in the Global Financial Crisis and triggers a financial crisis.

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

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

Changes in accounting policies

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

IBOR reform

The IASB's Interest Rate Benchmark Reform - Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, issued in August 2020, represent the second phase of the IASB's project on the effects of interest rate benchmark (ibor) reform, addressing issues affecting financial statements when changes are made to contractual cash flows and hedging relationships as a result of the reform. These amendments are effective for annual periods beginning on or after 1 January 2021.

Under these amendments, an immediate gain or loss is not recognised in the income statement when the contractual cash flows of a financial instrument are amended as a direct consequence of interest rate benchmark reform and the revised contractual terms are economically equivalent to the previous terms, but instead require the effective interest rate to be updated to reflect the change in the interest rate benchmark. In addition, hedge accounting will not be discontinued solely because of the replacement of the interest rate benchmark if the hedge meets other hedge accounting criteria.

The group adopted the amendments from 1 January 2021 and made the additional disclosures required by the amendments. Further information is included in note 7.

2. Basis of consolidation

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

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

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

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

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

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

3. Foreign currency translations

Functional and presentation currency

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

Group entities

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

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

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

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

Transactions and balances

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

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

The group hedges the variability in cash flows attributable to foreign exchange risk on a portion of its budgeted sterling denominated expense base and applies cash flow hedge accounting to those highly probable forecast expenses. A portion of the gains/losses recognised on the hedging derivatives is recycled from OCI to profit or loss in the period in which the related costs are recognised in the income statement. The hedging instruments are executed over a period of time at a range of different exchange rates and the unhedged portion of the budgeted sterling expense base is translated at spot exchange rates in accordance with the policy set out above. In order to provide consistency, the sterling based expenses in the individual line items are translated at a budget planning rate. Any differences between the costs translated at the budget planning rate and the rates achieved through hedging and spot translation of the sterling based costs are recognised in other expenses in the profit and loss account.

Foreign exchange gains and losses on debt securities classified as fair value through OCI, and debt and equity securities classified as fair value through profit or loss are reported in profit or loss.

4. Cash and cash equivalents

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

5. Financial instruments

Initial recognition and measurement

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

Financial instruments are initially recognised on the date the group commits to purchase/sell the instruments (i.e. trade date accounting), except for loans and advances, repurchase and reverse repurchase agreements at amortised cost, deposits, and subordinated liabilities, which are recognised on the date on which cash is advanced to the borrower.

Subsequent measurement

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

Financial assets

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

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

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

Business model assessment

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

- i How the performance of the portfolio is evaluated and reported to the group's key management personnel;
- ii Risks that affect the performance of the business model (and the financial assets held within it) and, in particular, how those risks are managed;
- iii How managers of the business are compensated (for example, whether compensation is based on the fair value of the assets managed or the contractual cash flows collected);
- iv The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets; and
- v The frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity.

SPPI assessment

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

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

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

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

Amortised cost

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

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

Fair value through other comprehensive income
A financial asset is measured at FVOCI if both of the following conditions are met:

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

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

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

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

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

Fair value through profit or loss
All financial assets that are not measured at amortised cost or FVOCI are measured at FVPL.

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

Financial assets at FVPL comprise:

- Items held for trading;
- Items that are managed and whose performance is evaluated on a fair value basis;
- Derivative instruments;
- Items specifically designated as FVPL on initial recognition; and
- Debt instruments with contractual terms that do not represent solely payments of principal and interest on the principal amount outstanding.

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

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

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

Financial liabilities

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

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

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

- i It eliminates or significantly reduces an accounting mismatch;
- ii A host contract contains one or more embedded derivatives; or
- iii If a group of financial liabilities or financial assets and liabilities is managed and their performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

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

Reclassification of financial instruments

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

Financial liabilities are not reclassified subsequent to their initial recognition.

Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). The fair value of financial instruments is generally measured on an individual basis. However, in cases where the group manages a group of financial assets and liabilities according to its net market or credit risk exposure, the fair value of the group of financial instruments is measured on a net basis but the underlying financial assets and liabilities are presented separately in the financial statements, unless they satisfy the IFRS offsetting criteria.

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

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

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

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

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

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

Impairment of financial assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Implicitly part of the contractual terms of the debt instrument;
- Entered into at the same time as and in contemplation of the debt instrument; or
- Given by the parent of the borrower or another company within the borrower's group.

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

Offsetting

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

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

Derivative financial instruments and hedge accounting

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

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

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

Derivatives that qualify for hedge accounting

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

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

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

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

Fair value hedges

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

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

Cash flow hedges

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

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

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

Net investment hedges

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

Derivatives that do not qualify for hedge accounting

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

Financial guarantee contracts

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

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

Derecognition of financial instruments

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

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

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

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

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

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

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

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

Sale and repurchase and securities lending agreements

Securities sold subject to a commitment to repurchase at a fixed price or the purchase price plus a lender's rate of return (repurchase agreements) are not derecognised from the balance sheet and a liability is recorded in respect of the consideration received. The liability to the counterparty is included under repurchase agreements.

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

Repurchase and reverse repurchase agreements are measured at amortised cost or at fair value through profit or loss. For the former, the difference between the purchase and sales price is treated as interest, recognised in net interest income, and is amortised over the life of the agreement using the effective interest method. For the latter, interest income and expense, and all gains and losses from changes in fair value are included in net gain/loss on non-trading financial assets and liabilities at fair value through profit or loss.

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

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

6. Commodities and related transactions

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

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

Commodities purchased under agreements to resell, at either a fixed price or the purchase price plus a lender's rate of return that are in substance financing transactions are recorded as loans under trading assets. The difference between the purchase and sales price is treated as interest and is recognised in net trading revenue along with all other gains and losses from changes in fair value.

Transactions that form part of a trading activity and are managed on a fair value basis are held at fair value with changes in fair value recognised in profit or loss in net trading revenue in the period of change.

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

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

Precious metal clients and counterparties can place metal with the Group on an allocated or unallocated basis. Commodities stored by the group which have been allocated to customers are not recognised on the group's balance sheet.

7. Intangible assets

Computer software

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

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

Direct computer software development costs recognised as intangible assets are amortised on a straight-line basis at rates appropriate to the expected useful lives of the assets (2 to 5 years) from the date the assets are available for use, and are measured at cost less accumulated amortisation and accumulated impairment losses. The carrying amount of capitalised computer software is reviewed annually and is written down when impaired. Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted, if necessary.

8. Property and equipment

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

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

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

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

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

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

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

9. Impairment of non-financial assets

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

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

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

10. Leases

As a lessee

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

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

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

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

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

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

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

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

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

As a lessor

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

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

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

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

11. Provisions, contingent assets and contingent liabilities

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

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

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

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

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

12. Tax

Direct taxation

Direct taxation includes current and deferred tax. Current and deferred tax are recognised in profit or loss except to the extent that they relate to items recognised directly in equity or in OCI, in which case they are recognised in the same statement in which the related item appears. The tax consequences of the group's dividend payments (including distributions on other equity instruments), if any, are charged or credited to the statement in which the profit distributed originally arose.

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

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

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

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

Indirect taxation

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

13. Employee benefits

Post-employment benefits – defined contribution plans

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

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

Short-term benefits

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

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

14. Long-term incentive schemes

Quanto plan

The group operates an annual incentive arrangement that all eligible employees participate in, with a portion of that award being deferred for up to seven years through the quanto stock unit plan and quanto cash awards (together 'the quanto plan'), for employees that meet certain criteria. The quanto stock unit plan awards quanto stock units denominated in US dollars and is a cash-settled incentive scheme. The value of units is based on ICBC's ordinary share price as quoted on the Hong Kong Stock Exchange. The quanto cash awards provide a conditional right to a payout of a fixed cash amount.

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

The period over which the expense for deferred cash and share awards is recognised is based upon the period employees consider their services contribute to the awards. For past awards, the group accrued the expense of the deferred cash and share awards from the award grant date over the vesting period. Following a review of the terms of these awards during 2021 and taking into account employees' understanding of the awards, including that the vesting period for these schemes may commence before the legal grant date if employees have started to render services in respect of the award before that date, the group considered it appropriate to include the relevant performance period before the legal grant date in the vesting period for recognising the expense related to such awards from 1 January 2021.

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

15. Revenue and expenditure

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

Net interest income

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

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

Non-interest revenue

Net fees, commission and revenue sharing arrangements

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

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

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

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

Net trading revenue

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

Gains/losses from non-trading financial instruments at fair value through profit or loss

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

Dividend income

Dividends are recognised in profit or loss when the right to receipt is established, it is probable that the economic benefits associated with the dividend will flow to the group and the amount of the dividend can be measured reliably.

16. Segment reporting

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

17. Fiduciary activities (client money and client assets)

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

18. New standards and interpretations not yet adopted

The IASB has issued a number of new or amended standards and interpretations, which will be effective for annual periods beginning on or after 1 January 2022. The group has not early adopted any of these new or amended standards or interpretations and they are not expected to have a material effect on its financial statements or the separate financial statements of the company when adopted.

15. Notes to the annual financial statements

1. Segment reporting

The group's Executive Committee has been determined to be the chief operating decision maker for the group. The group's results comprise two reportable segments, namely Commodities and FIC. As described below, these divisions provide different products and services, and are managed and reported separately based on the group's management and internal reporting structure. Costs are allocated to business units based on relevant cost drivers (such as risk weighted assets and income generating headcount). Segment performance is evaluated based on operating profits or losses and is measured consistently with operating profits or losses in the group's financial statements. The central treasury balance sheet and items not allocable to the business segments are reflected in Other. Income taxes are allocated to segments to the extent they relate to specific transactions (e.g. withholding taxes), but otherwise are managed on a group basis and included in Other. Information related to each reportable segment is set out below. The information is shown after eliminating transactions and balances between segments.

Operating segments

Commodities	The Commodities business unit provides trading, sales and structuring expertise and has global presence across base metals, precious metals and energy.
FIC	The FIC business unit provides a comprehensive range of foreign exchange, money markets, interest rate and credit products. The segment is largely focused on emerging and frontier markets.

Segment results

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

1. Segment reporting (continued)

Segment results (continued)

2020	Commodities $m	FIC $m	Other $m	Total $m
Net interest income	16.9	96.0	-	112.9
Net fees, commission and revenue sharing arrangements	5.7	38.0	-	43.7
Net trading revenue	168.1	117.0	-	285.1
Net gain on non-trading financial assets and liabilities at fair value through profit or loss	-	24.0	-	24.0
Loss on commodity inventory intermediation	(13.7)	-	-	(13.7)
Recoveries on commodity reverse repurchase agreements	37.1	-	-	37.1
Total operating income	214.1	275.0	-	489.1
Credit impairment (charges) / recoveries	(5.9)	1.2	-	(4.7)
Income after credit impairments	208.2	276.2	-	484.4
Operating expenses	(157.9)	(180.2)	(13.4)	(351.5)
Profit / (loss) before taxation	50.3	96.2	(13.4)	132.9
Income tax (charge) / recovery	-	(9.7)	(7.7)	(17.4)
Profit / (loss) attributable to equity shareholders	50.3	86.3	(21.1)	115.5
Included in operating expenses:				
Depreciation	8.7	9.1	-	17.9
Amortisation of intangible assets	5.2	6.2	-	11.4

Segment assets and liabilities

2021	**Commodities $m**	**FIC $m**	**Other $m**	**Total $m**
Total assets	**7,429.1**	**11,707.1**	**7,132.3**	**26,268.5**
Total liabilities	**7,429.1**	**11,707.1**	**5,762.3**	**24,898.5**
2020				
Total assets	8,214.8	15,241.8	4,279.7	27,736.3
Total liabilities	8,214.8	15,241.8	2,978.2	26,434.8

Geographical analysis

The geographical analysis has been compiled on the basis of location of the office where the transactions are recorded and has been prepared in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013, under the framework of the Capital Requirements Directive IV (CRD IV).

Name **2021**	**Nature of activities**	**Geographical location**	**Turnover[1] $m**	**Profit / (loss) before tax $m**	**Corporation tax paid $m**	**Average number of employees**
ICBC Standard Bank Plc	Banking	United Kingdom	**410.2**	**111.4**	**11.4**	**685**
ICBC Standard Bank Plc Hong Kong branch	Banking	Hong Kong	**-**	**(0.1)**	**-**	**2**
ICBC Standard Bank Plc Singapore branch	Banking	Singapore	**30.6**	**6.7**	**1.6**	**81**
ICBC Standard Resources (China) Limited	Trading	China	**4.0**	**1.1**	**-**	**9**
ICBC Standard NY Holdings, Inc. group	Broker/Dealer	USA	**21.2**	**1.5**	**0.5**	**35**
Other consolidation eliminations			**-**	**0.1**	**-**	**-**
Total			**466.0**	**120.7**	**13.5**	**812**

Name 2020	Nature of activities	Geographical location	Turnover[1] $m	Profit / (loss) before tax $m	Corporation tax paid $m	Average number of employees
ICBC Standard Bank Plc	Banking	United Kingdom	421.8	112.3	8.9	697
ICBC Standard Bank Plc Hong Kong branch	Banking	Hong Kong	-	(0.6)	-	5
ICBC Standard Bank Plc Singapore branch	Banking	Singapore	34.1	12.2	-	82
ICBC Standard Bank Plc Tokyo branch	Banking	Japan	-	-	(0.1)	-
ICBC Standard Resources (China) Limited	Trading	China	4.1	0.5	-	13
ICBC Standard NY Holdings, Inc. group	Broker/Dealer	USA	29.1	8.4	1.7	41
Other consolidation eliminations			-	0.1	-	-
Total			489.1	132.9	10.5	838

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

1. Segment reporting (continued)

Summary balance sheet

2021	Total assets $m	Non-financial assets $m	Total liabilities $m	Non-financial liabilities $m
ICBC Standard Bank Plc	**26,191.1**	**4,250.4**	**24,879.2**	**2,336.6**
ICBC Standard Bank Plc Hong Kong branch	-	-	-	-
ICBC Standard Bank Plc Singapore branch	**221.9**	**185.6**	**188.4**	**187.3**
ICBC Standard Resources (China) Limited	**18.4**	**1.7**	**3.2**	**1.1**
ICBC Standard NY Holdings, Inc. group	**35.3**	**8.2**	**12.3**	**12.3**
Other consolidation eliminations	**(198.2)**	**(182.5)**	**(184.6)**	**(182.6)**
Total	**26,268.5**	**4,263.4**	**24,898.5**	**2,354.7**

2020	Total assets $m	Non-financial assets $m	Total liabilities $m	Non-financial liabilities $m
ICBC Standard Bank Plc	27,667.0	5,412.7	26,434.7	2,166.4
ICBC Standard Bank Plc Hong Kong branch	26.5	0.1	6.8	1.4
ICBC Standard Bank Plc Singapore branch	189.4	159.5	161.3	159.7
ICBC Standard Resources (China) Limited	16.5	1.7	3.3	1.2
ICBC Standard NY Holdings, Inc. group	35.7	9.7	14.0	14.0
Other consolidation eliminations	(198.8)	(157.5)	(185.3)	(157.4)
Total	27,736.3	5,426.2	26,434.8	2,185.3

The closure of ICBC Standard Bank Plc Hong Kong branch was completed in the third quarter of 2021. In addition, the group's subsidiary in Shanghai, ICBC Standard Resources (China) Limited, was converted to a sales office in 2020. These changes relate to the group's restructuring programme, as detailed in note 30.14.

During the year, the group received public subsidies of US$43k from the Singapore government under its Job Growth Initiative, in relation to the Covid-19 pandemic (2020: US$0.9 million).

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 Deferred tax assets (judgement)

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

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

2. Key management assumptions (continued)

2.1 Deferred tax assets (judgement) (continued)

Due to the historic performance of the group with losses suffered in recent years, there has been uncertainty over the recoverability of the group's deferred tax asset balances. Profits in the group in 2020 and 2021 are not deemed sufficient on their own to recognise the majority of the deferred tax asset balances, due to continuing uncertainty and the impact of market volatility associated with Covid-19. As a result, deferred tax assets of US$299.8 million (2020: US$245.8 million) have not been recognised in respect of unutilised trading losses carried forward and other temporary differences.

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

2.2 Determining fair value (estimate)

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

2.3 Legal proceedings and regulatory matters (judgement)

From time to time, the group is the subject of litigation, regulatory reviews and requests for information by various governmental and regulatory bodies arising from the group's business operations. While there is inherent uncertainty in predicting the outcome of these matters, management believe that based upon current knowledge, no provisions are required, in accordance with accounting policy 11. See note 29.3 for further details.

3. Cash and balances with central banks

	Group		Company	
	2021	2020	**2021**	2020
	$m	$m	**$m**	$m
Reserve Account with Bank of England[1]	**6,056.5**	3,117.0	**6,056.5**	3,117.0

[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	
	2021	2020	**2021**	2020
	$m	$m	**$m**	$m
Gross banks and other financial institutions[1]	**2,308.3**	2,778.4	**2,250.6**	2,723.6
Credit loss allowances	**(1.6)**	(0.7)	**(1.6)**	(0.7)
	2,306.7	2,777.7	**2,249.0**	2,722.9
Segmental industry analysis				
Due from banks	**1,047.2**	1,545.0	**1,016.9**	1,516.4
Other financial institutions	**1,259.5**	1,232.7	**1,232.1**	1,206.5
	2,306.7	2,777.7	**2,249.0**	2,722.9
Included above are the following amounts with related parties:				
Balances with ultimate holding company (ICBC Limited) and subsidiaries and branches	**32.6**	30.9	**4.4**	2.8
Balances with shareholder with significant influence (SBG) and subsidiaries and branches	**131.8**	84.0	**131.8**	84.0
	164.4	114.9	**136.2**	86.7

[1] To manage interest rate volatility on certain term loans, the group entered into fair value hedges. Refer to note 7.4.2.

5. Financial assets held for trading

	Group		Company	
	2021	2020	**2021**	2020
	$m	$m	**$m**	$m
Government, utility bonds and treasury bills	**1,937.1**	1,988.1	**1,937.1**	1,988.1
Corporate bonds and floating rate notes	**81.9**	116.4	**81.9**	116.4
Reverse repurchase agreements	**436.7**	83.1	**436.7**	83.1
	2,455.7	2,187.6	**2,455.7**	2,187.6

6. Non-trading financial assets at fair value through profit or loss

	Group		Company	
	2021	2020	**2021**	2020
	$m	$m	**$m**	$m
Debt instruments	**1,967.0**	1,966.2	**1,967.0**	1,966.2
Unlisted equities	**5.1**	5.3	**5.1**	5.3
	1,972.1	1,971.5	**1,972.1**	1,971.5

7. Derivative instruments

7.1 Derivative assets and liabilities

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

	Maturity analysis of net fair value			Net fair value	Fair value of assets	Fair value of liabilities	Contract / notional amount
	< 1 year	1 - 5 years	> 5 years				
Group 2021	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
Derivatives held for trading							
Foreign exchange derivatives	(2.4)	(3.1)	-	(5.5)	1,131.5	(1,137.0)	95,462.7
Forwards	1.2	(1.9)	-	(0.7)	1,127.2	(1,127.9)	92,957.4
Options	(3.6)	(1.2)	-	(4.8)	4.3	(9.1)	2,505.3
Interest rate derivatives	(128.9)	103.1	3.3	(22.5)	1,807.5	(1,830.0)	124,868.8
Caps and floors	-	(0.2)	(0.8)	(1.0)	2.1	(3.1)	460.4
Forwards	(73.3)	67.0	7.3	1.0	1.1	(0.1)	5,125.5
Futures options	-	-	-	-	-	-	2,555.0
Swaps	(54.8)	36.0	(3.2)	(22.0)	1,800.5	(1,822.5)	115,873.5
Swaptions	(0.8)	0.3	-	(0.5)	3.8	(4.3)	854.4
Commodity derivatives	(428.5)	(43.1)	-	(471.6)	1,338.7	(1,810.3)	121,456.9
Forwards	26.7	(8.3)	-	18.4	575.9	(557.5)	28,014.2
Futures	(59.7)	0.3	-	(59.4)	683.3	(742.7)	90,834.0
Options	1.3	2.8	-	4.1	24.7	(20.6)	1,876.1
Swaps	(396.8)	(37.9)	-	(434.7)	54.8	(489.5)	732.6
Credit derivatives	18.3	(55.8)	(117.3)	(154.8)	105.9	(260.7)	2,927.7
Credit default swaps	5.7	(7.0)	(9.5)	(10.8)	44.2	(55.0)	1,686.2
Total return swaps	12.6	(48.8)	(107.8)	(144.0)	61.7	(205.7)	1,241.5
Total derivative assets / (liabilities) held for trading	(541.5)	1.1	(114.0)	(654.4)	4,383.6	(5,038.0)	344,716.1
Derivatives held for hedging							
Derivatives designated as cash flow hedges	(5.3)	(1.7)	(0.2)	(7.2)	-	(7.2)	205.7
Foreign exchange forwards	(4.5)	-	-	(4.5)	-	(4.5)	192.1
Equity options	(0.8)	(1.7)	(0.2)	(2.7)	-	(2.7)	13.6
Derivatives designated as fair value hedges	-	7.2	(4.2)	3.0	8.5	(5.5)	182.7
Interest rate swaps	-	7.2	(4.2)	3.0	8.5	(5.5)	182.7
Total derivative assets / (liabilities) held for hedging	(5.3)	5.5	(4.4)	(4.2)	8.5	(12.7)	388.4
Total derivative assets / (liabilities)	(546.8)	6.6	(118.4)	(658.6)	4,392.1	(5,050.7)	345,104.5

	Net fair value	Fair value of assets	Fair value of liabilities
Included above are the following amounts with related parties:			
Balances with ultimate holding company (ICBC Limited) and subsidiaries and branches	211.8	386.9	(175.1)
Balances with shareholder with significant influence (SBG) and subsidiaries and branches	(100.4)	282.5	(382.9)

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

The company reported derivative assets of US$4,392.1 million (2020: US$6,084.5 million) and derivative liabilities of US$5,050.7 million (2020: US$6,558.5 million).

7. Derivative instruments (continued)

7.1 Derivative assets and liabilities (continued)

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

	Maturity analysis of net fair value			Net fair value	Fair value of assets	Fair value of liabilities	Contract / notional amount
	< 1 year	1 - 5 years	> 5 years				
Group 2020	$m	$m	$m	$m	$m	$m	$m
Derivatives held for trading							
Foreign exchange derivatives	218.4	(8.2)	(0.5)	209.7	2,195.3	(1,985.6)	103,523.0
Forwards	218.1	(7.5)	0.3	210.9	2,185.1	(1,974.2)	100,673.8
Options	0.3	(0.7)	(0.8)	(1.2)	10.2	(11.4)	2,849.2
Interest rate derivatives	(142.7)	13.0	33.6	(96.1)	2,347.2	(2,443.3)	98,576.6
Caps and floors	-	-	-	-	3.8	(3.8)	323.8
Forwards	(14.1)	7.4	6.7	-	4.0	(4.0)	872.5
Futures options	-	-	-	-	-	-	6,338.0
Swaps	(129.6)	4.1	26.7	(98.8)	2,327.2	(2,426.0)	90,025.6
Swaptions	1.0	1.5	0.2	2.7	12.2	(9.5)	1,016.7
Commodity derivatives	(194.2)	8.9	-	(185.3)	1,399.3	(1,584.6)	87,456.1
Forwards	(30.8)	(4.9)	-	(35.7)	634.3	(670.0)	24,083.2
Futures	(163.6)	15.3	-	(148.3)	698.5	(846.8)	61,826.2
Options	8.2	(0.1)	-	8.1	41.5	(33.4)	1,427.5
Swaps	(8.0)	(1.4)	-	(9.4)	25.0	(34.4)	119.2
Credit derivatives	(16.5)	(240.3)	(129.5)	(386.3)	119.1	(505.4)	2,902.7
Credit default swaps	(2.8)	(3.1)	(4.6)	(10.5)	28.0	(38.5)	1,646.1
Total return swaps	(13.7)	(237.2)	(124.9)	(375.8)	91.1	(466.9)	1,256.6
Total derivative assets / (liabilities) held for trading	(135.0)	(226.6)	(96.4)	(458.0)	6,060.9	(6,518.9)	292,458.4
Derivatives held for hedging							
Derivatives designated as cash flow hedges	13.8	(1.2)	(0.2)	12.4	14.7	(2.3)	167.7
Foreign exchange forwards	14.7	-	-	14.7	14.7	-	157.4
Equity options	(0.9)	(1.2)	(0.2)	(2.3)	-	(2.3)	10.3
Derivatives designated as fair value hedges	(28.3)	8.9	(9.0)	(28.4)	8.9	(37.3)	2,195.1
Interest rate swaps	(28.3)	8.9	(9.0)	(28.4)	8.9	(37.3)	2,195.1
Total derivative assets / (liabilities) held for hedging	(14.5)	7.7	(9.2)	(16.0)	23.6	(39.6)	2,362.8
Total derivative assets / (liabilities)	(149.5)	(218.9)	(105.6)	(474.0)	6,084.5	(6,558.5)	294,821.2
Included above are the following amounts with related parties:							
Balances with ultimate holding company (ICBC Limited) and subsidiaries and branches				(46.7)	419.6	(466.3)	
Balances with shareholder with significant influence (SBG) and subsidiaries and branches				(5.9)	496.1	(502.0)	

7. Derivative instruments (continued)

7.2 Use and measurement of derivative instruments

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

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

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

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

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

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

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

7.3 Derivatives held for trading

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

7. Derivative instruments (continued)

7.3 Derivatives held for trading (continued)

7.3.1 Foreign exchange derivatives

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

7.3.2 Interest rate derivatives

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

7.3.3 Commodity derivatives

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

7.3.4 Credit derivatives

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

7.4 Derivatives held for hedging

7.4.1 Derivatives designated as cash flow hedges

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

- The income statement volatility associated with future highly probable expenses in currencies other than the functional currency is hedged utilising forward exchange contracts.
- Equity options are used to mitigate risk of change in cash flows arising from changes in the long-term incentive liability, underpinned by the ICBC share price (note 30.10).

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

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

7. Derivative instruments (continued)

7.4 Derivatives held for hedging (continued)

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

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

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

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

Group and Company	Hedging instrument					Hedged item		
(US$'millions)	Carrying amount[1]		Hedge ineffectiveness					
Hedged risk	Assets	Liabilities	Change in fair value used to calculate hedge ineffectiveness	Change in value of hedging instrument recognised in OCI	Hedge ineffectiveness recognised in profit or loss[2]	Amount recycled from OCI due to hedged item affecting profit or loss[3,4]	Change in value used for calculating hedge ineffectiveness	Cash flow hedge reserve[5]
2021								
Foreign exchange risk	-	**(4.6)**	**(3.3)**	**(3.3)**	-	**(16.0)**	**3.3**	**(4.6)**
Equity price risk	-	**(2.7)**	**(0.4)**	**(0.8)**	**0.4**	**1.6**	**0.8**	**(0.5)**
Total	-	**(7.3)**	**(3.7)**	**(4.1)**	**0.4**	**(14.4)**	**4.1**	**(5.1)**
2020								
Foreign exchange risk	14.7	-	9.2	9.2	-	1.2	(9.2)	14.7
Equity price risk	-	(2.3)	(1.7)	(1.1)	(0.6)	0.8	1.1	(0.5)
Total	14.7	(2.3)	7.5	8.1	(0.6)	2.0	(8.1)	14.2

1 All hedging instruments are recorded in derivative financial assets or derivative financial liabilities in the balance sheet.
2 All hedge ineffectiveness is recorded in net trading revenue.
3 All amounts transferred from the cash flow hedging reserve into profit or loss are due to hedged items affecting profit or loss. No amounts have been recycled for items where hedge accounting had previously been applied for which hedged future cash flows are no longer expected to occur.
4 Reclassification adjustments are recognised in the income statement in operating expenses, with those relating to foreign exchange risk in other operating expenses and those relating to equity price risk in staff costs.
5 All amounts in the cash flow hedge reserve relate to continuing hedges. There are no amounts in the cash flow hedge reserve for hedging relationships for which hedge accounting is no longer applied.

At 31 December 2021, the group held forward foreign exchange contracts to hedge its budgeted sterling costs with a nominal amount of £139.5 million (US$187.9million) (2020: £126 million/US$172 million), a maturity of less than one year and an average US Dollar/Sterling exchange rate of 1.38 (2020: 1.25).

7. Derivative instruments (continued)

7.4 Derivatives held for hedging (continued)

The forecast cash flows which will be released from the cash flow hedging reserve into the income statement in line with the below maturity analysis at 31 December, are illustrated below:

	Group		Company	
	2021	2020	**2021**	2020
	$m	$m	**$m**	$m
3 months or less	**52.4**	43.7	**52.4**	43.7
More than 3 months but less than 1 year	**145.0**	118.5	**145.0**	118.5
More than 1 year but less than 5 years	**7.8**	5.1	**7.8**	5.1
More than 5 years	**0.6**	0.4	**0.6**	0.4
	205.8	167.7	**205.8**	167.7

7.4.2 Derivatives designated as fair value hedges

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

The financial instruments designated by the group in fair value hedge relationships comprise certain term loan facilities and reverse repurchase agreements. The hedge ratio for the group's fair value hedging relationships is determined by comparing the principal of the hedged item and the notional amount for the derivative. For the purposes of hedge effectiveness testing, the group compares changes in the fair value of the hedged item resulting from movements in interest and foreign currency exchange rates with changes in the fair value of the interest rate and cross currency swaps used as the hedging instruments.

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

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

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

7. Derivative instruments (continued)

7.4 Derivatives held for hedging (continued)

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

Group and Company	**Hedging instrument**					**Hedged item**		
(US$ millions)	**Carrying amount of hedging instruments[1]**		**Hedge ineffectivenss[2,3]**			**Carrying amount of the hedged item[4]**	**Accumulated amount of fair value hedge adjustment gains/(losses) of hedged items[5,6]**	
Hedging instrument	**Assets**	**Liabilities**	**Gains/(losses) on hedging instrument**	**Gains/(losses) on hedged item**	**Ineffectiveness**		**Assets**	**Liabilities**
2021			35					
Interest rate swaps								
Reverse repurchase agreements	**-**	**-**	**25.7**	**(24.9)**	**0.8**	**-**	**-**	**-**
Loans and advances to customers	**-**	**(5.5)**	**2.9**	**(2.8)**	**0.1**	**126.4**	**-**	**(1.5)**
Due from banks and other financial institutions[7]	**8.5**	**-**	**(2.6)**	**2.8**	**0.2**	**61.9**	**-**	**(0.7)**
Totals	**8.5**	**(5.5)**	**26.0**	**(24.9)**	**1.1**	**188.3**	**-**	**(2.2)**
2020								
Interest rate swaps								
Reverse repurchase agreements	-	(28.3)	(28.0)	28.1	0.1	2,032.1	25.2	-
Loans and advances to customers	-	(8.9)	(1.8)	1.9	0.1	139.5	2.1	-
Due from banks and other financial institutions[7]	8.9	-	9.5	(9.8)	(0.3)	61.3	-	(9.8)
Totals	8.9	(37.2)	(20.3)	20.2	(0.1)	2,232.9	27.3	(9.8)

1 All hedging instruments are recorded in derivative financial assets or derivative financial liabilities in the balance sheet.
2 All hedge ineffectiveness is recorded in net trading revenue.
3 Gains/(losses) on hedging instrument and hedged item are the amounts used to calculate hedge ineffectiveness.
4 This represents the carrying value on the consolidated balance sheet and comprises amortised cost before allowance for credit losses, plus fair value hedge adjustments.
5 This represents the accumulated fair value hedge adjustment and is a component of the carrying amount of the hedged item.
6 There were no hedges discontinued during the current or prior year.
7 Hedging instruments for item classified as due from banks and other financial institutions is a cross currency swap providing a hedge of interest rate and foreign currency risk.

7.5 IBOR reform transition

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

Prior to 31 December 2021, the group's LIBOR interest rate risk exposure was predominantly weighted to USD LIBOR (circa 85%); the limited exposure to other currency denominations including GBP, JPY and CHF LIBOR, and EONIA (Euro Overnight Index Average) were all transitioned to the RFRs in line with the regulatory cessation deadlines in 2021.

During 2021, the group successfully delivered RFR trading capabilities across loans, deposits, debt securities and derivatives, including RFR discounting, renegotiation of CSA interest rates and inclusion of industry fallback language in transaction documentation.

7. Derivative instruments (continued)

7.5 IBOR reform transition (continued)

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

Financial instruments yet to transition to alternative benchmarks

At 31 December 2021	USD LIBOR $m
Non derivative financial assets	1,320
Non-derivative financial liabilities	492
Derivative notional contract amount	26,032

The group does not consider there to be a risk in respect of the remaining Euro Interbank Offered Rate (EURIBOR) positions arising from IBOR reform. This is because the calculation methodology for EURIBOR changed during 2019 and the reform of EURIBOR is complete. In July 2019, the Belgian Financial Services and Markets Authority (as the administrator of EURIBOR) granted authorisation with respect to EURIBOR under the European Union Benchmarks Regulation. This allows market participants to continue to use EURIBOR after 1 January 2021 for both existing and new contracts. The group expects that EURIBOR will continue to exist as a benchmark rate for the foreseeable future alongside ESTR, the RFR benchmark that replaced EONIA in October 2021.

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

8. Reverse repurchase agreements

	Group		Company	
	2021 $m	2020 $m	**2021 $m**	2020 $m
Measured at amortised cost:	**581.5**	2,544.7	**581.5**	2,544.7
Banks and other financial institutions[1]	**581.7**	2,545.0	**581.7**	2,545.0
Credit loss allowances	**(0.2)**	(0.3)	**(0.2)**	(0.3)
Measured at FVTPL:	**1,706.3**	1,476.4	**1,706.3**	1,476.4
Banks and other financial institutions	**1,705.1**	1,389.4	**1,705.1**	1,389.4
General governments and non-financial institutions	**1.2**	87.0	**1.2**	87.0
	2,287.8	4,021.1	**2,287.8**	4,021.1
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	**135.1**	131.8	**135.1**	131.8
	135.1	131.8	**135.1**	131.8

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

9. Loans and advances to customers

	Group		Company	
	2021	2020	**2021**	2020
	$m	$m	**$m**	$m
Gross loans and advances to customers	**1,611.3**	588.9	**1,611.3**	588.9
Demand loans and advances	**38.9**	71.4	**38.9**	71.4
Term loans[1]	**1,572.4**	517.5	**1,572.4**	517.5
Credit loss allowances	**(2.6)**	(7.7)	**(2.6)**	(7.7)
	1,608.7	581.2	**1,608.7**	581.2
Segmental industry analysis				
Governments and public sector organisations	**126.4**	139.4	**126.4**	139.4
Manufacturing	**2.0**	14.0	**2.0**	14.0
Mining	**346.8**	286.0	**346.8**	286.0
Transport	**100.2**	5.0	**100.2**	5.0
Wholesale	**974.9**	142.7	**974.9**	142.7
Other	**61.0**	1.8	**61.0**	1.8
	1,611.3	588.9	**1,611.3**	588.9

[1] To manage interest rate volatility on certain term loans, the group entered into fair value hedges. Refer to note 7.4.2.

10. Financial investments

	Group		Company	
	2021	2020	**2021**	2020
	$m	$m	**$m**	$m
Fair value through other comprehensive income:				
Debt securities	**925.5**	1,569.5	**925.5**	1,569.5
	925.5	1,569.5	**925.5**	1,569.5

11. Property and equipment

11.1 Summary

	2021				2020			
	Cost	**Accumulated depreciation**	**Accumulated impairment**	**Carrying value**	Cost	Accumulated depreciation	Accumulated impairment	Carrying value
Group	**$m**	**$m**	**$m**	**$m**	$m	$m	$m	$m
Computer equipment	**28.7**	**(21.6)**	**-**	**7.1**	26.0	(18.1)	-	7.9
Office equipment	**5.6**	**(4.7)**	**-**	**0.9**	5.7	(4.6)	-	1.1
Furniture and fittings	**17.8**	**(11.8)**	**-**	**6.0**	18.2	(10.4)	-	7.8
Right of use lease assets[1]	**73.4**	**(35.0)**	**(5.0)**	**33.4**	72.6	(25.1)	(6.4)	41.1
	125.5	**(73.1)**	**(5.0)**	**47.4**	122.5	(58.2)	(6.4)	57.9

11. Property and equipment (continued)

11.2 Movement

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

	2019 Carrying value $m	Additions $m	Disposals $m	Depreciation charge $m	Impairments $m	2020 Carrying value $m
Computer equipment	8.7	2.9	(0.5)	(3.2)	-	7.9
Office equipment	1.5	-	(0.1)	(0.3)	-	1.1
Furniture and fittings	9.4	0.2	-	(1.8)	-	7.8
Right of use lease assets	52.6	3.9	-	(12.6)	(2.9)	41.1
	72.2	7.0	(0.6)	(17.9)	(2.9)	57.9

11.3 Summary

	2021				2020			
Company	**Cost $m**	**Accumulated depreciation $m**	**Accumulated impairment $m**	**Carrying value $m**	Cost $m	Accumulated depreciation $m	Accumulated impairment $m	Carrying value $m
Computer equipment	**26.8**	**(20.0)**	**-**	**6.8**	24.3	(16.6)	-	7.7
Office equipment	**4.9**	**(4.0)**	**-**	**0.9**	5.0	(3.9)	-	1.1
Furniture and fittings	**8.8**	**(5.0)**	**-**	**3.8**	9.2	(4.5)	-	4.7
Right of use lease assets[1]	**63.1**	**(29.6)**	**(5.0)**	**28.5**	62.3	(21.6)	(6.4)	34.3
	103.6	**(58.6)**	**(5.0)**	**40.0**	100.8	(46.6)	(6.4)	47.8

11.4 Movement

	2020 Carrying value $m	Additions $m	Disposals $m	Depreciation charge $m	Impairments[2] $m	**2021 Carrying value $m**
Computer equipment	7.7	2.7	-	(3.6)	-	**6.8**
Office equipment	1.1	0.1	-	(0.3)	-	**0.9**
Furniture and fittings	4.7	-	-	(0.9)	-	**3.8**
Right of use lease assets	34.3	3.4	-	(10.1)	0.9	**28.5**
	47.8	6.2	-	(14.9)	0.9	**40.0**

	2019 Carrying value $m	Additions $m	Disposals $m	Depreciation charge $m	Impairments $m	2020 Carrying value $m
Computer equipment	8.5	2.7	(0.5)	(3.0)	-	7.7
Office equipment	1.4	-	-	(0.3)	-	1.1
Furniture and fittings	5.5	0.1	-	(0.9)	-	4.7
Right of use lease assets	44.4	3.5	-	(10.7)	(2.9)	34.3
	59.8	6.3	(0.5)	(14.9)	(2.9)	47.8

1 Right of use lease assets principally relate to leased properties.

2 During the prior year, an impairment loss of US$2.9 million was recognised on the group's right of use asset in respect of its London office premises, due to termination of a sub-lease and other vacant space that became surplus to requirements. US$0.9 million of the prior year provision was released in 2021 following agreement of a new sub-lease on a portion of the vacant space.

12. Deferred tax assets

	Group		Company	
	2021	2020	**2021**	2020
	$m	$m	**$m**	$m
Deferred tax asset recognised	**0.7**	0.7	**-**	-
Deferred tax asset not recognised[1]	**299.8**	245.8	**299.8**	245.5

12.1 Movements in deferred tax balances

Group **2021**	**Opening balance $m**	**Recognised in profit or loss $m**	**Asset not recognised[2] $m**	**Closing balance $m**
Capital allowances	**0.2**	**-**	**-**	**0.2**
Share-based payments	**0.1**	**0.1**	**-**	**0.2**
Other short-term temporary differences	**0.4**	**(0.1)**	**-**	**0.3**
Unused tax losses	**-**	**-**	**-**	**-**
Total recognised deferred tax	**0.7**	**-**	**-**	**0.7**
Total unrecognised deferred tax[3]	**245.8**	**-**	**54.0**	**299.8**
Temporary differences not recognised	**31.8**	**-**	**5.6**	**37.4**
Unused tax losses not recognised[4]	**214.0**	**-**	**48.4**	**262.4**
	246.5	**-**	**54.0**	**300.5**

2020	Opening balance	Recognised in profit or loss $m	Asset not recognised[2] $m	Closing balance $m
Capital allowances	0.1	0.1	-	0.2
Share-based payments	0.1	-	-	0.1
Other short-term temporary differences	0.2	0.2	-	0.4
Unused tax losses	-	-	-	-
Total recognised deferred tax	0.4	0.3	-	0.7
Total unrecognised deferred tax[3]	249.3	-	(3.5)	245.8
Temporary differences not recognised	34.3	-	(2.5)	31.8
Unused tax losses not recognised	215.0	-	(1.0)	214.0
	249.7	0.3	(3.5)	246.5

Company **2021**	**Opening balance $m**	**Recognised in profit or loss $m**	**Asset not recognised[2] $m**	**Closing balance $m**
Total recognised deferred tax	-	-	-	-
Total unrecognised deferred tax[3]	**245.5**	**-**	**54.3**	**299.8**
Temporary differences not recognised	**31.8**	**-**	**5.6**	**37.4**
Unused tax losses not recognised	**213.7**	**-**	**48.7**	**262.4**
	245.5	**-**	**54.3**	**299.8**

12. Deferred tax assets (continued)

12.1 Movements in deferred tax balances (continued)

2020	Opening balance $m	Recognised in profit or loss $m	Asset not recognised[2] $m	Closing balance $m
Total recognised deferred tax	-	-	-	-
Total unrecognised deferred tax	248.7	-	(3.2)	245.5
Temporary differences not recognised	34.3	-	(2.5)	31.8
Unused tax losses not recognised	214.4	-	(0.7)	213.7
	248.7	-	(3.2)	245.5

1 As noted in note 35, the group received approximately US$230.0 million of insurance proceeds in respect of losses it incurred on a commodity inventory intermediation transaction subsequent to year end. The settlement is a non-adjusting post-balance sheet event; therefore no amounts were recognised in the group's financial statements for the year ended 31 December 2021. The insurance proceeds will be recognised in income during the year ending 31 December 2022 and the benefit of tax losses utilised against the proceeds will accordingly be recognised in the same period.
2 Asset not recognised in 2021 is net of a favourable tax rate change of US$68.7 million as a result of the enacted increase in the UK corporation tax rate from 19% to 25% in 2023 (2020: US$24.6 million favourable tax rate change). A reduction in the surcharge on banking companies from 8% to 3% and increase in the group surcharge allowance from GBP25 million to GBP100 million in 2023 was enacted on 24 February 2022. It is estimated that the asset not recognised will reduce by up to US$24 million as a result of these additional measures.
3 Deferred tax assets have not been recognised by the group in respect of gross deductible temporary differences and gross tax losses of US$1,104.8 million (2020: US$1,150.3 million). These unrecognised differences are split between the UK US$1,104.7 million (2020: $1,149.1 million) and China US$0.1 million (2020: $1.2million). UK unrecognised differences consist of gross deductible temporary differences of US$113.4 million (2020: US$117.5 million) and gross tax losses of US$991.3 million (2020: $1,031.6 million) and can be carried forward indefinitely. Gross losses of US$181.8 million (2020: US$222.1 million) arose on or after 1 January 2016 and US$809.5 million (2020: US$809.5 million) arose before 1 January 2016. Losses arising after 1 January 2016 can be utilised against 50% of profits subject to both corporation tax and the surcharge on banking companies, whilst the majority of those arising before can only be utilised against 25% of profits subject to corporation tax. The tax rates applied to the losses reflect the rates expected to apply when the losses are utilised. Unrecognised differences in China consist wholly of gross tax losses all of which expire in 2022.
4 As noted above the increase in the asset not recognised includes a US$68.7 million favourable tax rate change. The difference between that and the increase of US$48.4 million mostly relates to utilisation of UK losses brought forward against UK taxable profits in the year ended 31 December 2021

13. Other assets

	Group		Company	
	2021	2020	**2021**	2020
	$m	$m	**$m**	$m
Non-financial assets held for trading - Commodities inventory[1,2]	**3,902.1**	5,118.6	**3,902.1**	5,118.6
Precious metals[3]	**2,057.6**	2,952.6	**2,057.6**	2,952.6
Allocated inventories	**751.9**	1,464.4	**751.9**	1,464.4
Unallocated inventories	**1,305.7**	1,488.2	**1,305.7**	1,488.2
Base metals	**1,255.6**	955.9	**1,255.6**	955.9
Energy	**588.9**	1,210.1	**588.9**	1,210.1
Other	**309.7**	249.0	**308.8**	248.0
Unsettled dealing balances	**178.2**	97.9	**178.2**	97.9
Other receivables	**98.5**	116.3	**97.6**	115.3
Intangible assets	**33.0**	34.8	**33.0**	34.8
	4,211.8	5,367.6	**4,210.9**	5,366.6
Included above are the following amounts due from related parties:				
Balances with ultimate holding company (ICBC Limited) and subsidiaries and branches	**34.5**	7.8	**34.5**	7.8
Balances with shareholder with significant influence (SBG) and subsidiaries and branches	**95.4**	10.2	**95.4**	10.2
	129.9	18.0	**129.9**	18.0

Precious metals allocated balances held by the group on behalf of customers are not recognised on the group's balance sheet and were as follows at year end:

Precious metals - Allocated balances	**15,157.9**	13,675.5	**15,157.9**	13,675.5

1 Non-financial assets held for trading form part of the group's commodities business and are integral to the group's strategy. Commodity inventories include holdings in facilities operated by authorised third parties.
2 Fair value measurements of commodities inventories comprise US$2,057.6 million in level 1 of the fair value hierarchy, valued using quoted prices for identical instruments in active markets, and US$1,844.5 million in level 2, valued using observable market prices or models where all significant inputs are observable. There are no significant unobservable inputs in the fair value measurement of commodities inventories.
3 Precious metals inventories consist of the group's own allocated inventories, as well as unallocated inventories, which are a combination of the group's own unallocated inventories and unallocated balances held by the group on behalf of customers, for which there is a corresponding precious metal payables balance reported within other liabilities (see note 21).

13. Other assets (continued)

13.1 Intangible assets (Group and company)

Summary	2021 Cost $m	2021 Accumulated amortisation $m	2021 Accumulated impairment $m	2021 Carrying value $m	2020 Cost $m	2020 Accumulated amortisation $m	2020 Accumulated impairment $m	2020 Carrying value $m
Computer software	**57.2**	**(33.8)**	**(5.4)**	**18.0**	57.1	(22.6)	(5.4)	29.1
Work in progress[1]	**15.0**	**-**	**-**	**15.0**	5.7	-	-	5.7
	72.2	**(33.8)**	**(5.4)**	**33.0**	62.8	(22.6)	(5.4)	34.8

Movement	2019 Carrying value $m	Additions $m	Transfers $m	Amortisation charge $m	Impairment charge $m	2020 Carrying value $m	Additions $m	Transfers $m	Amortisation charge $m	Impairment charge $m	2021 Carrying value $m
Computer software	28.1	-	17.8	(11.4)	(5.4)	29.1	**-**	**-**	**(11.2)**	**-**	**18.0**
Work in progress[1]	17.8	5.7	(17.8)	-	-	5.7	**9.3**	**-**	**-**	**-**	**15.0**
	45.9	5.7	-	(11.4)	(5.4)	34.8	**9.3**	**-**	**(11.2)**	**-**	**33.0**

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

14. Investment in group companies

Company	2021 $m	2020 $m
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 165.

15. Financial liabilities held for trading

	Group 2021 $m	Group 2020 $m	Company 2021 $m	Company 2020 $m
Government and utility bonds	**505.0**	345.0	**505.0**	345.0
Corporate bonds	**0.5**	2.5	**0.5**	2.5
Credit-linked notes	**1,061.0**	1,268.3	**1,061.0**	1,268.3
	1,566.5	1,615.8	**1,566.5**	1,615.8

16. Non-trading financial liabilities at fair value through profit or loss

	Group		Company	
	2021	2020	2021	2020
	$m	$m	$m	$m
Debt instruments[1]	**2,099.9**	2,068.2	**2,099.9**	2,068.2
	2,099.9	2,068.2	**2,099.9**	2,068.2

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

The amount contractually payable on maturity of the debt instruments held at fair value through profit or loss at 31 December 2021 was US$2,098.1 million, which was US$1.8 million lower than the balance sheet carrying value (2020:US$2,066.8 million, which was US$1.4 million lower than the balance sheet carrying value). The cumulative amount of change in fair value attributable to changes in the group's own credit risk was a loss of US$0.4 million (2020: US$0.3 million loss).

17. Due to banks and other financial institutions

	Group		Company	
	2021	2020	2021	2020
	$m	$m	$m	$m
Due to banks	**10,536.6**	7,979.1	**10,536.6**	7,979.1
Other financial institutions	**1,109.9**	1,086.2	**1,109.9**	1,086.2
	11,646.5	9,065.3	**11,646.5**	9,065.3
Included above are the following amounts with related parties:				
Balances with ultimate holding company (ICBC Limited) and subsidiaries and branches	**6,002.7**	3,506.0	**6,002.7**	3,506.0
Balances with shareholder with significant influence (SBG) and subsidiaries and branches	**370.5**	768.0	**370.5**	768.0
	6,373.2	4,274.0	**6,373.2**	4,274.0

18. Repurchase agreements

	Group		Company	
	2021	2020	2021	2020
	$m	$m	$m	$m
Measured at amortised cost:				
Banks and other financial institutions	**285.5**	1,975.0	**285.5**	1,975.0
Measured at FVTPL:				
Banks and other financial institutions	**408.1**	442.1	**408.1**	442.1
	693.6	2,417.1	**693.6**	2,417.1
Included above are the following amounts with related parties:				
Balances with ultimate holding company (ICBC Limited) and subsidiaries and branches	**150.6**	-	**150.6**	-
Balances with shareholder with significant influence (SBG) and subsidiaries and branches	**-**	-	**-**	-
	150.6	-	**150.6**	-

19. Due to customers

	Group		Company	
	2021	2020	**2021**	2020
	$m	$m	**$m**	$m
Call deposits	**509.4**	502.3	**509.4**	502.3
Term deposits	**726.4**	1,771.5	**726.4**	1,771.5
	1,235.8	2,273.8	**1,235.8**	2,273.8

20. Subordinated debt

	Group		Company	
	2021	2020	**2021**	2020
	$m	$m	**$m**	$m
Subordinated floating rate notes 2027[1]	**150.0**	150.0	**150.0**	150.0
Subordinated floating rate notes 2029[2]	**100.0**	100.0	**100.0**	100.0
Accrued interest	**0.8**	0.8	**0.8**	0.8
	250.8	250.8	**250.8**	250.8
Balances with ultimate holding company (ICBC Limited) and subsidiaries and branches	**250.8**	250.8	**250.8**	250.8

1 Subordinated bonds with a principal amount of US$150.0 million and a floating interest rate of 3 month USD Libor plus 3.67% per annum were issued in June 2017. These bonds mature on 15 June 2027.
2 Subordinated bonds with a principal amount of US$100.0 million and a floating interest rate of 3 month USD Libor plus 2.75% per annum were issued in July 2019. These bonds mature on 31 July 2029.

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.

21. Other liabilities

	Group		Company	
	2021	2020	**2021**	2020
	$m	$m	**$m**	$m
Precious metal payables[1]	**2,057.9**	1,903.5	**2,057.9**	1,903.5
Unsettled dealing balances	**120.0**	83.7	**120.5**	83.0
Long-term incentive schemes	**21.7**	20.9	**21.7**	20.9
Leasehold liabilities	**41.1**	51.7	**34.7**	43.0
Restructuring provision	**3.0**	8.3	**3.0**	7.1
Other	**109.1**	113.6	**102.3**	108.5
	2,352.8	2,181.7	**2,340.1**	2,166.0
Balances with ultimate holding company (ICBC Limited) and subsidiaries and branches	**148.2**	502.7	**150.5**	502.1
Balances with shareholder with significant influence (SBG) and subsidiaries and branches	**21.4**	50.5	**21.4**	50.5
	169.6	553.2	**171.9**	552.6

1 This represents unallocated precious metal balances owed to customers

22. Leases

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

Right of use assets and lease liabilities recognised for leases for which the group is lessee are presented in property and equipment (see note 11) and other liabilities (see note 21) respectively. The amounts recognised in profit or loss in respect of these leases is shown in the table below and the total cash outflow recognised in the statement of cash flows was US$14.4 million (2020: US$18.3 million), comprising US$12.5 million (2020: US$16.0 million) principal repayments recognised as cash flows from financing activities and US$1.9 million (2020: US$2.3 million) interest expense recognised as cash flows from operating activities.

	2021	2020
	$m	$m
Depreciation charge of right of use assets	**12.0**	12.6
Interest expense on lease liabilities	**1.9**	2.3
Income from sub-leasing right of use assets	**(2.9)**	(2.9)

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

	2021	2020
	$m	$m
Less than one year	**14.8**	15.6
Between one and five years	**25.9**	39.4
More than five years	**-**	-
	40.7	55.0

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

	2021	2020
	$m	$m
Less than one year	**3.2**	3.0
One to two years	**3.3**	3.0
Two to three years	**2.3**	2.1
Three to four years	**-**	-
Four to five years	**-**	-
More than five years	**-**	-
	8.8	8.1

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.

23. Estimation of fair values (continued)

23.1 Financial instruments measured at fair value (continued)

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

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

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

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

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

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

In accordance with market practice, certain collateralised derivative products are valued using overnight index swap (OIS) rates to reflect the nature of the cost of financing of the product. Most collateral balances on derivative trades are funded at an overnight rate and hence OIS curves are more relevant than traditional Libor curves for such trades. OIS discounting was used (or adjusted for if required) where applicable to value the rates portfolio within the group. Discounting of collateralised derivatives also accounts for the currency in which collateral balances were posted.

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 of financial instruments not carried at fair value:

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

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

The methodology for estimating CVA and DVA as at 31 December 2021 was consistent with that used at 31 December 2020, with inputs updated where required. Credit and debit valuation adjustments are taken against derivative exposures in order to reflect the potential impact of counterparty performance with regards to these contracts.

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

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

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

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

23. Estimation of fair values (continued)

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

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

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

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

Type of adjustment	**2021** **$'m**	2020 $'m
Credit valuation adjustment	**30.7**	52.8
Debit valuation adjustment	**(1.8)**	(1.3)
Funding valuation adjustment	**1.3**	2.9
Total valuation adjustments	**30.2**	54.4
Day-1 profit or loss reserves	**30.0**	18.5
Total	**60.2**	72.9

Brackets represents an asset and credit to the income statement

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

24. Classification of assets and liabilities

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

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

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

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

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

24. Classification of assets and liabilities (continued)

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

31 December 2021	Note	Held-for-trading[1]	Non-trading financial instruments at fair value through profit or loss	Loans and receivables	Financial assets at fair value through other comprehensive income	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	2,455.7	-	-	-	-	-	2,455.7	440.6	2,014.8	0.3	-	2,455.7
Non-trading financial assets at fair value through profit or loss[4]	6	-	1,972.1	-	-	-	-	1,972.1	-	1,967.0	5.1	-	1,972.1
Derivative financial assets	7	4,392.1	-	-	-	-	-	4,392.1	697.6	3,524.4	170.1	-	4,392.1
Reverse repurchase agreements	8	1,706.4	-	-	-	-	-	1,706.4	-	1,706.4	-	-	1,706.4
Financial investments	10	-	-	-	925.5	-	-	925.5	925.5	-	-	-	925.5
		8,554.2	1,972.1	-	925.5	-	-	11,451.8	2,063.7	9,212.6	175.5	-	11,451.8
Financial assets carried at amortised cost													
Cash and balances with central banks[2]	3	-	-	6,056.5	-	-	-	6,056.5	-	-	-	6,056.5	6,056.5
Due from banks and other financial institutions[3]	4	-	-	2,306.7	-	-	-	2,306.7	-	-	2,240.8	65.9	2,306.7
Reverse repurchase agreements	8	-	-	581.4	-	-	-	581.4	-	582.2	-	-	582.2
Loans and advances to customers	9	-	-	1,608.7	-	-	-	1,608.7	-	-	1,608.7	-	1,608.7
		-	-	10,553.3	-	-	-	10,553.3	-	582.2	3,849.5	6,122.4	10,554.1
Other non-financial assets		3,902.1	-	-	-	-	361.3	4,263.4					
Total assets		12,456.3	1,972.1	10,553.3	925.5	-	361.3	26,268.5					
Financial liabilities measured at fair value													
Financial liabilities held for trading	15	1,566.5	-	-	-	-	-	1,566.5	2.4	1,474.9	89.2	-	1,566.5
Non-trading financial liabilities at fair value through profit or loss	16	-	2,099.9	-	-	-	-	2,099.9	-	2,099.9	-	-	2,099.9
Derivative financial liabilities	7	5,050.7	-	-	-	-	-	5,050.7	757.8	4,069.3	223.6	-	5,050.7
Repurchase agreements	18	408.0	-	-	-	-	-	408.0	-	408.0	-	-	408.0
		7,025.2	2,099.9	-	-	-	-	9,125.1	760.2	8,052.1	312.8	-	9,125.1
Financial liabilities carried at amortised cost													
Due to banks and other financial institutions[3]	17	-	-	-	-	11,646.5	-	11,646.5	-	-	11,666.7	-	11,666.7
Repurchase agreements	18	-	-	-	-	285.6	-	285.6	-	285.6	-	-	285.6
Due to customers	19	-	-	-	-	1,235.8	-	1,235.8	-	-	1,235.8	-	1,235.8
Subordinated debt	20	-	-	-	-	250.8	-	250.8	-	-	266.0	-	266.0
		-	-	-	-	13,418.7	-	13,418.7	-	285.6	13,168.5	-	13,454.1
Other non-financial liabilities	21	2,057.9	-	-	-	-	296.8	2,354.7					
Total liabilities		9,083.1	2,099.9	-	-	13,418.7	296.8	24,898.5					

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.

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

24. Classification of assets and liabilities (continued)

31 December 2020	Note	Held-for-trading[1] $m	Non-trading financial instruments at fair value through profit or loss $m	Loans and receivables $m	Financial assets at fair value through other comprehensive income $m	Other amortised cost $m	Other non-financial assets /liabilities $m	Total carrying value $m	Level 1 $m	Level 2 $m	Level 3 $m	Other[2] $m	Total fair value $m
Financial assets measured at fair value													
Financial assets held for trading	5	2,187.6	-	-	-	-	-	2,187.6	484.0	1,665.2	38.4	-	2,187.6
Non-trading financial assets at fair value through profit or loss[4]	6	-	1,971.5	-	-	-	-	1,971.5	-	1,965.9	5.6	-	1,971.5
Derivative financial assets	7	6,084.5	-	-	-	-	-	6,084.5	733.0	5,081.4	270.1	-	6,084.5
Reverse repurchase agreements	8	1,476.4	-	-	-	-	-	1,476.4	-	1,476.4	-	-	1,476.4
Financial investments	10	-	-	-	1,569.5	-	-	1,569.5	1,569.5	-	-	-	1,569.5
		9,748.5	1,971.5	-	1,569.5	-	-	13,289.5	2,786.5	10,188.9	314.1	-	13,289.5
Financial assets carried at amortised cost													
Cash and balances with central banks[2]	3	-	-	3,117.0	-	-	-	3,117.0	-	-	-	3,117.0	3,117.0
Due from banks and other financial institutions[3]	4	-	-	2,777.7	-	-	-	2,777.7	-	-	1,986.5	789.5	2,776.0
Reverse repurchase agreements	8	-	-	2,544.7	-	-	-	2,544.7	-	2,580.7	-	-	2,580.7
Loans and advances to customers	9	-	-	581.2	-	-	-	581.2	-	-	581.2	-	581.2
		-	-	9,020.6	-	-	-	9,020.6	-	2,580.7	2,567.7	3,906.5	9,054.9
Other non-financial assets		5,136.1	-	-	-	-	290.1	5,426.2					
Total assets		14,884.6	1,971.5	9,020.6	1,569.5	-	290.1	27,736.3					
Financial liabilities measured at fair value													
Financial liabilities held for trading	15	1,615.8	-	-	-	-	-	1,615.8	50.7	1,471.1	94.0	-	1,615.8
Non-trading financial liabilities at fair value through profit or loss	16	-	2,068.2	-	-	-	-	2,068.2	-	2,068.2	-	-	2,068.2
Derivative financial liabilities	7	6,558.5	-	-	-	-	-	6,558.5	877.5	5,433.6	247.4	-	6,558.5
Repurchase agreements	18	442.1	-	-	-	-	-	442.1	-	442.1	-	-	442.1
		8,616.4	2,068.2	-	-	-	-	10,684.6	928.2	9,415.0	341.4	-	10,684.6
Financial liabilities carried at amortised cost													
Due to banks and other financial institutions[3]	17	-	-	-	-	9,065.3	-	9,065.3	-	-	9,073.9	-	9,073.9
Repurchase agreements	18	-	-	-	-	1,975.0	-	1,975.0	-	1,974.3	-	-	1,974.3
Due to customers	19	-	-	-	-	2,273.8	-	2,273.8	-	-	2,273.8	-	2,273.8
Subordinated debt	20	-	-	-	-	250.8	-	250.8	-	-	278.8	-	278.8
		-	-	-	-	13,564.9	-	13,564.9	-	1,974.3	11,626.5	-	13,600.8
Other non-financial liabilities	21	1,903.5	-	-	-	-	281.8	2,185.3					
Total liabilities		10,519.9	2,068.2	-	-	13,564.9	281.8	26,434.8					

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.
[4] All non-trading financial assets at fair value through profit or loss are mandatorily measured at fair value through profit or loss in accordance with IFRS 9.

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 2021 $m	Level 2 2020 $m	Level 3 2021 $m	Level 3 2020 $m
Net derivative instruments	Discounted cash flow model (DCF)	Interest rate curve, credit curve, repurchase curve, recovery level, gap risk, exit cost	**(541.6)**	(359.5)	**(52.7)**	22.7
	Black Scholes model	Equity volatility, FX volatility, interest rate curve, credit curve	**(3.3)**	7.3	**(0.8)**	-
			(544.9)	(352.2)	**(53.5)**	22.7
Financial assets held for trading	DCF	Bond price, recovery level, interest rate curve, credit curve	**2,014.8**	1,665.2	**0.3**	38.4
Non-trading financial assets at fair value through profit or loss	DCF	Bond price, recovery level, interest rate curve, credit curve	**1,967.0**	1,965.9	**-**	0.3
	Other	Share price, net asset value	**-**	-	**5.1**	5.3
			1,967.0	1,965.9	**5.1**	5.6
Reverse repurchase agreements	DCF	Repurchase curve, interest rate curve	**1,706.4**	1,476.4	**-**	-
Financial liabilities held for trading	DCF	Interest rate curve, credit curve	**(1,474.9)**	(1,471.1)	**(89.2)**	(94.0)
Non-trading financial liabilities at fair value through profit or loss	DCF	Interest rate curve, credit curve	**(2,099.9)**	(2,068.2)	**-**	-
Repurchase agreements	DCF	Repurchase curve, interest rate curve	**(408.0)**	(442.1)	**-**	-
			1,160.5	773.9	**(137.3)**	(27.3)

25.2 Reconciliation of level 3 financial instruments

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

25. Financial instruments measured at fair value (continued)

25.2 Reconciliation of level 3 financial instruments (continued)

2020 Group[1]	Net derivative instruments $m	Financial assets held for trading $m	Non-trading financial assets at fair value through profit or loss $m	Financial liabilities held for trading $m	Total $m
Balance at beginning of the year	6.1	5.6	86.6	(85.0)	13.3
Total gains / (losses) included in net trading revenue	133.6	(3.8)	(0.4)	(9.0)	120.4
Realised	4.4	0.5	1.0	-	5.9
Unrealised	129.2	(4.3)	(1.4)	(9.0)	114.5
Purchases	1.0	37.1	-	-	38.1
Issues	-	-	-	-	-
Sales	7.6	(0.5)	(80.6)	-	(73.5)
Settlements	-	-	-	-	-
Transfers into level 3[2]	(117.4)	-	-	-	(117.4)
Transfers out of level 3[3]	(8.2)	-	-	-	(8.2)
Balance at end of the year	22.7	38.4	5.6	(94.0)	(27.3)

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

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

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

		Range of estimates for unobservable input	
Group[1]	**Main assumptions**	**2021**	2020
Net derivative instruments	Interest rate curve, credit curve, repurchase curve, recovery level, gap risk, exit cost	**Less than 1% to 13.4%**	Less than 1% to 13.5%
Financial assets held for trading	Bond price, recovery level, interest rate curve	**0 to 80**	Less than 1 to 115.2
Non-trading financial assets at fair value through profit or loss	Bond price, recovery level	**0 to 80**	Less than 1 to 80
	Share price, net asset value	**10%**	10%
Financial liabilities held for trading	Interest rate curve	**Less than 1% to 12.2%**	2.9% to 6.4%
	Net asset value	**10%**	10%

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

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

25. Financial instruments measured at fair value (continued)

25.3 Sensitivity of level 3 financial assets and liabilities and range of inputs (continued)

		Effect recorded in profit or loss			
		2021		2020	
		Favourable	**(Adverse)**	Favourable	(Adverse)
Group[1]	**Main assumptions**	**$m**	**$m**	$m	$m
Net derivative instruments	Interest rate curve, credit curve, repurchase curve, recovery level, gap risk, exit cost, Interest rate curve, credit curve	**30.3**	**(30.3)**	13.3	(13.3)
Financial assets held for trading	Discount rate, credit curve, interest rate curve, Bond Price, recovery level, interest rate curve	**0.1**	**(0.1)**	3.8	(3.8)
Non-trading financial assets at fair value through profit or loss	Bond price, recovery level, Share price, net asset value	**0.5**	**(0.5)**	0.6	(0.6)
Financial liabilities held for trading	Interest rate curve,	**4.2**	**(4.2)**	5.2	(5.2)

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

26. Offsetting of financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the balance sheet when the group currently has a legally enforceable right to set-off the recognised amounts and there is an intention to settle the asset and the liability on a net basis, or to realise the asset and settle the liability simultaneously. Certain derivative assets and liabilities met these criteria and US$1,759.2 million was offset in the current year (2020: US$1,982.0 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.

26. Offsetting of financial assets and financial liabilities (continued)

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]**		**Net amount**
				Financial instruments	**Cash collateral received / pledged**	
2021	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
Assets in scope						
Derivative financial assets	**6,151.3**	**(1,759.2)**	**4,392.1**	**(1,907.8)**	**(494.3)**	**1,990.0**
Commodity reverse repurchase agreements	**436.7**	**-**	**436.7**	**(436.7)**	**-**	**-**
Reverse repurchase agreements	**2,287.8**	**-**	**2,287.8**	**(2,287.8)**	**-**	**-**
Total financial assets in scope	**8,875.8**	**(1,759.2)**	**7,116.6**	**(4,632.3)**	**(494.3)**	**1,990.0**
Liabilities in scope						
Derivative financial liabilities	**6,809.9**	**(1,759.2)**	**5,050.7**	**(1,907.8)**	**(661.6)**	**2,481.3**
Repurchase agreements	**693.6**	**-**	**693.6**	**(693.6)**	**-**	**-**
Total financial liabilities in scope	**7,503.5**	**(1,759.2)**	**5,744.3**	**(2,601.4)**	**(661.6)**	**2,481.3**

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]		Net amount
				Financial instruments	Cash collateral received / pledged	
2020	$m	$m	$m	$m	$m	$m
Assets in scope						
Derivative financial assets	8,066.5	(1,982.0)	6,084.5	(3,069.3)	(705.9)	2,309.3
Commodity reverse repurchase agreements	83.1	-	83.1	(83.1)	-	-
Reverse repurchase agreements	4,021.1	-	4,021.1	(4,021.1)	-	-
Total financial assets in scope	12,170.7	(1,982.0)	10,188.7	(7,173.5)	(705.9)	2,309.3
Liabilities in scope						
Derivative financial liabilities	8,540.5	(1,982.0)	6,558.5	(3,069.3)	(297.5)	3,191.7
Repurchase agreements	2,417.1	-	2,417.1	(2,417.1)	-	-
Total financial liabilities in scope	10,957.6	(1,982.0)	8,975.6	(5,486.4)	(297.5)	3,191.7

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

27. Ordinary share capital and share premium

27.1 Ordinary share capital

	2021	2020
	$m	$m
Issued and fully paid		
1 083 458 378 ordinary shares of US$1 each (2020: 1 083 458 378)	**1,083.5**	1,083.5

27.2 Ordinary share premium

The movement in the share premium account in the current year is summarised below. There were no movements in share premium in the prior year.

	Share premium
	$m
1 January 2021	**996.0**
Share premium restructure	**(996.0)**
31 December 2021	**-**

In order to meet its obligations and pay coupons on the additional tier 1 securities (see note 28), a court sanctioned share premium restructure took effect in June 2021. This involved cancellation of the share premium account and transfer of the balance on that account to retained earnings.

28. Other Equity instruments

During the year ended 31 December 2019, the company issued US$160.0 million of additional tier 1 (AT1) securities; issue costs of US$0.1 million, net of tax, were charged to retained earnings.

The AT1 securities (Notes) are perpetual, with no fixed redemption date, callable by the issuer in its sole and absolute discretion (in whole, but not in part) after five-years or any date thereafter at their par value plus accrued but unpaid interest. The Notes are subordinate to any existing tier 2 instruments issued by ICBCS and senior to its ordinary shares. They pay interest annually for five-years at a fixed rate of 7.617 per cent and subsequently pay interest quarterly in perpetuity at a floating rate of three-month US dollar Libor plus 436 basis points. Interest payments are non–cumulative, payable at the sole and absolute discretion of the issuer and will be mandatorily cancelled to the extent required if there are insufficient distributable reserves to make payment. The Notes include a write down feature, whereby their full principal amount and all accrued but unpaid interest will be written down to zero if ICBCS's fully loaded common equity tier 1 ratio falls below 7.0 per cent. The company paid a coupon on the AT1 securities of US$12.2 million in December 2021 (2020: nil).

29. Contingent liabilities and commitments

29.1 Contingent liabilities

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

29.2 Restructuring provision

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

	Restructuring provision
	$m
1 January 2021	**8.3**
Arising during the year	**0.3**
Utilised	**(5.6)**
31 December 2021	**3.0**

The additional provision recognised during 2021 of US$0.3 million is further detailed in note 30.14. The remaining provision at 31 December 2021 of US$3.0 million relates to employee termination costs of US$0.5 million, which will be utilised during 2022, and property related costs of US$2.5 million in relation to rates and service charges for the vacant space in the London office premises, which will be utilised over the remaining term of the lease for that property, which expires in September 2024.

29. Contingent liabilities and commitments (continued)

29.3 Legal proceedings and regulatory matters

From time to time, the group is the subject of litigation, regulatory reviews and requests for information by various governmental and regulatory bodies arising from its business operations. While there is inherent uncertainty in predicting the outcome of these matters, management believe that based upon current knowledge, no provisions are required for such matters in accordance with accounting policy 11. The key legal proceedings currently being pursued against the group are summarised below:

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

30. Supplementary income statement information

30.1 Interest income[1]

Group	2021 $m	2020 $m
Interest on loans and advances and short-term funds	**131.6**	168.2
Interest on FVOCI instruments	**3.5**	12.4
	135.1	180.6
Included above are the following amounts receivable from related parties:		
Transactions with ultimate holding company (ICBC Limited) and subsidiaries and branches	**-**	-
Transactions with shareholder with significant influence (SBG) and subsidiaries and branches	**0.5**	10.8
	0.5	10.8

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

30.2 Interest expense[1]

Group	2021 $m	2020 $m
Subordinated debt	**8.8**	10.4
Other interest-bearing liabilities[2]	**14.3**	57.3
	23.1	67.7
Included above are the following amounts payable to related parties:		
Transactions with ultimate holding company (ICBC Limited) and subsidiaries and branches	**16.3**	37.9
Transactions with shareholder with significant influence (SBG) and subsidiaries and branches	**3.2**	6.3
	19.5	44.2

[1] All interest expense reported above relates to financial liabilities not carried at fair value through profit or loss, and leasehold liabilities.
[2] Interest expense net of charge to net trading revenue as per accounting policy 15.

30. Supplementary income statement information (continued)

30.3 Non-interest revenue

	2021 $m	2020 $m
Net fees, commission and revenue sharing arrangements[1]	**32.9**	43.7
Net trading revenue	**260.6**	285.1
Commodities	**134.8**	168.1
Fixed income	**115.3**	23.0
Equities	**0.2**	1.5
Foreign exchange[2]	**10.3**	92.5
Net gain on non-trading financial assets and liabilities at fair value through profit or loss	**48.3**	24.0
Recoveries / (losses) on commodity inventory intermediation (note 30.5)	**8.8**	(13.7)
Recoveries on commodity reverse repurchase agreements (note 30.4)	**3.4**	37.1
	354.0	**376.2**
Included above are the following amounts with related parties:		
Transactions with ultimate holding company (ICBC Limited) and subsidiaries and branches	**1.6**	(2.3)
Transactions with shareholder with significant influence (SBG) and subsidiaries and branches	**11.8**	12.2
	13.4	9.9

1 Revenue sharing arrangements on transactions with ICBC companies include receipts of US$6.1 million (2020: US$4.2 million), and payments of US$7.7 million (2020: US$9.7 million). Revenue sharing arrangements on transactions with SBG companies include receipts of US$8.9 million (2020: US$9.2 million). There were no payments to SBG companies in 2021 (2020: US$nil).
2 Includes cross currency swap instruments.

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

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

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

	2021 $m	2020 $m
Receivables, included in other assets	**8.0**	4.8
Contract liabilities, included in other liabilities	**(3.5)**	(4.4)

30. Supplementary income statement information (continued)

30.3 Non-interest revenue (continued)

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

30.4 Recoveries on commodity reverse repurchase agreements

In 2014, the group recognised a loss on a series of commodity financing transactions (reverse repurchase agreements) due to fraudulent activities in respect of physical aluminium held as collateral in bonded warehouses in China. During 2020, the group received cash payments totalling US$37.1 million, comprising US$29.4 million awarded by the arbitrator in settlement of the group's outstanding claim with one re-insurer and US$7.7 million from the criminal court in China as the group's share of the proceeds from the sale by auction of aluminium left at the port in China at which the fraud occurred.

During 2021, the group received further cash payments from the Chinese court totalling US$8.5 million following sale of the remaining aluminium left at the port. Following agreement with the re-insurers regarding the amount of the auction proceeds to which they are entitled, a payment of US$5.1 million was made to the re-insurers. The remaining US$3.4 million was recognised by the group in profit or loss in the current year, bringing the total recovery for the group from this source to US$11.1 million.

30.5 Recoveries / (losses) on commodity inventory intermediation

In 2019, the group incurred material losses on its commodity inventory intermediation activities following a fire at a client's oil refinery site and their subsequent bankruptcy. Further losses, net of a recovery against cash collateral, were incurred in 2020 in relation to this transaction. These principally related to inventory extraction costs and professional fees incurred in pursuing recovery of the group's losses.

In February 2020 the group lodged a secured claim for its losses against the client's bankruptcy estate for unpaid invoices, loss of bargain, inventory extraction and other operating costs, professional fees and applicable interest. The group also filed a claim in its own right against the client's insurers.

In 2021, the group received a net recovery on the transaction of US$8.8 million, following realisation of certain collateral and some insurance recoveries, partially offset by further provisions for professional fees relating to the group and its claim against the client.

In January 2022, the group and client entered into a settlement agreement with the client's insurers in respect of their business interruption insurance claims and obtained the support of other interested parties. The settlement of these insurance claims was approved by the US Bankruptcy Court on 17 January 2022. Under the terms of the settlement, the group will receive approximately US$230.0 million from the insurance proceeds as compensation for the losses it incurred. Payments from the insurers were required to be made within 21 days of the US Bankruptcy Court's approval and the bank recognised the net recovered proceeds (before tax) in income subsequent to year-end.

30. Supplementary income statement information (continued)

30.6 Credit impairment charges

	2021 $m	2020 $m
Stage 1: 12-month ECL	**(0.7)**	(0.4)
Reverse repurchase agreements	**-**	0.1
Due from banks and other financial institutions	**(0.6)**	(0.1)
Loans and advances to customers	**0.4**	(0.3)
Commitments and financial guarantees given	**(0.5)**	(0.1)
Stage 2: Lifetime ECL - not credit-impaired	**(0.2)**	0.5
Loans and advances to customers	**0.1**	0.5
Due from banks and other financial institutions	**(0.3)**	-
Stage 3: Lifetime ECL - credit-impaired	**3.7**	(4.8)
Loans and advances to customers	**3.7**	(4.8)
Net credit impairment recoveries / (charges)	**2.8**	(4.7)

30.7 Staff costs

	2021 $m	2020 $m
Salaries and allowances	**178.3**	169.1
Other direct staff costs	**19.4**	19.6
Long-term incentive schemes	**9.7**	10.2
Retirement benefit costs	**8.7**	8.6
	216.1	207.5

As detailed in note 30.8, the group changed the presentation for certain costs in the income statement in 2021. This included reclassification of certain staff costs. Prior year comparatives have been reclassified to present amounts on a comparable basis to the current year.

30.8 Other operating expenses

	2021 $m	2020 $m
Auditors' remuneration	**3.8**	4.3
Audit of ICBC Standard Bank Plc company	**2.9**	3.4
Audit of subsidiaries[1]	**0.3**	0.4
Audit related assurance services	**0.6**	0.5
All other services	**-**	-
Depreciation	**17.9**	17.9
Computer equipment	**3.7**	3.2
Office equipment	**0.4**	0.3
Furniture and fittings	**1.8**	1.8
Right of use lease assets	**12.0**	12.6
Information technology and communication	**33.7**	28.0
Infrastructure and IT development costs	**35.0**	25.8
Staff costs	**12.9**	7.4
Amortisation of intangible assets	**11.2**	11.4
Information technology and communication	**9.3**	5.4
Other expenses	**1.6**	1.6
Premises	**6.4**	5.8
Other expenses	**31.0**	39.5
	127.7	121.3

[1] Includes US$0.2 million (2020: US$0.2 million) in respect of fees for audit services to firms other than Deloitte.

30. Supplementary income statement information (continued)

30.8 Other operating expenses (continued)

In 2021, the group changed the presentation for certain costs related to infrastructure, technology and systems projects to consolidate all such costs in other operating expenses in the income statement. Similarly, certain consultancy costs were reclassified to staff costs for personnel employed to undertake roles relating to the day-to-day running of the bank. This reflects a change in performance monitoring by group executive management to provide more consistency on the nature of expenses incurred and hence more transparency on staff costs and the group's investment in infrastructure and technology. The net amount reclassified from staff costs for the year was US$8.9 million (2020: US$4.3 million). The costs concerned are separately disclosed in other operating expenses as 'Infrastructure and IT development costs'. Prior year comparatives have been reclassified to present amounts on a comparable basis to the current year.

30.9 Indirect taxation

	2021 **$m**	2020 $m
Value added tax	**5.7**	3.9

30.10 Long-term incentive schemes

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

The cost of the deferred incentive awards is accrued over the vesting period. As noted in accounting policy 14, Long term incentive schemes, following a review of the terms of these awards, the group extended the period over which the expense is recognised to include the relevant performance period before the legal grant date reflecting the period employees consider their services contribute to the awards. This change in period over which the awards are recognised was effective from 1 January 2021 and resulted in a life-to-date additional charge during the year for the deferred cash and share awards of US$4.0 million. This is considered a change in measurement basis, so does not require a restatement of prior periods. During the performance year of 2021, US$4.9 million has been accrued relating to deferred awards to be awarded in March 2022.

The provision in respect of liabilities under the scheme amounts to US$26.6 million (quanto US$12.6 million, deferred cash US$14.0 million) at 31 December 2021 (2020: US$20.9 million), and the charge for the year is US$14.6 million (quanto US$6.1 million, deferred cash US$8.5 million; 2020: US$10.1million, quanto US$3.5 million and deferred cash US$6.6 million). The change in liability due to changes in the ICBC share price is hedged through the use of equity options designated as cash flow hedges (see note 7.4.1).

The provision amount at 31 December 2021 related to fully vested quanto awards was US$3.8 million (2020: US$2.0 million). There were no fully vested deferred cash awards that were unpaid at 31 December 2021 (2020: nil).

30. Supplementary income statement information (continued)

30.10 Long-term incentive schemes (continued)

ICBC shares	2021 Units	2020 Units
Units outstanding at beginning of the year	**1,575,939**	2,652,157
Granted	**2,193,352**	534,989
Exercised	**(1,194,263)**	(1,604,127)
Leavers / lapses	**(4,839)**	(7,080)
Units outstanding at end of the year	**2,570,189**	1,575,939
Of which relates to key management	**403,688**	417,883

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

Expiry year[1]	2021 Units	2020 Units
2020	**-**	312,203
2021	**634,941**	562,763
2022	**594,514**	309,983
2023	**466,397**	179,287
2024	**448,095**	128,765
2025	**188,984**	50,551
2026	**170,820**	32,387
2027	**34,218**	-
2028	**32,220**	-
	2,570,189	1,575,939

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

The unrecognised compensation cost related to the unvested awards amounts to US$17.2 million (2020: US$29.4 million). The quanto element of this is US$8.3 million, with US$9.0 million being deferred cash awards. These represent the accumulated amount deferred on awards issued and approved. The P&L vesting of these awards is expected to occur as follows:

	2021 $m	2020 $m
Year ending 31 December 2021	**-**	14.0
Year ending 31 December 2022	**8.0**	8.4
Year ending 31 December 2023	**4.8**	4.1
Year ending 31 December 2024	**2.5**	1.8
Year ending 31 December 2025	**1.3**	0.8
Year ending 31 December 2026	**0.5**	0.2
Year ending 31 December 2027	**0.1**	0.1
Year ending 31 December 2028	**-**	-
	17.2	29.4

Deferred awards of US$15.1 million (2020: US$18.8 million) have been approved for issue in March 2022. This is split into quanto awards of US$7.5 million (2020: US$9.4 million) and deferred cash awards of US$7.6 million (2020: US$9.4 million). These awards vest annually over periods of up to seven years.

30. Supplementary income statement information (continued)

30.11 Directors' emoluments

Directors[1,2,3]	2021 $m	2020 $m
Emoluments of directors in respect of services rendered		
Emoluments	**3.8**	3.8
Proceeds from exercise of share-based incentives	**0.1**	1.3
Pension contribution	**-**	-
Highest paid director		
Emoluments	**1.1**	1.0
Proceeds from exercise of share-based incentives	**-**	0.4

[1] Compensation relates to services rendered to the group. No additional amounts were paid in 2021 on the group's behalf by entities consolidated into the ultimate holding company (ICBC Limited) and the shareholder with significant influence (SBG) (2020: US$ nil).
[2] No pension contributions were paid on behalf of directors during the year and at year end for both 2021 and 2020.
[3] The number of directors to whom retirement benefits were accruing under defined contribution plans in respect of qualifying services for 2021 was nil (2020: nil)

Long-term benefits under the ICBC quanto stock unit plan	2021 Units	2020 Units
Number of units brought forward	**36,994**	193,183
Issued during the year	**193,689**	-
New directors existing units	**-**	246,655
Leavers	**-**	(118,614)
Exercised	**(10,200)**	(284,230)
As at 31 December	**220,483**	36,994

30.12 Company profits

As permitted by section 408 of the Companies Act 2006, the company's statement of comprehensive income has not been presented. The company's profit of US$96.2 million (2020: US$105.7 million) has been included in the consolidated income statement.

30.13 Dividends

No dividends on ordinary shares were declared in 2021 (2020: US$ nil).

30.14 Restructuring costs and other impairments

In 2019, the group commenced a restructuring of its business activities and associated operations, which involved closure of its equities and investment banking businesses (excluding DCM), and overseas branches in Hong Kong, Tokyo and Dubai. A broader review of the group's overall headcount was also undertaken to align with its revised strategic objectives following the restructuring. The restructuring programme was completed in 2020, except for the closure of the Hong Kong branch which was completed in August 2021.

As detailed in note 29.2, previously provided restructuring costs of US$5.6 million were utilised during 2021. This included a reduction in the provision of US$0.8 million following agreement of a new sub-lease for a portion of the vacant property space in the group's London office premises. Following agreement of the new sub-lease, US$0.9 million of the impairment charge recognised in 2020 on the related right-of-use asset was also released to profit or loss. These recoveries were partially offset by a further provision of US$0.3 million for additional costs incurred in relation to the delayed closure of the Hong Kong branch, resulting in an overall net recovery for 2021 of US$1.4 million.

31. Income tax charge

	2021 $m	2020 $m
Current year tax charge	**(22.2)**	(23.1)
UK current tax	**(7.8)**	(10.5)
Overseas withholding tax	**(12.9)**	(9.6)
Overseas current tax	**(1.4)**	(3.3)
Overseas deferred tax	**(0.1)**	0.3
Prior years	**0.1**	5.7
UK current tax[1]	**0.1**	5.9
Overseas tax	**(0.1)**	(0.2)
Overseas deferred tax	**0.1**	-
Total tax charge	**(22.1)**	**(17.4)**

UK tax rate reconciliation

The UK corporation tax rate for the year ended 31 December 2021 was 19% (2020: 19%). The difference between the actual tax charge and the tax that would result from applying the standard UK corporation tax rate to the group's profit before tax is explained below.

	2021 $m	2020 $m
Profit before taxation	**120.7**	132.9
Tax charge at the standard rate of 19% (2020: 19%)	**(22.9)**	(25.3)
Effects of:		
Adjustment to tax in respect of prior years - UK consortium relief[1]	**-**	5.9
Adjustment to tax in respect of prior years - Other	**0.1**	(0.2)
Origination / reversal of temporary differences not recognised	**3.1**	3.0
Different tax rates in other countries	**-**	(0.1)
Non-deductible expenses	**(0.6)**	(0.5)
Utilisation / (origination) of tax losses for which no deferred tax was recognised	**8.4**	10.5
Net impact of overseas tax[2]	**(10.5)**	(7.8)
Banking surcharge	**(2.0)**	(2.9)
AT1 coupon[3]	**2.3**	-
Tax charge included in the income statement	**(22.1)**	(17.4)
Effective tax rate (%)	**18.3**	13.1

1 Surrender of a portion of the company's 2019 UK tax losses to UK related parties under the UK consortium relief rules during the year ended 31 December 2020.
2 Certain dividend and interest income received by the company is subject to withholding tax imposed in the country of origin. Income that is subject to such tax is recognised gross of the taxes and the corresponding withholding tax is recognised as a tax expense.
3 The Company's AT1 coupon payments are tax deductible. Following an amendment to IAS 12 effective 1 January 2019, the income tax consequences of tax deductible distributions, including AT1 coupon payments, are recorded in the income statement tax expense.

As noted in note 12, an increase in the standard rate of UK corporation tax from 19% to 25% with effect from 1 April 2023 was enacted on 10 June 2021. A reduction in the rate of bank surcharge from 8% to 3% (and an increase in the surcharge allowance from £25 million to £100 million) with effect from 1 April 2023 was enacted on 24 February 2022. These changes will impact the current tax charge for the group in future periods.

32. Notes to the cash flow statement

32.1 (Increase) / decrease in income-earning assets

	Group		Company	
	2021 $m	2020 $m	2021 $m	2020 $m
Financial assets held for trading	**(268.1)**	(267.6)	**(268.1)**	(267.6)
Non-trading financial assets at fair value through profit or loss	**(0.6)**	(666.2)	**(0.6)**	(666.2)
Loans and advances	**467.2**	(1,591.8)	**469.7**	(1,585.0)
Other assets	**1,131.7**	1,279.7	**1,144.5**	1,323.7
Financial investments	**644.6**	296.8	**644.6**	296.8
	1,974.8	(949.1)	**1,990.1**	(898.3)

32. Notes to the cash flow statement (continued)

32.2 Increase in deposits and other liabilities

	Group		Company	
	2021	2020	**2021**	2020
	$m	$m	**$m**	$m
Deposits and current accounts	**(181.2)**	3,113.3	**(181.2)**	3,113.3
Net derivative instruments	**179.6**	(97.8)	**179.6**	(97.8)
Financial liabilities held for trading	**(49.3)**	305.5	**(49.3)**	305.5
Non-trading financial liabilities at fair value through profit or loss	**31.6**	840.3	**31.6**	840.3
Other liabilities	**173.5**	(3,089.2)	**178.5**	(3,090.9)
	154.2	1,072.1	**159.2**	1,070.4

32.3 Corporation and withholding tax paid

	Group		Company	
	2021	2020	**2021**	2020
	$m	$m	**$m**	$m
Amounts unpaid at beginning of the year	**(3.6)**	(2.6)	**(3.6)**	(0.6)
Income tax charge	**(22.1)**	(17.4)	**(21.7)**	(15.8)
Non-cash movements	**0.3**	(5.5)	**0.3**	(7.6)
Amounts unpaid / (receivable) at end of the year	**(1.6)**	3.6	**(1.4)**	3.6
	(27.0)	(21.9)	**(26.4)**	(20.4)

32.4 Cash and cash equivalents

	Group		Company	
	2021	2020	**2021**	2020
	$m	$m	**$m**	$m
Balances with central banks	**6,056.5**	3,117.0	**6,056.5**	3,117.0
Other cash equivalents[1]	**66.0**	789.5	**58.0**	781.9
Cash and cash equivalents at end of the year	**6,122.5**	3,906.5	**6,114.5**	3,898.9

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

32.5 Reconciliation of liabilities arising from financing activities

2021 Group and company	**Opening balance $m**	**Cash flow movements $m**	**Non-cash flow movements $m**	**Closing balance $m**
Subordinated debt	**250.8**	**-**	**-**	**250.8**
Total	**250.8**	**-**	**-**	**250.8**

2020 Group and company	Opening balance $m	Cash flow movements $m	Non-cash flow movements $m	Closing balance $m
Subordinated debt	251.2	-	(0.4)	250.8
Total	251.2	-	(0.4)	250.8

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. Related party transactions (continued)

33.2 ICBC and SBG related parties

The group entered into transactions with other entities forming part of the ICBC Group and Standard Bank Group. The transactions were entered into in the course of banking operations and were conducted in the ordinary course of business at arm's length, and on substantially the same terms, including interest rates and security, as for comparable transactions with third party counterparties. These transactions include funding and acceptance of interbank deposits, lending, derivative transactions and correspondent banking transactions. The transactions were priced at the prevailing market rates at the time of the transactions. A significant portion of this activity reflects funding and placements of precious metal holdings received, as well as the deposit of excess liquidity by other entities with the group. The extent of these activities is presented in notes 16, 17, 18 and 21. As part of its normal activities, the group also advanced funds to other entities within the ICBC and Standard Bank groups, the extent of which is disclosed in notes 4, 5 and 8. Balances arising from derivative transactions are shown in note 7.1.

33.3 Risk mitigation transactions

The group has entered into certain equity risk mitigation transactions with Standard Bank of South Africa Limited (SBSA), whereby SBSA provides risk mitigation to the group. Under IFRS, the equity exposures are not derecognised and the related liabilities to SBSA are accordingly recognised on balance sheet. The equity asset outstanding at 31 December 2021 was US$2.3 million (2020: US$1.9 million) and is included in non-trading financial assets at fair value through profit or loss as part of the unlisted equities balance (see note 6).

33.4 Key management compensation

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

	2021	2020
	$m	$m
Salaries and other short-term benefits	**5.5**	5.8
Long-term incentives recognised in the income statement	**1.7**	0.6
Amounts included in the income statement	**7.2**	6.4
Proceeds on exercise of long-term incentives	**0.4**	0.5

There were no other transactions with key management in 2021 (2020: nil).

The average executive key management consists of 13 employees (2020: 13 employees).

34. Pensions and other post-retirement benefits

The group makes defined contributions to employees' pension providers. The assets of these providers are held separately from the group. Included in staff costs are contributions paid for pensions and other post-retirement benefits which amounted to US$8.7 million (2020: US$8.6 million). There were no outstanding contributions at the end of the reporting period (2020: US$nil).

35. Subsequent events

As noted in note 30.5, the group was pursuing recovery of the losses it incurred on its commodity inventory intermediation activities following a fire at a client's oil refinery site and their subsequent bankruptcy in 2019. In January 2022, a settlement agreement in relation to the client's and group's business interruption insurance claims was approved by the US Bankruptcy Court, that will result in the group receiving approximately US$230.0 million of net proceeds (before tax) in respect of this incident. As the US Bankruptcy Court approval of the insurance settlement was not obtained until after year-end, the settlement is a non-adjusting post-balance sheet event and so no amounts were recognised in the group's financial statements for the year ended 31 December 2021. The net recovered proceeds received by the group have been recognised in income subsequent to year-end and will be reflected in the year ending 31 December 2022.

Subsequent to the year end, the conflict between Russia and the Ukraine has led to the further imposition of sanctions by US, EU and UK on certain entities in Russia, including a number of state controlled banks. As part of the bank's emerging markets and commodities business model the bank has exposures to a number of these entities that are being impacted. The bank took proactive steps to review its Russian and Ukrainian activities against the backdrop of rising tensions and, where appropriate, reduced its limits for entities which we believed could be affected. The bank is currently enacting its contingency plans thereby responding in a timely fashion to the developments. As of the date of this report, given the uncertainties around these developments, it is not possible to assess the impact on the bank's 2022 result.

Except as noted above, no other material adjusting or non-adjusting events have occurred between the balance sheet date and the date the annual financial statements have been approved for issue, which would require disclosure in the group's financial statements.

36. Maturity analysis

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

Group – 31 December 2021	Repayable on demand $m	Maturing within 1 month $m	Maturing after 1 month but within 3 months $m	Maturing after 3 months but within 6 months $m	Maturing after 6 months but within 12 months $m	Maturing after 12 months but within 5 years $m	Maturing after 5 years $m	Undated $m	Total $m
Assets									
Cash and balances with central banks	6,056.5	-	-	-	-	-	-	-	6,056.5
Due from banks and other financial institutions	1,454.0	56.4	162.3	116.6	50.3	467.1	-	-	2,306.7
Financial assets held for trading	19.1	445.2	113.4	39.1	192.7	762.9	883.3	-	2,455.7
Non-trading financial assets at fair value through profit or loss	-	-	-	-	1,967.1	-	-	5.0	1,972.1
Derivative financial assets	60.2	628.6	770.4	480.3	687.3	1,182.1	583.2	-	4,392.1
Reverse repurchase agreements	724.7	787.1	638.2	56.5	9.0	72.3	-	-	2,287.8
Loans and advances to customers	518.6	323.4	172.6	114.5	37.8	343.2	98.6	-	1,608.7
Financial investments	5.2	157.0	50.0	-	101.1	612.2	-	-	925.5
Property and equipment	-	-	-	-	-	-	-	47.4	47.4
Current tax assets	-	-	-	-	-	-	-	3.5	3.5
Deferred tax assets	-	-	-	-	-	-	-	0.7	0.7
Other assets	272.9	-	-	-	-	0.1	0.2	3,938.6	4,211.8
Total assets	**9,111.2**	**2,397.7**	**1,906.9**	**807.0**	**3,045.3**	**3,439.9**	**1,565.3**	**3,995.2**	**26,268.5**
Liabilities									
Financial liabilities held for trading	2.3	2.2	205.1	142.8	134.8	412.3	667.0	-	1,566.5
Non-trading financial liabilities at fair value through profit or loss	-	-	-	-	2,099.9	-	-	-	2,099.9
Derivative financial liabilities	55.9	721.2	815.6	646.7	812.3	1,267.2	731.8	-	5,050.7
Due to banks and other financial institutions	1,721.0	4,559.1	754.6	202.2	828.0	3,577.2	4.4	-	11,646.5
Repurchase agreements	37.3	179.3	414.5	-	-	62.5	-	-	693.6
Due to customers	509.5	453.1	273.2	-	-	-	-	-	1,235.8
Current tax liabilities	-	-	-	-	-	-	-	1.9	1.9
Subordinated debt	-	-	-	-	-	-	250.8	-	250.8
Other liabilities	2,218.0	66.4	2.0	-	0.1	0.2	0.2	65.9	2,352.8
Total liabilities	**4,544.0**	**5,981.3**	**2,465.0**	**991.7**	**3,875.1**	**5,319.4**	**1,654.2**	**67.8**	**24,898.5**

36. Maturity analysis (continued)

Company – 31 December 2021	Repayable on demand $m	Maturing within 1 month $m	Maturing after 1 month but within 3 months $m	Maturing after 3 months but within 6 months $m	Maturing after 6 months but within 12 months $m	Maturing after 12 months but within 5 years $m	Maturing after 5 years $m	Undated $m	Total $m
Assets									
Cash and balances with central banks	6,056.5	-	-	-	-	-	-	-	6,056.5
Due from banks and other financial institutions	1,396.3	56.4	162.3	116.6	50.3	467.1	-	-	2,249.0
Financial assets held for trading	19.1	445.2	113.4	39.1	192.7	762.9	883.3	-	2,455.7
Non-trading financial assets at fair value through profit or loss	-	-	-	-	1,967.1	-	-	5.0	1,972.1
Derivative financial assets	60.2	628.6	770.4	480.3	687.3	1,182.1	583.2	-	4,392.1
Reverse repurchase agreements	724.7	787.1	638.2	56.5	9.0	72.3	-	-	2,287.8
Loans and advances to customers	518.6	323.4	172.6	114.5	37.8	343.2	98.6	-	1,608.7
Financial investments	5.2	157.0	50.0	-	101.1	612.2	-	-	925.5
Property and equipment	-	-	-	-	-	-	-	40.0	40.0
Current tax assets	-	-	-	-	-	-	-	3.3	3.3
Deferred tax assets	-	-	-	-	-	-	-	-	-
Other assets	272.2	-	-	-	-	0.1	0.2	3,938.4	4,210.9
Investment in group companies	-	-	-	-	-	-	-	29.5	29.5
Total assets	9,052.8	2,397.7	1,906.9	807.0	3,045.3	3,439.9	1,565.3	4,016.2	26,231.1
Liabilities									
Financial liabilities held for trading	2.3	2.2	205.1	142.8	134.8	412.3	667.0	-	1,566.5
Non-trading financial liabilities at fair value through profit or loss	-	-	-	-	2,099.9	-	-	-	2,099.9
Derivative financial liabilities	55.9	721.2	815.6	646.7	812.3	1,267.2	731.8	-	5,050.7
Due to banks and other financial institutions	1,721.0	4,559.1	754.6	202.2	828.0	3,577.2	4.4	-	11,646.5
Repurchase agreements	37.3	179.3	414.5	-	-	62.5	-	-	693.6
Due to customers	509.5	453.1	273.2	-	-	-	-	-	1,235.8
Current tax liabilities	-	-	-	-	-	-	-	1.9	1.9
Subordinated debt	-	-	-	-	-	-	250.8	-	250.8
Other liabilities	2,207.2	66.4	2.0	-	0.1	0.2	0.2	64.0	2,340.1
Total liabilities	4,533.2	5,981.3	2,465.0	991.7	3,875.1	5,319.4	1,654.2	65.9	24,885.8

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

Group – 31 December 2020	Repayable on demand $m	Maturing within 1 month $m	Maturing after 1 month but within 3 months $m	Maturing after 3 months but within 6 months $m	Maturing after 6 months but within 12 months $m	Maturing after 12 months but within 5 years $m	Maturing after 5 years $m	Undated $m	Total $m
Assets									
Cash and balances with central banks	3,117.0	-	-	-	-	-	-	-	3,117.0
Due from banks and other financial institutions	1,751.1	563.6	45.3	52.3	164.8	200.6	-	-	2,777.7
Financial assets held for trading	28.0	157.9	144.0	160.7	165.8	629.4	896.5	5.3	2,187.6
Non-trading financial assets at fair value through profit or loss	-	-	-	-	1,970.5	-	1.0	-	1,971.5
Derivative financial assets	10.6	1,005.0	1,106.4	815.9	733.2	1,621.9	791.5	-	6,084.5
Reverse repurchase agreements	533.7	439.2	1,052.7	110.6	1,841.4	43.5	-	-	4,021.1
Loans and advances to customers	77.7	55.6	32.1	32.4	177.6	66.3	139.5	-	581.2
Financial investments	5.4	-	157.6	40.0	438.7	927.8	-	-	1,569.5
Property and equipment	-	-	-	-	-	-	-	57.9	57.9
Current tax assets	-	-	-	-	-	-	-	-	-
Deferred tax assets	-	-	-	-	-	-	-	0.7	0.7
Other assets	190.8	3.5	1.4	-	-	0.3	0.8	5,170.8	5,367.6
Total assets	5,714.3	2,224.8	2,539.5	1,211.9	5,492.0	3,489.8	1,829.3	5,234.7	27,736.3
Liabilities									
Financial liabilities held for trading	1.5	115.1	185.5	148.2	27.6	445.9	692.0	-	1,615.8
Non-trading financial liabilities at fair value through profit or loss	-	-	-	-	2,068.2	-	-	-	2,068.2
Derivative financial liabilities	28.9	1,084.6	1,130.6	778.4	752.8	1,826.6	956.6	-	6,558.5
Due to banks and other financial institutions	1,106.3	2,492.5	1,328.9	184.7	596.3	3,351.3	5.3	-	9,065.3
Repurchase agreements	-	794.0	1,623.1	-	-	-	-	-	2,417.1
Due to customers	502.5	1,225.1	530.9	3.7	11.6	-	-	-	2,273.8
Current tax liabilities	-	-	-	-	-	-	-	3.6	3.6
Subordinated debt	-	-	-	-	-	-	250.8	-	250.8
Other liabilities	2,037.7	66.7	1.6	1.5	-	0.3	0.9	73.0	2,181.7
Total liabilities	3,676.9	5,778.0	4,800.6	1,116.5	3,456.5	5,624.1	1,905.6	76.6	26,434.8

36. Maturity analysis (continued)

Company – 31 December 2020	Repayable on demand $m	Maturing within 1 month $m	Maturing after 1 month but within 3 months $m	Maturing after 3 months but within 6 months $m	Maturing after 6 months but within 12 months $m	Maturing after 12 months but within 5 years $m	Maturing after 5 years $m	Undated $m	Total $m
Assets									
Cash and balances with central banks	3,117.0	-	-	-	-	-	-	-	3,117.0
Due from banks and other financial institutions	1,696.3	563.6	45.3	52.3	164.8	200.6	-	-	2,722.9
Financial assets held for trading	28.0	157.9	144.0	160.7	165.8	629.4	896.5	5.3	2,187.6
Non-trading financial assets at fair value through profit or loss	-	-	-	-	1,970.5	-	1.0	-	1,971.5
Derivative financial assets	10.6	1,005.0	1,106.4	815.9	733.2	1,621.9	791.5	-	6,084.5
Reverse repurchase agreements	533.7	439.2	1,052.7	110.6	1,841.4	43.5	-	-	4,021.1
Loans and advances to customers	77.7	55.6	32.1	32.4	177.6	66.3	139.5	-	581.2
Financial investments	5.4	-	157.6	40.0	438.7	927.8	-	-	1,569.5
Property and equipment	-	-	-	-	-	-	-	47.8	47.8
Other assets	189.8	3.5	1.4	-	-	0.3	0.8	5,170.8	5,366.6
Investment in group companies	-	-	-	-	-	-	-	29.5	29.5
Total assets	5,658.5	2,224.8	2,539.5	1,211.9	5,492.0	3,489.8	1,829.3	5,253.4	27,699.2
Liabilities									
Financial liabilities held for trading	1.5	85.6	185.5	148.2	27.6	475.4	692.0	-	1,615.8
Non-trading financial liabilities at fair value through profit or loss	-	-	-	-	2,068.2	-	-	-	2,068.2
Derivative financial liabilities	28.9	1,084.6	1,130.6	778.4	752.8	1,826.6	956.6	-	6,558.5
Due to banks and other financial institutions	1,106.3	2,492.5	1,328.9	184.7	596.3	3,351.3	5.3	-	9,065.3
Repurchase agreements	-	794.0	1,623.1	-	-	-	-	-	2,417.1
Due to customers	502.5	1,225.1	530.9	3.7	11.6	-	-	-	2,273.8
Current tax liabilities	-	-	-	-	-	-	-	3.6	3.6
Subordinated debt	-	-	-	-	-	-	250.8	-	250.8
Other liabilities	2,024.5	66.7	1.6	1.5	-	0.3	0.9	70.5	2,166.0
Total liabilities	3,663.7	5,748.5	4,800.6	1,116.5	3,456.5	5,653.6	1,905.6	74.1	26,419.1

37 Risk management

Certain sections of the risk management note that follows and certain items within that note are not subject to external audit. These are identified in the note by being designated 'unaudited' and are summarised in the table below:

Note number	Section	Sub-section
37.2	Risk management framework	Stress testing
37.3	Risk categories	Operational risk
37.3	Risk categories	Business risk
37.3	Risk categories	Reputational risk
37.6	Liquidity risk	Summary of performance
37.7	Market risk	Analysis of interest rate risk in the banking book (IRRBB)
37.8	Operational risk	
37.9	Reputational risk	
37.10	Capital management	Economic capital
37.10	Capital management	Regulatory capital
37.10	Capital management	Capital resources (regulatory deductions)

37.1 Overview and executive summary

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

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

37 Risk management (continued)

37.1 Overview and executive summary (continued)

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

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

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

37.2 Risk management framework

Governance structure

Overall responsibility for risk management within the group rests with the Board. Day-to-day responsibility is delegated to the executive 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 policies and procedures

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

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.

37 Risk management (continued)

37.2 Risk management framework (continued)

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 for 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 measures compared with risk appetite under both normal and stressed conditions.

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

The group's risk appetite is defined in relation to the following metrics:

- earnings at risk;
- economic capital;
- regulatory capital;
- liquidity; and
- unacceptable risk;

These metrics are then converted into limits and triggers appropriate to the relevant risk types, at both entity and business unit level.

Stress testing (unaudited)
The group's stress testing framework supports the regular execution of stress tests at the business unit and legal entity levels. The group's overall stress testing programme, incorporating credit, market, operational and liquidity risk, is a key management tool within the organisation and facilitates a forward looking perspective of risk in relation to 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 to manage the group's risk profile proactively, to plan and manage capital and liquidity, and as an input into the strategic business planning process. 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.

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

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

37 Risk management (continued)

37.2 Risk management framework (continued)

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 modifications to risk limits, reducing levels of business, and limiting exposures through hedging activities.

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

- strategic planning and budgeting;
- capital and liquidity planning and management, including setting capital and liquidity buffers 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 2021 the group performed stress tests on scenarios, which were based on internal group defined scenarios with the most severe scenario benchmarked, and confirmed to be comparable, to the January 2021 Bank of England stress test. The scenarios used by ICBCS were "Global Second Wave – W shaped recession", "Financial Crisis" and "Rapid Upturn". The "Global Second Wave" examined the consequences of a surge in Covid cases causing renewed risk aversion, recession and a delayed recovery. The "financial crisis" incorporated a much slower than anticipated relaxation of global health restrictions and reduced ability for governments to provide financial support, leading to a global financial crisis. The scenario provided a severe stress relevant to both the FIC and Commodities businesses. The "rapid upturn" focusses on risks emanating from a faster than anticipated recovery based on vaccine roll out and fiscal stimulus, causing inflationary and overheating pressure in developed markets which in turn leads to an element of EM risk off.

In Q2 2021 it was determined that the "rapid upturn" scenario was not of sufficient severity and a replacement scenario was commissioned from Oxford Economics to examine similar risks through a "return of inflation" scenario, which examines the impact of much higher than anticipated inflation in advanced economies and with a delayed policy response, which leads to a material growth slowdown and EM risk aversion.

No specific portfolio actions were taken when the results of the replacement scenario was analysed given that a number of management actions had been implemented through the Covid period. The scenario was incorporated into the regular Credit and Market Risk stress testing framework and monitored on a monthly basis. The stress tests scenarios will be further updated in early 2022 in line with the normal annual process, with additional scenarios considered should there be material change in the global economic outlook.

The group also conducts reverse stress testing to complement the stress testing programme described above. Reverse stress testing identifies those scenarios that could threaten the ongoing stability of the group, and 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, deposits and debt securities.

37 Risk management (continued)

37.3 Risk categories

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

Credit risk

Credit risk comprises counterparty risk, settlement risk, notional/gross risk and concentration risk. These risk types are further 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 these products in the primary market;
  - pre-settlement credit risk, which is the EAD arising from unsettled forward and derivative transactions. This risk arises from the default of the counterparty to the transaction and is measured as the cost of replacing the transaction at current market rates; and
  - issuer credit risk, which is the EAD arising from traded debt and equity products including underwriting the issue of these products in the primary market.
- Settlement risk is the risk of loss to the group from settling a transaction where value is exchanged, but where the group may not receive all or part of the counter value.
- Notional/gross risk is a measure applied most typically to title based repo and collateralised financing 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 resulting from an 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. Concentration risk is modelled as part of the calculation of credit risk economic capital.
- Gap Risk applies typically to transactions where the bank relies on marketable collateral to mitigate a default or non-performance of a loan and accordingly there is a risk of a shortfall due to a dislocation of the collateral value in the event of a sudden unexpected change in its price. This arises where the value of recourse to the counterparty is deemed low or zero because a) there is no legal recourse b) the collateral represents all or a significant portion of the counterparty value (e.g. an SPV whose only assets are the collateral) or c) there is deemed to be a significant correlation (wrong way risk) between the value of recourse to the counterparty and the underlying collateral.
- Exit Risk is the risk of a shortfall arising from incurring a variety of costs which may be associated with the bank's exercise of its legal rights over its security interests, or the bank's own physical assets, and liquidating them in an orderly manner.
- Credit Insurance Risk is the risk of non-payment or partial non-payment by a provider of credit insurance due to incorrect insurance documentation or an insurer otherwise declining to make a payment under the terms of an insurance policy. This risk is distinct from the risk of the insurer being unable to pay, which is captured under counterparty risk.

Country risk

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

37 Risk management (continued)

37.3 Risk categories (continued)

Liquidity and funding risk

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

Owing to the short-dated and liquid nature of the group's business model, the group's liquidity and funding risks have overlapping time horizons. The majority of assets are short-dated financial assets held for trading which can be monetised within the internal stress test survival horizon of 91 days, with the group's funding being of similar profile. Liquidity and funding 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 provides further details as to the identification, measurement, management and monitoring of these risks.

Market risk

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

Operational risk (unaudited)

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

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

- **Business disruption and system failure** – The risk of losses arising from disruption of business or system failures. This includes disruption or failure arising from the use of, or reliance on, computer hardware, software, electronic devices, online networks and internal telecommunications systems and disruption or failure arising from utilities failure, changes in organisational structure, people and processes. This also includes information risk and business continuity risk.
- **Damage to physical assets** – The risk of losses arising from loss or damage to physical assets from natural disaster or other events.
- **Execution, delivery and process management** – The risk of losses from failed transaction processing or process management, or as a result of disputes with trade counterparties and vendors. This category also includes tax risk and model risk.
- **Internal fraud** – The risk of losses due to acts of a type intended to defraud, misappropriate property or circumvent regulation, the law or company policy, (but excluding diversity/discrimination events), and which involves at least one internal party. This category also includes certain financial crime risks.
- **External fraud** – The risk of losses due to acts of a type intended to defraud, misappropriate property or circumvent the law, by a third party including theft in the course of transportation or from a warehouse. This category includes custodian risk where a custodian of the bank's assets (or the custodian's employees) may seek to misappropriate some or all of those assets.

37 Risk management (continued)

37.3 Risk categories (continued)

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

Business risk (unaudited)
Business risk relates to the potential for revenue shortfall compared to the bank's budget for strategic, economic 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 at a specified level of confidence. 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 public image which may impair its ability to retain and generate business. Such damage could result from a breakdown of trust, confidence or business relationships for a wide variety of reasons. Safeguarding the group's reputation is of paramount importance to its continued success and is a key concern of executive management.

37.4 Credit risk

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

The group manages credit risk through:

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

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

In respect of the trading of derivatives and repo contracts, the group is exposed to counterparty credit risk, which arises as a result of movements in the value of securities and commodities collateral provided under financing agreements, and the value of OTC derivative contracts. The risk measures 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.

37 Risk management (continued)

37.4 Credit risk (continued)

Credit risk assessment method
Stage of financial instruments
The group classifies the financial instruments that are in the scope of IFRS 9 into three stages and makes provisions for expected credit losses accordingly, depending on whether credit risk on that financial instrument has increased significantly since initial recognition.

The three stages are defined as follows:

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

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

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

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

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

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

37 Risk management (continued)

37.4 Credit risk (continued)

Significant increase in credit risk

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

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

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

In addition, qualitative factors, such as watch list exposures, can also trigger a significant increase in credit risk and the credit risk on a financial asset is deemed to have increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the group has reasonable and supportable information that demonstrates otherwise.

Please also see the table below under the sub-heading 'Methodology to assign credit limits', which indicatively maps the group's internal risk grades against external rating agencies' alphanumerical rating scales and group grading categories.

Description of models and parameters

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

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

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

The EAD is based on the balance sheet value of the exposure (including accrued interest) adjusted for the value of any collateral (which may be on- or off-balance sheet) held against that balance.

37 Risk management (continued)

37.4 Credit risk (continued)

Forward-looking economic view and macroeconomic scenario
The group's forward-looking economic view is taken into consideration when the internal credit ratings are determined.

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

Write-off policy
When an asset is uncollectible, it is written off against the related provision. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are taken as credits to the income statement.

Structure and organisation of credit risk management function
The group's head of credit has functional responsibility for credit risk across the group and reports to the CRO.

A formal structure exists for the approval of credit limits, which are agreed through delegated authority derived from the Board. The Board awards the highest level of delegated authority to the credit committee to exercise responsibility for granting credit risk. The credit committee is convened as a sub-committee of the RMC with a mandate to:

- Exercise responsibility for the independent assessment, approval, review, and monitoring of credit and country risk limits and exposures relating to the group's business under a delegated authority construct;
- Ensure that the origination and management of credit and country risk exposures (including structured transactions) in the portfolio are in line with the credit risk policy and any other guidance given to it by the RMC from time to time;
- Escalate matters to RMC as appropriate, including breaches of risk appetite and proposed corrective actions;
- Monitor and review non-performing loan and watchlist exposures;
- Review and approve counterparty trading documentation (e.g. ISDA Master Agreements, Global Master Repurchase Agreements, etc.) and legal opinions on netting, collateral and other forms of credit risk mitigation; and
- Approve any underwriting commitments related to primary markets transactions.

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

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

37 Risk management (continued)

37.4 Credit risk (continued)

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

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

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

Exposure to credit risk

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

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

	Amortised Cost		Fair value through other comprehensive income	
	2021	2020	**2021**	2020
	$m	$m	**$m**	$m
Grades 1-21: Pass	**6,107.0**	7,374.7	**925.5**	1,569.5
Stage 1	**6,040.2**	7,369.6	**925.5**	1,569.5
Stage 2	**66.8**	5.1	**-**	-
Stage 3	**-**	-	**-**	-
Grades 22-25: Special Mention	**100.6**	6.3	**-**	-
Stage 1	**100.6**	6.3	**-**	-
Stage 2	**-**	-	**-**	-
Stage 3	**-**	-	**-**	-
Grade D1: Sub-standard	**-**	-	**-**	-
Stage 1	**-**	-	**-**	-
Stage 2	**-**	-	**-**	-
Stage 3	**-**	-	**-**	-
Grade D2: Doubtful	**-**	7.7	**-**	-
Stage 1	**-**	-	**-**	-
Stage 2	**-**	-	**-**	-
Stage 3	**-**	7.7	**-**	-
Grade D3: Loss	**-**	-	**-**	-
Stage 1	**-**	-	**-**	-
Stage 2	**-**	-	**-**	-
Stage 3	**-**	-	**-**	-
	6,207.6	7,388.7	**925.5**	1,569.5

37 Risk management (continued)

37.4 Credit risk (continued)

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

- **Neither past due nor impaired** represents exposures that are current and fully compliant with all contractual terms and conditions.
- **Past due but not specifically impaired** includes those exposures where the counterparty has failed to make its contractual payment or has breached a material covenant, but impairment losses have not yet been incurred due to the expected recoverability of future cash flows, including collateral. Ultimate loss is not expected but could occur if the adverse condition persists. These exposures are analysed further between those that are less than 90 days past due and those that are 90 days or more past due.
- **Specifically impaired** exposures include those where there is objective evidence that an impairment loss has been incurred and for which there has been a measurable decrease in the estimated future cash flows as a result of the borrower's payment status or objective evidence of impairment.

  Specifically impaired exposures are further analysed into the following categories:

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

Maximum exposure to credit risk

	Performing (Group master ratings: 1-25)		Non-performing (Group master rating: Default)		
	Neither past due nor impaired	Past due but not specifically impaired		Specifically impaired	Gross credit exposure
	$m	$m	$m	$m	$m
2021					
Cash and balances with central banks[1]	6,056.5	-	-	-	6,056.5
Gross due from banks and other financial institutions	2,308.3	-	-	-	2,308.3
Financial assets held for trading	2,455.7	-	-	-	2,455.7
Non-trading financial assets at fair value through profit or loss	1,967.0	-	-	-	1,967.0
Derivative financial assets	4,389.6	-	-	2.5	4,392.1
Gross reverse repurchase agreements	2,288.0	-	-	-	2,288.0
Gross loans and advances to customers	1,611.3	-	-	-	1,611.3
Gross financial investments	925.5	-	-	-	925.5
Total balance sheet exposure to credit risk	**22,001.9**	**-**	**-**	**2.5**	**22,004.4**
Guarantees					62.4
Irrevocable unutilised facilities					107.6
Commodity leases					957.2
Total off-balance sheet exposure to credit risk					**1,127.2**
Total exposure to credit risk					**23,131.6**
Reconciliation to the balance sheet					
Add: Equity instruments (disclosed in note 6)					5.0
Add: Non-financial assets					4,263.5
Less: Credit loss allowance					(4.4)
Less: Off-balance sheet exposure					(1,127.2)
Total assets					**26,268.5**

37 Risk management (continued)

37.4 Credit risk (continued)

	Performing (Group master ratings: 1-25)		Non-performing (Group master rating: Default)		
	Neither past due nor impaired	Past due but not specifically impaired		Specifically impaired	Gross credit exposure
	$m	$m	$m	$m	$m
2020					
Cash and balances with central banks[1]	3,117.0	-	-	-	3,117.0
Gross due from banks and other financial institutions	2,778.4	-	-	-	2,778.4
Financial assets held for trading	2,187.6	-	-	-	2,187.6
Non-trading financial assets at fair value through profit or loss	1,966.2	-	-	-	1,966.2
Derivative financial assets	6,078.6	-	-	5.9	6,084.5
Gross reverse repurchase agreements	4,021.4	-	-	-	4,021.4
Gross loans and advances to customers	581.2	-	-	7.7	588.9
Gross financial investments	1,569.5	-	-	-	1,569.5
Total balance sheet exposure to credit risk	22,299.9	-	-	13.6	22,313.5
Guarantees					-
Irrevocable unutilised facilities					44.0
Commodity leases					993.9
Total off-balance sheet exposure to credit risk					1,037.9
Total exposure to credit risk					23,351.4
Reconciliation to the balance sheet					
Add: Equity instruments (disclosed in note 6)					5.3
Add: Non-financial assets					5,426.1
Less: Credit loss allowance					(8.7)
Less: Off-balance sheet exposure					(1,037.9)
Total assets					27,736.3

1 Reserve account with the Bank of England (see note 3)

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

	Stage 1	**Stage 2**	**Stage 3**			**Total**
			Sub-standard	**Doubtful**	**Loss**	
2021	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
Cash and balances with central banks	6,056.5	-	-	-	-	6,056.5
Due from banks and other financial institutions	2,241.6	66.8	-	-	-	2,308.4
Reverse repurchase agreements	581.7	-	-	-	-	581.7
Loans and advances to customers	1,611.3	-	-	-	-	1,611.3
Financial investments	925.5	-	-	-	-	925.5
Commitments and financial guarantees given	170.0	-	-	-	-	170.0
Total	**11,586.6**	**66.8**	**-**	**-**	**-**	**11,653.4**

	Stage 1	Stage 2	Stage 3			Total
			Sub-standard	Doubtful	Loss	
2020	$m	$m	$m	$m	$m	$m
Cash and balances with central banks	3,117.0	-	-	-	-	3,117.0
Due from banks and other financial institutions	2,778.4	-	-	-	-	2,778.4
Reverse repurchase agreements	2,545.0	-	-	-	-	2,545.0
Loans and advances to customers	576.1	5.1	-	7.7	-	588.9
Financial investments	1,569.5	-	-	-	-	1,569.5
Commitments and financial guarantees given	44.0	-	-	-	-	44.0
Total	10,630.0	5.1	-	7.7	-	10,642.8

37 Risk management (continued)

37.4 Credit risk (continued)

Movements in credit loss allowances

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

	Stage 1 12-month ECL $m	Stage 2 Lifetime ECL - not credit-impaired $m	Stage 3 Lifetime ECL - credit-impaired $m	Total $m
Credit loss allowance at 1 January 2020	(3.8)	(0.5)	(0.2)	(4.5)
Transfer:				
to stage 1	0.2	-	-	0.2
to Stage 2	-	(0.2)	-	(0.2)
to Stage 3	-	0.5	(0.5)	-
Increases due to origination and acquisition	(2.8)	-	-	(2.8)
Changes due to change in credit risk	(0.9)	0.1	(4.2)	(5.0)
Financial assets derecognised during the period	3.1	-	-	3.1
Write-offs of allowances against exposures	-	-	0.2	0.2
Credit loss allowance at 31 December 2020	(4.2)	(0.1)	(4.8)	(9.0)

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 2021 (2020: US$ nil).

The primary aim of providing forbearance facilities to customers is to enable the complete recovery of the exposure through the full repayment of arrears. The group does not follow a general forbearance policy but each facility is treated on its own merits. There were no forborne loans as at 31 December 2021 (2020: US$ nil).

37 Risk management (continued)

37.4 Credit risk (continued)

Watchlist review is an early warning mechanism which identifies any deterioration in counterparty performance. These exposures are immediately subject to independent scrutiny and, where necessary, a programme of intensive monitoring and review until such time as the position can be transferred back to line management. In cases where the remedial strategy does not produce the expected corrective action, the group may consider an alternative remedial strategy or referral to the Business Support & Recovery ("BS&R") team, the workout unit which sits in the Risk function, for active recovery management. An impairment charge is raised if any new terms are less favourable and result in the discounted cash flows being lower than the carrying value of the exposures. At 31 December 2021, performing loan exposures of US$101.6 million were under watchlist review (2020: US$144.7 million). Of the US$101.6 million loan exposures under watchlist review, only one exposure, for US$66.8 million had a significant increase in credit risk, triggering a classification transfer from ECL stage 1 into ECL stage 2.

The expected credit loss allowance on the watchlist portfolio, including forbearance facilities, is dependent on the internal credit grade allocated to it. Additional management adjustments to the model capture the enhanced risks attached to this portfolio.

Credit risk mitigation and hedging

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

The amount and type of collateral required depends on the nature of the underlying collateral risk as well as an assessment of the credit risk of the counterparty. Regulatory capital requirements may also be considered in this assessment.

Derivative netting

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

Master netting agreements

Where it is appropriate and likely to be effective, the group seeks to enter into master netting agreements. Although master netting agreements do not generally result in an offset of balance sheet assets and liabilities for accounting purposes, as transactions are usually settled on a gross basis in the ordinary course of business, they do reduce the credit risk exposure and capital requirements to the extent that, if an event of default occurs, all amounts with the counterparty can be terminated and settled on a net basis. The group's overall exposure to credit risk on derivative instruments subject to master netting agreements can change substantially within a short period, since this is the net position of all trades under the master netting agreement.

Guarantees/standby letters of credit

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

37 Risk management (continued)

37.4 Credit risk (continued)

Credit derivatives

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

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

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

Under a total return swap, the protection buyer will pass on to the seller all payments it receives on the underlying credit obligation, plus any decrease in the market value of the credit obligation, in return for an interest related payment (market rate and spread). 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 issues a bond or note which is linked to the creditworthiness of an obligor and which may be backed by certain collateral. The bond or note is purchased by the protection seller, who receives a coupon on the bond or note (market rate and spread). If a credit event occurs in relation to either the obligor or the collateral, the bond or note is redeemed by the protection buyer with the recovery value of the collateral being the redemption amount. If no credit event occurs, the bond or note will be redeemed at par by the protection buyer.

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 limited 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 the CFO and the CRO.

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

37 Risk management (continued)

37.4 Credit risk (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$2,802.5 million (2020: US$4,005.3 million). This is in addition to balances meeting the offsetting principles as described in accounting policy 5.

Unsecured exposures of US$13,576.0 million (2020: US$11,944.5 million) largely represent corporate, government and designated multilateral development bank bonds, precious metal leases, cash collateral placed with recognised exchanges and short-term placements with highly rated banks and non-banking financial institutions.

A significant portion of the secured exposures relates to reverse repo type securitised lending, where the collateral is typically tradeable. For loans and advances, the collateral accepted includes, cash, equities, guarantees and credit enhancements such as credit default swaps / credit insurance. However, guarantees received based on future revenue streams, assets whose value is highly correlated to the counterparty and floating charges over assets have been excluded from the table. Total exposures of US$4,904.5 million (2020: US$6,376.6 million) are more than 100% covered by collateral, primarily relating to reverse repurchase lending activity, equity margin loan exposures and loans designated at fair value.

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 2021 or 2020.

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]
2021	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
Cash and balances with central banks	6,056.5	-	6,056.5	6,056.5	-		-	-
Due from banks and other financial institutions	2,308.3	470.1	1,838.2	1,322.2	516.0	-	225.3	290.7
Financial assets held for trading	2,455.7	-	2,455.7	2,019.0	436.7	-	-	436.7
Non-trading financial assets at fair value through profit or loss	1,967.0	-	1,967.0	-	1,967.0	-	-	1,967.0
Derivative financial assets	4,392.1	1,907.8	2,484.3	1,902.5	581.8	74.9	132.3	374.6
Reverse repurchase agreements	2,288.0	-	2,288.0	-	2,288.0	-	854.8	1,433.2
Loans and advances to customers	1,611.3	-	1,611.3	647.7	963.5	143.9	417.3	402.4
Financial investments	925.5	-	925.5	925.5	-	-	-	-
Total balance sheet exposure to credit risk	**22,004.4**	**2,377.9**	**19,626.5**	**12,873.4**	**6,753.0**	**218.8**	**1,629.6**	**4,904.5**
Guarantees	62.4	-	62.4	62.4	-	-	-	-
Irrevocable unutilised facilities	107.6	-	107.6	107.6	-	-	-	-
Commodity leases	957.2	424.6	532.6	532.6	-	-	-	-
Total off-balance sheet exposure to credit risk	**1,127.2**	**424.6**	**702.6**	**702.6**	**-**	-	-	-
Total exposure to credit risk	**23,131.6**	**2,802.5**	**20,329.1**	**13,576.0**	**6,753.0**	**218.8**	**1,629.6**	**4,904.5**

37 Risk management (continued)

37.4 Credit risk (continued)

	Total exposure	Netting arrangements[1]	Exposure after netting	Unsecured exposures	Secured exposures	Extent of collateral and risk mitigation:		
						1 - 50%[2]	51 - 100%[3]	> 100%[4]
2020	$m	$m	$m	$m	$m	$m	$m	$m
Cash and balances with central banks	3,117.0	-	3,117.0	3,117.0	-	-	-	-
Due from banks and other financial institutions	2,778.4	444.7	2,333.7	2,150.0	183.7	-	183.7	-
Financial assets held for trading	2,187.6	-	2,187.6	2,104.5	83.1	-	-	83.1
Non-trading financial assets at fair value through profit or loss	1,966.2	-	1,966.2	-	1,966.2	-	-	1,966.2
Derivative financial assets	6,084.5	3,069.3	3,015.2	2,154.8	860.4	144.1	345.7	370.6
Reverse repurchase agreements	4,021.4	-	4,021.4	109.0	3,912.4	-	136.9	3,775.5
Loans and advances to customers	588.9	-	588.9	193.1	395.9	-	214.7	181.2
Financial investments	1,569.5	-	1,569.5	1,569.5	-	-	-	-
Total balance sheet exposure to credit risk	22,313.5	3,514.0	18,799.6	11,397.9	7,401.6	144.1	881.0	6,376.6
Guarantees	-	-	-	-	-	-	-	-
Irrevocable unutilised facilities	44.0	-	44.0	44.0	-	-	-	-
Commodity leases	993.9	491.4	502.6	502.6	-	-	-	-
Total off-balance sheet exposure to credit risk	1,037.9	491.4	546.6	546.6	-	-	-	-
Total exposure to credit risk	23,351.4	4,005.3	19,346.1	11,944.5	7,401.6	144.1	881.0	6,376.6

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

Wrong-way risk exposure

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

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

37.5 Country risk

All countries to which the group is exposed are reviewed at least annually. Internal rating models are employed to determine ratings for jurisdiction (on a Jurisdiction rating scale aaa to c), sovereign, and transfer and convertibility risk (on a rating scale RG01 to RG25). In determining the ratings, use is made of the group's network of operations and external information sources. These internal ratings are also a key input into the group's credit rating models.

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

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

The following table illustrates customer risk by geographical segment.

37 Risk management (continued)

37.5 Country risk (continued)

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

	2021		2020	
	$m	%	$m	%
Sub-Saharan Africa	546.9	8.8	2,695.1	36.5
Asia-Pacific	966.5	15.6	544.2	7.4
Middle East & North Africa	717.7	11.6	532.0	7.2
Rest of Europe	2,707.7	43.5	2,399.8	32.5
Latin America	10.4	0.2	2.7	-
North America	866.5	14.0	438.3	5.9
Eurozone	391.9	6.3	776.6	10.5
	6,207.6	100.0	7,388.7	100.0

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

Geographic analysis of financial assets held for trading and non-trading financial assets at fair value through profit or loss[1]

	2021		2020	
	$m	%	$m	%
Sub-Saharan Africa	2,828.8	71.0	2,615.0	64.2
Asia-Pacific	318.1	8.0	304.0	7.5
Middle East & North Africa	757.3	19.0	708.8	17.4
Rest of Europe	72.0	1.8	405.8	10.0
Latin America	8.1	0.2	9.6	0.2
North America	1.5	-	27.3	0.7
Eurozone	0.2	-	0.2	-
	3,986.0	100.0	4,070.7	100.0

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

37.6 Liquidity risk

Summary of performance (unaudited)

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

- Regulatory Requirement Surplus: High quality liquid asset (HQLA) surplus over the PRA’s Internal Liquidity Guidance (ILG) requirement; and
- Combined Internal Stress Test Surplus: HQLA surplus over the group’s Combined Internal Stress test requirement.

These limits ensure that the group holds sufficient HQLA to meet both regulatory requirements and the anticipated stressed net contractual and contingent outflows as determined by the group’s internal stress tests.

As at 31 December 2021, the LCR position was 199% (2020: 200%), and the group held surplus HQLAs of:

- US$3,306 million over the ILG requirement, measured at calendar day 30 (2020: US$2,103 million).
- US$3,650 million over the internal stress test requirement, measured at the low point of the 91-day survival horizon (2020: US$1,675 million).

37 Risk management (continued)

37.6 Liquidity risk (continued)

Liquidity stress testing

The bank operates an internal liquidity stress testing framework based on a number of stressed liquidity scenarios covering specific shocks to the bank (“Idiosyncratic stress scenario”), overall market conditions (“Market-wide stress scenario”), and a combination of both (“Combined stress scenario”). Each of these stress tests covers a 91 day survival period. The Combined stress scenario is included in the RAS together with the Regulatory ILG, and the Idiosyncratic and Market-wide stress scenarios are run for risk monitoring purposes to ensure the group’s survival horizon is tested across a range of severe but plausible stress events. Each of the stresses is specified to ensure that all material on- and off-balance sheet funding and liquidity risks are captured and mitigated.

The group’s reverse stress testing framework supplements the internal stress testing framework and assesses the scenarios and circumstances that would render the bank’s business model unviable, by identifying potential business vulnerabilities.

The stress testing and reverse stress testing policies are approved annually by the Board.

Liquidity and funding risk monitoring

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

As the business model evolves, the group remains mindful of liquidity and funding risk, with daily management by TCM, and monitoring by Risk, while committee level oversight is provided by ALCO and RMC.

This is supplemented by the annual review of the liquidity limit/EWI monitoring policy and the stress testing methodologies, to inform the setting of RAS.

Structural requirements

The maturity analysis of financial liabilities provides the basis for the management of the group’s exposure to structural liquidity risk. The table below shows the notional amounts of all financial liabilities on a contractual basis based on the earliest date on which the group can be required to repay. This differs from the balance sheet carrying value of financial liabilities, which are typically disclosed on a discounted basis. The table also includes contractual cash flows with respect to off-balance sheet items. Where cash flows are exchanged simultaneously, the net amounts have been reflected.

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

37 Risk management (continued)

37.6 Liquidity risk (continued)

2020	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	349.3	85.0	199.3	191.7	1,266.8	2,092.1
Financial liabilities designated at fair value through profit or loss	-	-	5.5	2,103.7	-	2,109.2
Derivative financial liabilities	104.6	978.4	1,908.0	759.0	2,808.5	6,558.5
Deposit and current accounts[1]	1,566.3	4,119.6	4,310.9	636.6	3,138.6	13,772.0
Subordinated debt	-	1.3	3.7	4.4	314.9	324.3
Total balance sheet financial liabilities	2,020.2	5,184.3	6,427.4	3,695.4	7,528.8	24,856.1
Irrevocable unutilised facilities	-	-	-	30.0	14.0	44.0
Total off-balance sheet financial liabilities	-	-	-	30.0	14.0	44.0
Total financial liabilities	2,020.2	5,184.3	6,427.4	3,725.4	7,542.8	24,900.1

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

37.7 Market risk

Definition

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

The purpose of the market risk control team is to identify, measure, challenge, report and escalate accordingly, to mitigate potential market risks that threaten losses to trading portfolios. The market risk control team, in accordance to the second line of defence model, risk controls all trading desk exposure on a daily frequency through risk limit frameworks and control governance processes. All market risk limit frameworks, risk control and governance are outlined in supporting market risk policies and standards. Further market risk control oversight and challenge is provided by the Market & Liquidity Risk Committee (MLRC).

The group's exposure to market risk arises as follows:

Trading book market risk

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

Interest rate risk in the Banking book (IRRBB)

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

Foreign exchange risk

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

Equity investments

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

37 Risk management (continued)

37.7 Market risk (continued)

Framework and governance

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

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

Market risk measurement

The techniques used to measure and control market risk include:

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

Daily VaR and stressed VaR (SVaR)

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

For risk management purposes, VaR is based on 251 days of equally weighted recent historical data, a holding period of one day with confidence intervals (CI) of 99%. The historical VaR results are calculated in four steps:

1. Calculate 250 daily market price movements based on 251 days' historical data.
2. Calculate hypothetical daily profit or loss for each day using these daily market price movements.
3. Aggregate all hypothetical profits or losses for day one across all positions, giving daily hypothetical profit or loss, and then repeat for all other days.
4. The 99% CI VaR is the average of the second and third worse losses selected from the 250 days of daily hypothetical total profit or loss.

Daily losses exceeding the 99% CI VaR are likely to occur, on average, two to three times in every 250 days.

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

VaR and SVaR, based on a confidence interval of 99% and a 10-day holding period, are key components in the market risk regulatory capital requirement where the group has received internal model approval (IMA).

37 Risk management (continued)

37.7 Market risk (continued)

Limitations of VaR and SVaR are acknowledged 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 99% confidence interval, 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.

Stress tests

Stress testing provides an indication of the potential losses that could occur under extreme but plausible market conditions, including situations when longer holding periods may be required to exit positions. Stress tests comprise individual market risk factor testing, combinations of market risk factors per trading desk and combinations of trading desks using a range of historical, hypothetical and point of weakness scenarios. Daily losses experienced during the year ended 31 December 2021 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 team 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 following tables show 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.

During the year, the group experienced one backtesting loss exception against actual & hypothetical profits and losses.

The performance of the VaR model remained within expectations.

	Normal VaR[2]			
	Maximum[1]	Minimum[1]	Average	Year end
2021	**$m**	**$m**	**$m**	**$m**
Commodities	6.9	1.4	2.9	5.7
Foreign exchange	8.3	1.9	3.6	2.2
Equities	-	-	-	-
Debt securities	8.0	2.4	3.9	3.2
Diversification benefit[4]				(3.5)
Total (including diversification)	**9.2**	**3.2**	**5.1**	**7.6**

37 Risk management (continued)

37.7 Market risk (continued)

	Stress VaR[3]			
	Maximum[1]	**Minimum[1]**	**Average**	**Year end**
2021	**$m**	**$m**	**$m**	**$m**
Commodities	**17.7**	**1.9**	**4.9**	**6.4**
Foreign exchange	**30.9**	**3.9**	**15.2**	**5.7**
Equities	**-**	**-**	**-**	**-**
Debt securities	**31.8**	**9.6**	**19.6**	**18.6**
Diversification benefit[4]				**(11.3)**
Total (including diversification)	**38.6**	**14.9**	**23.9**	**19.4**

	Normal VaR[2]			
	Maximum[1]	Minimum[1]	Average	Year end
2020	$m	$m	$m	$m
Commodities	1.2	0.3	0.7	0.8
Foreign exchange	1.8	0.5	0.8	1.8
Equities	0.5	-	-	-
Debt securities	3.7	1.7	3.0	3.0
Diversification benefit[4]				(1.4)
Total (including diversification)	4.7	2.2	3.3	4.3

	Stress VaR[3]			
	Maximum[1]	Minimum[1]	Average	Year end
2020	$m	$m	$m	$m
Commodities	16.9	1.1	6.3	3.9
Foreign exchange	31.5	1.5	9.5	22.6
Equities	2.8	-	0.3	-
Debt securities	44.0	9.5	22.6	17.6
Diversification benefit[4]				(13.9)
Total (including diversification)	45.6	12.5	25.5	30.2

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 99%.
3 Stress VaR is based on a holding period of ten days and a confidence interval of 99%.
4 Diversification benefit is the benefit of measuring the VaR of the trading portfolio as a whole, i.e. the difference between the sum of the individual VaRs and measuring the VaR of the whole trading portfolio.

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

Interest Rate Risk in the Banking book (“IRRBB”) is the current or prospective risk to the bank’s economic value or earnings arising from adverse movements in market interest rates. It is generated by the group’s non-traded assets and liabilities, specifically loans, deposits, and other financial instruments and liquidity assets that are not held for trading intent or are held in order to hedge positions held with trading intent. TCM seeks to centralise and manage IRRBB in line with the Risk Appetite Statement. IRRBB Risk monitoring is carried out by Liquidity Risk team with MLRC and RMC oversight.

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

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

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

37 Risk management (continued)

37.7 Market risk (continued)

Note that for the IRRBB Economic Capital (ECAP) assessments, the worst of the following shock scenarios from the EVE metric are taken in to account, plus any non-modelled risk add-on's which are quantified by the Risk team:

- parallel 200bps rates up/down shocks (as indicated in the table below); or
- the six prescribed scenario shocks (Parallel Up, Parallel Down, Flattener – Short Rates Up and Long Rates Down, Steepner – Short Rates Down and Long Rates Up, Short Rates Up and Short Rates down)

a) Economic Value of Equity (EVE) metric
EVE is a valuations based metric which assesses changes in the net present value of all cash flows originating from Banking book assets and liabilities as a result of pre-specified movements in market interest rates under a variety of shock scenarios.

All Banking book assets, liabilities and off-balance sheet items are placed in time bands (gap intervals) based on their interest rate repricing or cash flow expectation dates. The EVE model calculates IRRBB by currency and applies maturity dependent post shock floors as per the regulatory guidance.

Note that the EVE metric is computed with the following assumptions:

- A run-off balance sheet approach where maturing trades are not replaced by any new business as they mature;
- Equity is excluded from the metric;
- In line with the regulatory guidance all downside shocks are floored to -1% and the flooring assumptions are periodically reviewed by ICBCS governance forums for relevance.

The repricing gaps for the group's non-trading portfolios are shown below. This view is for the purpose of illustration only, as positions are managed by currency to take account of the fact that interest rate changes are unlikely to be perfectly correlated.

Repricing gap for non-trading portfolios

2021	**0-3 months $m**	**3-6 months $m**	**6-12 months $m**	**>12 months $m**
Interest rate sensitivity gap	**1,161.2**	**(155.1)**	**(672.5)**	**(38.4)**
Cumulative interest rate sensitivity gap	**1,161.2**	**1,006.1**	**333.6**	**295.2**
Cumulative interest rate sensitivity gap as a percentage of total banking assets	**8.5%**	**7.4%**	**2.4%**	**2.2%**

2020	0-3 months $m	3-6 months $m	6-12 months $m	>12 months $m
Interest rate sensitivity gap	2,202.1	(145.5)	(582.3)	(2.5)
Cumulative interest rate sensitivity gap	2,202.1	2,056.6	1,474.3	1,471.9
Cumulative interest rate sensitivity gap as a percentage of total banking assets	18.5%	17.3%	12.4%	12.4%

Sensitivity of Economic Value of Equity to changes in interest rates
The table below indicates the sensitivity in US Dollar equivalents of the group's Banking book EVE in response to a change in interest rates, after taking into account all risk mitigating instruments, with all other variables held constant. The group has modelled changes of 200 basis points as this is consistent with those used in regulatory submissions.

37 Risk management (continued)

37.7 Market risk (continued)

The EVE sensitivity to a parallel 200bps shock up/down of interest rates is set out below for illustrative purposes (as at 31 December 2021). Note that the final sensitivity numbers used for capitalizing purposes would also include non- modelled risk add on's (not included in the below table). During the year the sensitivities have increased in line with the group's expectations of products included in the Banking book.

2021	**Increase in basis points**	**0-3 months $m**	**3-6 months $m**	**6-12 months $m**	**>12 months $m**
2% up (interest-rate increase)	**200**	**5.7**	**0.5**	**11.0**	**1.1**
2% down (interest-rate decrease)	**200**	**(3.4)**	**-**	**(7.9)**	**(0.9)**

2020	Increase in basis points	0-3 months $m	3-6 months $m	6-12 months $m	>12 months $m
2% up (interest-rate increase)	200	(2.0)	0.7	8.5	0.9
2% down (interest-rate decrease)	200	1.0	(0.3)	(5.2)	(0.5)

As illustrated in the table above, there is an asymmetry between the rates up scenario in comparison to the rates down scenario. This is due to the central bank interest rate reductions in the course of 2020/2021 to assist economies affected by the pandemic, bringing rates close to the modelled floor (-1% floor) noted above.

b) Net Interest Income (NII) metric

NII is an earnings based measure, which assesses the change in expected potential future profitability resulting from prescribed movements in market interest rates under a variety of shock scenarios. NII sensitivity is calculated as the change in NII (due to rate shock scenarios) over a set observation period compared with the base scenario.

All interest bearing products in the banking book are captured in the NII calculations. Off-balance sheet products and equity are not included in the calculations. All cash flows of interest rate sensitive instruments are mapped to exact repricing dates of individual positions.

Note that the NII metric is computed with the following key assumptions:

- A static balance sheet approach where maturing assets and liabilities are replaced like-for-like to maintain balance sheet size and shape;
- No proactive management actions undertaken through the year;
- The group has opted to use a one year observation period; and
- In line with the regulatory guidance all downside shocks are floored to -1% and the flooring assumptions are periodically reviewed by ICBCS governance forums for relevance.

The EVE metric is used for IRRBB risk management and ECAP purposes. The NII metric is used primarily for risk monitoring purposes.

Sensitivity of Net Interest Income to changes in interest rates

The output below shows NII sensitivity in a one year time horizon (observatory period) to a parallel +/- 200bps shock of the interest rate curve for illustrative purposes (as at 31 December 2021). Note that the year on year numbers could be volatile due to the short dated nature of the group's balance sheet and the embedded assumptions around the model. NII model enhancements have been carried out in the year, and the numbers are within expectations.

37 Risk management (continued)

37.7 Market risk (continued)

2021	**Increase in basis points**	**P&L Volatility for a 1 year period $m**
2% up (interest-rate increase)	200.0	38.2
2% down (interest-rate decrease)	200.0	(26.4)

2020	Increase in basis points	P&L Volatility for a 1 year period $m
2% up (interest-rate increase)	200.0	15.4
2% down (interest-rate decrease)	200.0	9.1

Foreign exchange risk

The group's foreign exchange positions arise from mandated transaction or translational activity. All foreign exchange risk is governed by currency limits approved by the MLRC in accordance with the group's market risk policy. The currency limits are subject to review annually and foreign exchange exposures are monitored daily by the market risk function and reviewed monthly to ensure they remain within the approved risk appetite.

The group's policy is not to hold material open currency exposures in respect of the Banking book. 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	**2021 $m**	2020 $m
Chinese Renminbi	**31.2**	29.2

Market risk on equity investments

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

37.8 Operational risk (unaudited)

Introduction

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

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

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

37 Risk management (continued)

37.8 Operational risk (unaudited) (continued)

Framework and governance

The Board delegates responsibility for operational risk to the CRO, who is overseen by Board Risk Management Committee. RMC 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 that a robust operational risk framework is embedded across the organisation and that there is a 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 of line management. Local heads of ORM may also 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 framework follows a largely qualitative approach, being focused on ensuring that underlying risks are identified and managed and that the residual risk is maintained within an acceptable level, in the opinion of the relevant management, overseen by an independent operational risk function within risk management. Independent assurance on the management of operational risk is provided by internal audit.

ORM forms part of the day-to-day responsibilities of management at all levels. The ORM framework includes qualitative and quantitative (i.e. scenario analysis) methodologies and tools to assist management to identify, assess and monitor operational risks and to provide management with information for determining appropriate controls and mitigating measures. The framework is based around risk and control self-assessments (RCSA), key indicators (KIs), control assurance and incident reporting. Escalation criteria are in place to ensure that management action can be applied in the event that RCSAs or KIs show a level of residual risk exposure beyond that deemed acceptable and when an individual incident breaches a set materiality threshold. In addition, a loss tolerance threshold is set by senior management for aggregate losses.

The bank supplements these qualitative and quantitative approaches with scenario analysis and a capital model, which is used for calculating Pillar 2 capital.

Historical losses are reviewed, to ensure that adequate management action is taken in respect of the root cause of loss and near miss incidents. Losses are recorded in the operational incident database in accordance with the operational risk incident reporting policy.

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

37 Risk management (continued)

37.8 Operational risk (unaudited) (continued)

Clients, Products & Business Practices

- Legal risk is defined as follows:
  - That business is or may be carried on otherwise than in accordance with applicable laws and regulations;
  - That contractual arrangements either are or may not be binding or enforceable as intended against counterparties or are or may be binding or enforceable against the group otherwise than as intended;
  - That property rights of any description are or may be infringed; or
  - That liability to others may be incurred.
- Compliance risk is the risk that the group may suffer legal or regulatory sanctions, material financial loss or other adverse impact on its reputation as a result of a failure to fully comply with laws, regulations, rules, standards or codes of conduct applicable to its financial services activities.
- Conduct risk is a sub-type of compliance risk. It is the risk that the group's intentional or unintentional business practices and behaviour will lead to the detriment of the group, its clients or the markets in which it operates.
- Financial crime risk is defined as the risk of economic loss, reputational impact and regulatory sanction arising from any type of financial crime against, or on behalf of the group. Financial crime includes, but is not limited to, money laundering, terrorist financing, bribery and corruption, sanctions breaches, fraud, violent crime and misconduct by staff, customers, suppliers, business partners, stakeholders and third parties.
- Information risk is defined as the risk of accidental or intentional unauthorised use, modification, disclosure or destruction of information resources, which would compromise the confidentiality, integrity or availability of information and which could potentially harm the business. This risk principally concerns electronic information and data; however, it also covers hardcopy formats (e.g. paper, whiteboards, etc.) and relies on technical, physical and human controls operating effectively.
- 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.

Business Disruption and Systems Failure

- Information technology risk is defined as the risk associated with the use, ownership, operation, involvement, influence and adoption of information technology within the group. It consists of information technology related events and conditions that could potentially impact the business by impacting service availability, performance or function. Businesses are typically highly dependent on information technology to support many operational processes, including regulatory ones, and thus risk outcomes can have significant impact on businesses. As a result, a technology failure can have a crippling impact on the group's brand and reputation.

37 Risk management (continued)

37.8 Operational risk (unaudited) (continued)

Execution, Delivery & Process Management

- Model risk arises from potential weaknesses in a model that is used in the measurement, pricing and management of risk. These weaknesses include incorrect assumptions, incomplete information, flawed implementation, limited model understanding, inappropriate use or inappropriate methodologies leading to incorrect conclusions by the user.
- Tax risk is defined as any event, action or inaction in tax strategy, operations, financial reporting, or compliance that either adversely affects the group's tax or business objectives or results in an unanticipated or unacceptable level of monetary, financial statement or reputational exposure. Further detail on the group's high level risk management and governance principles in relation to taxation, its attitude towards tax planning and commitment to compliance with all applicable tax laws, reporting and disclosure requirements is provided in the Tax Strategy document, available on the group's website.

Damage to Physical Assets

- Environmental risk is the risk of financial loss suffered due to environmental damage resulting directly from the bank's activities, products and services. Environmental risk is primarily relevant in relation to the bank's Energy business.

Causal Factors

- Change risk is defined as a risk that emerges through changes, updates or alterations made to operational processes across the group due to changes in people, process or technology. Typically, technology changes could affect service reliability and availability, whereas people and process changes would impact operational process efficiency and reliability. Change, whether internal in the form of people, process and technology, or external in the form of market conditions or regulations, is a significant driver of risk. Change risk can, individually or collectively, affect the business and technology operations and service delivery, introduced by technology changes.

37.9 Reputational risk (unaudited)

Reputational risk results from damage to the group's public image which may impair its ability to retain and generate business. Such damage could result from a breakdown of trust, confidence or business relationships for a wide variety of reasons. Safeguarding the group's reputation is of paramount importance to its continued success and is a key concern of executive management.

37.10 Capital management

The group manages its capital resources and requirements to:

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

The group is subject to regulation and supervision by the Prudential Regulation Authority (PRA) and forms part of the ICBC group which is supervised by the China Banking and Insurance Regulatory Commission (CBIRC).

The group is subject to the UK's prudential regime for banks, which implements the Basel regulatory standards, and consists of:

- the UK legislation and rules implementing the Capital Requirements Directive (UK CRD IV)

37 Risk management (continued)

37.10 Capital management (continued)

- the Capital Requirements Regulation (575/2013) as amended by the Capital Requirements (Amendment) (EU Exit) Regulations 2018 (UK CRR)

In addition to the above, there are also a range of technical standards and non-binding guidelines that complete the legislative package.

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

Economic capital (unaudited)
In addition to managing in accordance with the regulatory capital requirements, management also utilise more risk sensitive internal economic capital models to monitor and control the risk profile of the organisation. These cover capital adequacy as measured by the ratio of available financial resources to economic capital utilisation which forms part of the risk appetite.

Regulatory capital (unaudited)
Global 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 any specific requirements set by host country regulators, all banking operations are also expected to comply with the capital adequacy requirements on a consolidated basis. The group complies with prudential requirements prescribed by the UK PRA at a consolidated level, whilst also adhering to any specific regulatory requirements set by regulators in the countries in which it operates.

The group maintained surplus capital over the minimum requirements prescribed by the PRA throughout the year. The total capital requirement (TCR) prescribed by the PRA for the group is 11.3% (2020: 11.3%).

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

Capital is split into two tiers:

- Tier I capital consists of the sum of common equity tier I, in the form of share capital and retained earnings less regulatory deductions, and additional tier I capital instruments
- Tier II includes medium to long-term subordinated debt

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

37 Risk management (continued)

37.10 Capital management (continued)

Capital resources

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

	2021 $m	2020 $m
Common Equity Tier 1		
Paid up capital instruments	**1,083.5**	1,083.5
Share premium	**-**	996.0
Reserves	**126.5**	(937.9)
Less regulatory deductions (unaudited)	**(61.6)**	(68.7)
Total Common Equity Tier 1	**1,148.4**	1,072.9
Additional Tier 1		
Capital instruments	**160.0**	160.0
Total Additional Tier 1 Capital	**160.0**	160.0
Total Tier 1	**1,308.4**	1,232.9
Tier 2		
Subordinated debt instruments	**250.0**	250.0
Total Tier 2	**250.0**	250.0
Total eligible capital	**1,558.4**	1,482.9

38. Encumbered assets (unaudited)

The group enters into transactions in the normal course of business by which it transfers recognised financial assets or commodity assets directly to third parties. These transfers may give rise to full or partial derecognition of the assets concerned. Where the group has retained substantially all of the risks and rewards associated with the transferred assets, it continues to recognise these assets.

An asset is defined as encumbered if it has been pledged as collateral against an existing liability or used to secure, collateralise or credit enhance a transaction, which impacts its transferability and free use, and, as a result, is no longer available to the group to secure funding, satisfy collateral needs or be sold to reduce funding requirements. An asset is therefore categorised as unencumbered if it has not been pledged as collateral against an existing liability or used to secure, collateralise or credit enhance a transaction.

The group is required to provide cash and/or securities margin placements with counterparties and clearing houses as part of its normal trading activities. These transactions are conducted under standard SIFMA / ICMA commissioned Global Master Repurchase Agreement (GMRA) terms and conditions.

Total encumbered assets inclusive of both pledged assets and cash margin placements at 31 December 2021 were US$2,714.3 million (2020: US$2,482.1 million).

39. Collateral accepted as security for assets

As part of the group's financing activities, it receives securities and other financial assets that it is allowed to sell or re-pledge. Although the group is obliged to return equivalent securities, the risks and rewards associated with the securities remain with the external counterparty and the securities are not recognised on the group's balance sheet. The fair value of financial assets accepted as collateral that the group is permitted to sell or re-pledge in the absence of default is US$2,930.1 million (2020: US$2,642.6 million). In addition, the group received cash collateral of US$1,283.1 million in 2021 (2020: US$1,483.4 million). The fair value of financial assets accepted as collateral that have been sold or re-pledged is US$660.3 million (2020: US$2,558.9 million). These transactions are conducted under standard SIFMA / ICMA commissioned GMRA / ISDA / FOA master agreement terms and conditions as well as requirements determined by exchanges where the group acts as intermediary.

40. Ultimate holding company

The company's ultimate parent and controlling party is Industrial and Commercial Bank of China Limited (ICBC Limited), a company incorporated in the People's Republic of China. The smallest and largest group into which the results of the company are consolidated is that headed by ICBC Limited. Copies of the Group accounts of ICBC Limited may be obtained from its website at the address below or from investor relations at the following address:

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

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

16. Acronyms and abbreviations

APB	Auditing Practices Board	**ICMA**	International Capital Market Association
APER	Approved persons	**IFRS**	International Financial Reporting Standards as adopted by the EU
BAC	Board audit committee	**ILAAP**	Individual liquidity adequacy assessment process
BRMC	Board risk management committee	**ILG**	Individual liquidity guidance
BS&R	Business support and recovery	**IMF**	International Monetary Fund
CapCom	Capital and liquidity management committee	**IPV**	Independent price verification
CBIRC	China Banking and Insurance Regulatory Commission	**IRRBB**	Interest rate risk in the banking book
CEO	Chief Executive Officer	**ISDA**	International Swap Dealers Association
CI	Confidence intervals	**KI**	Key indicator
CIB	Corporate and Investment Banking division	**LAB**	Liquid asset buffer
COCON	Code of conduct	**LCR**	Liquidity coverage ratio
COMEX	Commodity exchange	**LGD**	Loss given default
Company	ICBC Standard Bank Plc company	**MLRC**	Market risk and liquidity committee
CRO	Chief Risk Officer	**MRT**	Material risk taker
CSA	Credit Support Annex	**NSFR**	Net stable funding ratio
CSR	Corporate social responsibility	**OCI**	Other comprehensive income
CVA	Credit valuation adjustment	**OIS**	Overnight index based swap curves
DCM	Debt Capital Markets	**OpCo**	Operational risk committee
DPA	Deferred prosecution agreement	**ORM**	Operational risk management
DVA	Own credit valuation adjustments	**OTC**	Over-the-counter
EAD	Exposure at default	**PBB**	Personal and Business Banking
EBA	European Banking Authority	**PD**	Probability of default
Ecap	Economic capital	**PIT**	Point-in-time
ECL	Expected credit loss	**PRA**	Prudential Regulation Authority
EM	Emerging markets	**RAS**	Risk appetite statement
EMIR	European Market Infrastructure Regulation	**RCSA**	Risk control self-assessment
EP	Economic profit	**Remco**	Remuneration committee of the group
EU	European Union	**Repos**	Repurchase agreements
EURIBOR	Euro Interbank offered rate	**RFR**	Risk free rates
EVE	Economic value of equity	**RMC**	Risk management committee
EWI	Early warning indicator	**RMAC**	Risk methodologies approval committee
FCA	Financial Conduct Authority	**SBG**	Standard Bank Group Limited and subsidiaries
FIC	Fixed Income and Currencies	**SBLH**	Standard Bank London Holdings Limited
FIRB	Foundation internal ratings based	**SBSA**	Standard Bank of South Africa Limited
FOA	Futures and Options Association	**SIFMA**	Securities Industry and Financial Markets Association
FOMC	Federal Open Markets Committee	**SONIA**	Sterling overnight index average
FVA	Funding valuation adjustment	**SPPI**	Solely payments of principal and interest
FVOCI	Fair value through other comprehensive income	**SVaR**	Stressed Value-at-risk
FVPL	Fair value through profit or loss	**TCM**	Treasury & Capital Management
GMRA	Global Master Repurchase Agreement	**TCR**	Total capital requirement
Group	ICBC Standard Bank Plc, its subsidiaries and CSEs	**TPRM**	Third party risk management framework
HQLA	High quality liquid asset	**TTC**	Through-the-cycle
IAS	International Accounting Standards	**UL**	Unexpected loss
IBOR	Benchmark interest rates	**VaR**	Value-at-risk
ICAAP	Internal capital adequacy assessment process	**VAT**	Value added tax
ICBC	Industrial and Commercial Bank of China Limited	**WWR**	Wrong way risk
ICBCS	ICBC Standard Bank Plc	**ZAR**	South African Rand

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