Bank of China Limited, Johannesburg Branch

Annual Financial Statements

For the year ended 31 December 2017

Annual Financial Statements

For the year ended 31 December 2017

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Local branch management's approval of the annual financial statements

The local branch management is responsible for monitoring the preparation of and the integrity of the annual financial statements and related information included in these annual financial statements.

In order for the local branch management to discharge its responsibilities, management has developed and continues to maintain a system of internal controls. The Branch management has ultimate responsibility for the system of internal controls and reviews its operation, primarily through various risk-monitoring committees.

The internal controls include a risk-based system of internal accounting and administrative controls designed to provide reasonable but not absolute assurance that assets are safeguarded and that transactions are executed and recorded in accordance with generally accepted business practices and the Branch's policies and procedures. These controls are implemented by trained, skilled personnel with an appropriate segregation of duties, are monitored by management and include a comprehensive budgeting and reporting system operating within strict deadlines and an appropriate control framework.

The annual financial statements are prepared in accordance with International Financial Reporting Standards and in the manner required by the Companies Act No 71 of 2008 South Africa and incorporate responsible disclosure in line with the accounting policy of the Branch. The annual financial statements are based on appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates.

Local branch management believes that the Branch will be a going concern in the year ahead. For this reason they continue to adopt the going concern basis in preparing the Branch's annual financial statements.

The annual financial statements for the year ended 31 December 2017 set out on pages 10 to 66 have been approved by the local branch management on 30 April 2018 and are signed on its behalf by:

Jun Cheng
Chief executive officer
Bank of China Johannesburg Branch
Date: 2018.0430

Quanlei Liu
Senior Executive Vice President
Bank of China Johannesburg Branch
Date: 20180430

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To the Executive Management of Bank of China Limited, Johannesburg Branch

Opinion

We have audited the financial statements of Bank of China Limited, Johannesburg Branch ("the Branch") set out on pages 10 to 66, which comprise the statement of financial position as at 31 December 2017 and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Bank of China Limited, Johannesburg Branch as at 31 December 2017, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). 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 Branch in accordance with the Independent Regulatory Board for Auditors *Code of Professional Conduct for Registered Auditors (IRBA Code)*, the International Ethics Standards Board for Accountants *Code of Ethics for Professional Accountants (IESBA code)* and other independence requirements applicable to performing audits of Bank of China Limited, Johannesburg Branch. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code, IESBA Code, and in accordance with other ethical requirements applicable to performing the audit of the Branch. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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. 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

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Key Audit Matter	How the matter was addressed in the audit
Credit impairments of Loans and Advances to Banks and Customers Loans and advances to banks and customers makes up approximately 81% of the total assets of the Branch. Credit risk assessments and the resulting impairment provisions (comprising specific and portfolio impairments) represent a subjective area due to the level of judgement and assumption applied by management in determining these provisions. Specific impairments generally relate to loans not performing in accordance with the original contractual terms or where other indicators of impairment exist. These loan exposures are reported on the Watch list. Portfolio impairments reflect possible credit risks on the remaining loans and advances balance. The following significant judgements impacted specific impairments during the current financial year: ▪ External valuation experts: Assessment of the reasonability of the recoverable amount determined for certain non-performing loans based on external valuation expert reports or business rescue plans. ▪ Management: For certain account balances the recoverable amount is determined with reference to adjusted cash flows discounted using an appropriate discount rate, reflective of the increased credit risk. Management applies judgement to one or both of these factors. Significant judgements applied in respect of portfolio impairments mainly relate to the credit rating allocated to each client based on their financial position and performance. Due to the significant value of the account balance, the complexity and judgement used in the determination of the credit impairments, and the significant auditor attention that was required in order to form an opinion, we have concluded that credit impairments are a key audit matter. The disclosure related to credit impairments of loans and advances to banks and customers are disclosed in the following notes of the Annual Financial Statements: ▪ Note 6: Credit Impairments ▪ Note 28.4: Credit Risk	Our audit of the credit impairments affecting the loans and advances, inter alia, included the following audit procedures: *Specific impairments* ▪ Significant loan exposures that were escalated to the Watch list by management were independently and individually analyzed by the audit team. This included an assessment of evidence supporting the valuation of the recoverable amount of such loans. Where discounted cash flow models were utilized by management, inputs (cash flows and discount rates) were analyzed. In certain instances, calculations were independently re-performed with the support of EY internal experts. ▪ We considered the impairment indicators present and the assumptions applied by management. In addition we considered management's assessment of the recoverability of the exposure and supporting collateral with reference to the current economic performance. ▪ We compared the loan exposures that are currently on the Watch list to those exposures that were included in the Watch list in the prior year, evaluated movements, and assessed the remainder of the significant loan exposures not included in the Watch list for possible indicators that may result in escalation to the Watch list. *Portfolio impairments* Portfolio impairments are calculated with reference to the probability of default ("PD ratio") and loss given the default that is assigned to each individual loan. Our work included the following: ▪ Each counterparty is assigned a credit rating which determines the PD ratio associated to it. We independently assessed evidence in support of the inputs into his rating and recalculated the associated portfolio impairment for a selection of counterparties. Other ▪ We compared the accounting policies and loan impairment methodology applied to the requirements under IAS39. ▪ We performed an analysis of the loan book with reference to exposures by industry to identify potential exposures that may indicate a higher risk of recoverability, but may have not been identified by management as such. Industries were identified based on adverse developments and general economic conditions. Our procedures included an assessment of the financial position and results of the loan exposures.

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Other Information

Executive Management is responsible for the other information. The other information comprises the information included in the Local branch Executive Management's approval of the annual financial statements report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated. 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.

Responsibilities of the Executive Management for the Financial Statements

The Executive Management are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the Executive Management 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 Executive Management are responsible for assessing the Branch'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 Executive Management either intend to liquidate the Branch or to cease operations, or have no realistic alternative but to do so.

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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 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 the financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Branch's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Executive Management.
- Conclude on the appropriateness of the Executive Management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Branch's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the business activities within the Branch to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Branch's audit. We remain solely responsible for our audit opinion.

We communicate with the Executive Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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We also provide the Executive Management with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Executive Management, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that Ernst & Young Inc. has been the auditor of Bank of China Limited, Johannesburg Branch for five (5) years.

Ernst + Young Inc

Ernst & Young Inc.
Ernest Van Rooyen
Director
Registered Auditor
30 April 2018

[illegible]

Local branch management's report

The local Branch management have pleasure in presenting their report for the year ended 31 December 2017.

Bank of China Limited, Johannesburg Branch has been registered as an external company in terms of the South African Companies Act 71 of 2008. As it is a foreign company, it is not subject to Chapter 3 of the aforementioned Act and therefore is not required to prepare and submit audited annual financial statements to the Commissioner.

Registered office	*Postal address*
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Telephone	Telefax
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Board of Directors – Bank of China Limited

A full register of directors can be inspected at the Bank of China Limited, Johannesburg Branch's offices. The Members of the Board of Directors of Bank of China Limited in office during the year and as at the date of this report are:

Mr. TIAN Guoli	Chairman	Resigned 2017/08/16
Mr. CHEN Siqing	Chairman	Appointed 2017/08/17
Mr. ZHANG Xiangdong	Non-Executive Director	
Mr. ZHANG Qi	Non-Executive Director	Term ended 2017/06/29
Mr. Nout Wellink	Independent Non-Executive Director	
Mr. LU Zhengfei	Independent Non-Executive Director	
Mr. LEUNG Cheuk Yan	Independent Non-Executive Director	
Mr. LI Jucai	Non-executive director	
Mr. WANG Changyun	Independent Non-Executive Director	
Mr. REN Deqi	Executive Director	
Mr. GAO Yingxin	Executive Director	
Ms. XIAO Lihong	Non-executive director	Appointed 2017/08/31
Ms. WANG Xiaoya	Non-executive director	Appointed 2017/08/31
Mr. ZHAO Jie	Non-executive director	Appointed 2017/04/08
Ms. CHAO Angela	Independent Director	Appointed 2017/04/01

All of the above directors are citizens of the People's Republic of China, except for Mr. Nout Wellink who is a citizen of the Netherlands and Angela Chao from USA.

Secretary

The company secretary is Mr Scotty Pillay.

Holding company

The ultimate holding company of the Branch is Bank of China Limited, a company incorporated in the People's Republic of China.

Auditors

Ernst & Young Incorporated was appointed as external auditors as from the financial year end 31 December 2013 in accordance with section 90(2) of the Companies Act, 2008.

Business and postal address:

Ernst & Young Incorporated	Private Bag X14
102 Rivonia Road	Sandton
Sandton	2146
2194	

Nature of business

The principal business of the Branch is corporate banking comprising primarily corporate lending and trade finance facilities.

Branch Capital

The Branch capital is R3, 300 million (31 December 2016: R3, 300 million).

Financial results

Total comprehensive income of R533 million (31 December 2016: R289 million) has been reported for the year ended 31 December 2017.

Material subsequent events

No material subsequent events occurred between the financial year end of the Branch and the date of this report.

Going Concern

Local branch management believes that the Branch will be a going concern in the year ahead. For this reason going concern basis is adopted in preparing the Branch's annual financial statements.

Statement of comprehensive income for the year ended 31 December 2017

In thousands of ZAR	Note	2017	2016
Interest income	2	2,226,579	1,613,311
Interest expense	2	(1,718,355)	(1,342,946)
Net interest income		508,224	270,365
Fee and commission income	3	118,712	94,812
Fee and commission expense	3	(21,678)	(8,518)
Net fee and commission income		97,034	86,294
Other operating income	4	311,902	441,345
Operating income		917,160	798,005
Personnel expenses	5	(146,148)	(143,459)
Other operating expenses	5	(80,023)	(63,547)
Operating expenses		(226,171)	(207,006)
Net impairment income/(expense) on financial assets	6	27,021	(258,803)
Profit before income tax		718,010	332,196
Income tax expense	7	(201,725)	(80,495)
Profit for the year		516,285	251,701
Other comprehensive income			
Gain/(Loss) on available-for-sale financial asset	22	22,621	51,924
Income tax relating to components of other comprehensive income	22	(6,334)	(14,575)
Other comprehensive income, net of tax		16,287	37,349
Total comprehensive income for the year		532,572	289,050

Statement of financial position as at 31 December 2017

In thousands of ZAR	Note	2017	2016
Assets			
Non-current assets			
Property, plant and equipment	13	18,950	24,885
Intangible asset	14	371	57
Deferred income tax	15	41,143	60,500
Derivative financial instruments	9	162,427	-
Loans and advances to banks	10	3,669,044	2,649,516
Loans and advances to customers	11	14,282,054	11,550,764
Investment securities	12	2,433,166	1,142,193
Current assets			
Cash and cash equivalents	8	5,481,312	1,193,715
Derivative financial instruments	9	470,843	199,265
Loans and advances to banks	10	2,080,113	3,858,896
Loans and advances to customers	11	11,943,896	8,498,470
Current income tax assets	26.1	63,459	47,544
Investment securities	12	2,940,352	2,951,509
Other assets	16	757,867	503,829
Total assets		44,344,997	32,681,142
Liabilities			
Non-current liabilities			
Deposits from customers	18	3,034	9,902
Deposits from banks	17	8,929,005	1,829,259
Commercial paper	25	4,703,794	650,000
Current liabilities			
Deposits from customers	18	15,322,926	12,094,678
Derivative financial instruments	9	223,631	113,160
Deposits from banks	17	7,410,976	10,490,013
Provisions	19	56,927	34,112
Commercial paper	25	2,629,571	2,913,920
Other liabilities	20	174,041	187,578
Total liabilities		39,453,905	28,322,622
Equity			
Branch capital	21	3,300,000	3,300,000
Accumulated profit		1,573,523	1,057,238
Fair value reserves	22	17,569	1,282
Total equity		4,891,092	4,358,520
Total liabilities and equity		44,344,977	32,681,142

Statement of changes in equity for the year ended 31 December 2017

In thousands of ZAR	Note	Branch capital	Accumulated profit/(loss)	Fair value reserves	Total
Balance at 1 January 2016		3,300,000	914,719	(36,067)	4,178,652
Total comprehensive income		-	142,519	37,349	179,868
Profit for the year		-	251,701	-	251,701
Profit reverted to Head office		-	(109,182)	-	(109,182)
Other comprehensive income	22	-		37,349	37,349
Balance at 31 December 2016		3,300,000	1,057,238	1,282	4,358,520
Total comprehensive income		-	516,285	16,287	532,572
Profit for the year		-	516,285	-	516,285
Other comprehensive income	22	-	-	16,287	16,287
Balance at 31 December 2017		3,300,000	1,573,523	17,569	4,891,092

Statement of cash flows for the year ended 31 December 2017

In thousands of ZAR	Note	2017	2016
Cash flows from operating activities			
Profit before taxation		718,010	332,196
Adjustments for non-cash flow items:			
Interest income on investment securities	2&12	(381,403)	(254,432)
Interest expense on commercial paper	2	486,295	250,790
Impairment (gain)/loss on financial assets	6	(27,021)	258,803
Other non-cash income items		(626)	(17,977)
Depreciation and amortisation	13&14	7,336	6,018
Unrealized foreign exchange loss/(gain)		944,651	(1,305,962)
Fair value gain on derivatives	4&9	(323,533)	(759,733)
Increase in operating lease accrual	20	663	1,711
Increase/(decrease) in provisions	19	22,815	(378)
		1,447,187	(1,488,964)
Change in working capital:			
Increase in loans and advances (excl. impairment)	10&11	(5,390,439)	(3,610,881)
Increase/(Decrease) in deposits	17&18	7,242,090	(3,045,294)
Increase in other assets	16	(254,038)	(158,171)
(Decrease)/increase in other liabilities	20	(13,537)	31,395
Cash generated from operations		3,031,263	(8,427,916)
Income tax paid	26.1	(204,658)	(34,223)
Net cash used in operating activities		2,826,605	(8,306,139)
Cash flows from investing activities			
Purchase of investment securities	12	(4,695,297)	(2,346,941)
Sale of investment securities	12	3,412,484	777,333
Coupons received from investment securities	12	407,021	247,244
Purchase of property and equipment	13	(1,313)	(17,287)
Purchase of intangible assets	14	(401)	(15)
Net cash used in investing activities		(877,506)	(1,399,666)
Cash flows from financing activities			
Proceeds from issue of commercial paper		6,573,793	2,035,000
Repayment of commercial paper		(2,856,000)	(1,435,000)
Coupon interest paid on commercial paper		(434,644)	(234,121)
Revert profit to head office		-	(109,182)
Net cash used in financing activities		3,283,149	256,697
Net increase/(decrease) in cash and cash equivalents		5,232,248	(9,389,108)
Net foreign exchange difference		(944,651)	1,305,962
Cash and cash equivalents at the beginning of the year		1,193,715	9,276,861
Cash and cash equivalents at the end of the year		5,481,312	1,193,715

Total interest paid during the year is R1 591 926 and the total interest received is R2 160 843.

Notes to the annual financial statements for the year ended 31 December 2017

1. Accounting policies

The significant accounting policies applied in the preparation of the annual financial statements are set out below. The accounting policies set out below have been applied consistently to all periods presented in these financial statements, except where otherwise indicated.

1.1 Statement of compliance

The annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations as issued by the International Accounting Standards Board (IASB) and in a manner required by the Companies Act No 71 of 2008, of South Africa, where applicable.

1.2 Basis of preparation

The annual financial statements are presented in South African Rand rounded to the nearest thousand, and have been prepared under the historical cost convention, except for items measured at fair value such as available-for-sale financial assets, and financial assets and liabilities (including derivative instruments) that have been measured at fair value through profit and loss. The annual financial statements provide comparative information in respect of the previous period.

The preparation of the annual financial statements is in conformity with IFRS which requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that is not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in note 28 as it pertains to the determination of amounts at fair value.

Significant accounting judgments, estimates and assumptions
The preparation of the Branch's financial statements requires management to make judgments, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Notes to the annual financial statements for the year ended 31 December 2017

1. Accounting policies (Continued)

1.2 Basis of preparation(Continued)

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Branch bases its assumptions and estimates on parameters available when the annual financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Branch. Such changes are reflected in the carry amount when they occur.

Impairment losses on loans and advances

The Branch reviews its loans and advances individually at each statement of financial position date to assess whether an impairment loss should be recorded in the profit or loss statement. In particular, management's judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance. In determining the provision, certain data is considered, such as collateral pledged by the customer, and the credit grading of these customers which in turn drives the probability of default on the exposure. Credit gradings are obtained from KMV Moody's, where credit ratings for certain customers are published. Alternatively, KMV Moody's is used to calculate an appropriate credit rating for customers with reference to their financial position, as per audited financial statements. Refer to note 28.4 for a detailed description of the Branch's credit risk management.

Fair value measurement of financial instruments

When the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the DCF model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. See note 28 for further disclosures.

1.3 Property and equipment

Property and equipment is held at cost less accumulated depreciation and accumulated impairment losses. Costs include expenditure that is directly attributable to the acquisition of the items. Where property and equipment comprises major components with different useful lives, the components are accounted for as separate items of property and equipment.

Depreciation is provided on a straight-line basis over the estimated useful lives of each part of an item of the property and equipment. The current estimates for this purpose are:

Notes to the annual financial statements for the year ended 31 December 2017

1. Accounting policies (Continued)

1.3 Property and equipment (Continued)

Computer equipment include IT equipment, main frame, servers and communication systems. Office equipment includes telephone equipment, TV equipment, office furniture and office fittings. Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Motor vehicles	5 years
Computer equipment	
- Main frame/Servers/Communication systems	3 years
Office equipment	
- Telephone equipment	5 years
- TV equipment	6 years
- Office furniture	6 years
- Office fittings	5 years

Subsequent expenditure relating to property and equipment is capitalised when it is probable that future economic benefits from the use of assets will flow to the Branch and its cost can be measured reliably. All other subsequent expenditure that does not meet the recognition criteria is recognised as an expense in the period in which it is incurred.

Surpluses or deficits on the disposal of property and equipment are recognised in profit and loss in the period in which they occur. The surplus or deficit is the difference between the net disposal proceeds and the carrying amount of the assets.

The carrying amount of an item of property and equipment shall be derecognised:
(a) on disposal; or
(b) when no future economic benefits are expected from its use or disposal.

1.4 Intangible assets

Intangible assets are stated at historical cost less accumulated amortisation and accumulated impairment losses. Amortisation is provided on a straight line basis on the cost of the assets, over their expected useful lives.

The current estimate for this purpose is:

Computer software	2 years

The useful life and amortisation method are reviewed annually.

Notes to the annual financial statements for the year ended 31 December 2017

1. Accounting policies (Continued)

1.4 Intangible assets (Continued)

An intangible asset shall be derecognised:
(a) on disposal; or
(b) when no future economic benefits are expected from its use or disposal.

Any gains or losses arising from the derecognition of the asset is recognised in profit or loss.

1.5 Taxation

Current tax

Current tax is the expected tax payable or the tax recoverable from the taxation authorities for the year. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences, deferred tax assets are recognised only to the extent that is it probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Notes to the annual financial statements for the year ended 31 December 2017

1. Accounting policies (Continued)

1.5 Taxation (Continued)

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Assets remeasured through OCI have a corresponding deferred tax entry through OCI. Deferred tax items are recognised in correlation to the underlying transaction either in OCI or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

1.6 Financial instruments

1.6.1 Initial Recognition and measurement

The Branch recognises a financial asset or a financial liability when, and only when, it becomes a party to the contractual provisions of the instrument. An arm's length regular way purchase or sale of financial assets is recognised on the trade date at which the Branch commits to purchase or sell the asset.

When a financial asset or financial liability is recognised initially, the Branch measures it at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

1.6.2 Subsequent measurement

For the purposes of subsequent measurement, the Branch classifies financial assets and financial liabilities into the categories set out below:

- Financial assets and liabilities at fair value through profit or loss;
- Loans and receivables;
- Available-for-sale financial assets; and
- Financial liabilities measured at amortised cost.

Cash and cash equivalents

Cash and cash equivalents are measured at amortised cost. Cash and cash equivalents denominated in foreign currencies are translated based on the relevant exchange rates at the reporting date. Bank overdrafts that are repayable on demand and form an integral part of cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

Notes to the annual financial statements for the year ended 31 December 2017

1. Accounting policies (Continued)

1.6 Financial instruments (Continued)

Financial assets and liabilities at fair value through profit and loss

Derivatives are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as other operating income in the statement of profit or loss.

Loans and receivables

This category is the most relevant to the Branch. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in interest income in profit or loss. Short-term loans and receivables balances for which discounting is not material are not discounted. These losses arising from impairment are recognised in profit or loss in net impairment movements on financial assets.

Available-for-sale (AFS) financial investments

Available-for-sale financial investments comprise of debt securities classified as investment securities in the statement of financial position. Investment securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in market conditions. After initial measurement, available-for-sale financial investments are subsequently measured at fair value which is calculated by reference to stock exchange quoted selling prices at the close of business on the reporting date, with unrealised gains or losses recognised in other comprehensive income and credited in the available-for-sale reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the available-for-sale reserve to profit or loss in finance costs. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the effective interest rate method.

The Branch evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term is still appropriate. When, in rare circumstances, the Branch is unable to trade these financial assets due to inactive markets, the Branch may elect to reclassify these financial assets if the management has the ability and intention to hold the assets for a foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on the asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any

Notes to the annual financial statements for the year ended 31 December 2017

1. Accounting policies (Continued)

1.6 Financial Instruments (Continued)

difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss.

The measurement of financial liabilities depends on their classification, as described below:
Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held-for-trading if they are incurred for the purpose of repurchasing in the near term. Gains or losses on liabilities held for trading are recognised in profit or loss. The Branch has not designated any financial liability as at fair value through profit or loss.

Derivatives are subsequently remeasured at their fair value. Fair values are calculated using valuation techniques such as discounted cash flow models, using observable data/inputs, including recent market transactions, and valuation techniques, including discounted cash flow models. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Loans and borrowings
This is the category most relevant to the Branch. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process. Short-term loans and borrowings balances for which discounting is not material are not discounted.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate . The effective interest rate amortisation is included as interest expense in profit or loss.

This category generally applies to interest-bearing loans, borrowings (including commercial paper), deposits and other liabilities.

Deposits derived from foreign exchange transactions are recorded at the exchange rate ruling at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at rates of exchange ruling at the financial position date. Gains and losses arising on translation are recognised in profit or loss (other operating income).

1.6.3 Impairments of financial assets
For available-for-sale financial assets, the Branch assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

Notes to the annual financial statements for the year ended 31 December 2017

1. Accounting policies (Continued)

1.6 Financial Instruments (Continued)

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised in other comprehensive income.

The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Branch evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost. The recoverable amount of loans and advances identified as impaired is calculated as the present value of the expected future cash flows, discounted at each instrument's original effective interest rate. Loans and advances are assessed for impairments on a monthly basis. Short-term balances for which discounting is not material are not discounted.

Loans and advances are presented net of credit impairment write-downs. Specific impairments are made against the carrying amount of loans and advances that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and advances to their recoverable amounts. If management determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The expected cash flows for portfolios of similar assets are estimated based on historic experience and taking into account the credit rating of the underlying customers and late payments of interest or penalties. Impairments and reversals of impairment write-downs are recognised in profit or loss.

In the case of debt instruments that are considered to be investment securities and which are classified as available-for-sale, the Branch first assesses whether impairment exists individually for debt instruments that are individually significant, or collectively for debt instruments that are not individually significant. If the Branch determines that no objective evidence of impairment exists for an individually assessed debt instrument, whether significant or not, it includes the instrument in a group of instruments with similar credit risk characteristics and collectively assesses them for impairment. Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income to profit or loss as a reclassification adjustment.

The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes to impairment provisions attributable to time value are reflected as a component of interest income.

Notes to the annual financial statements for the year ended 31 December 2017

1. Accounting policies (Continued)

1.6 Financial Instruments (Continued)

Impairment amount that is in excess of the reclassification is recognised in profit or loss. Fair value gains that are in excess of impairment recognised in the prior year shall be recognised in other comprehensive income.

1.6.4 Reversal of impairments on financial assets

An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

1.6.5 Offset

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when the Branch has a current legally enforceable right to set off the recognised amounts, and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

1.6.6 Derecognition

The Branch derecognises a financial asset when, and only when:

- The contractual rights to the cash flows from the financial asset expire; or
- It transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership are transferred. The financial asset is transferred if, and only if, it either: transfers the contractual rights to receive the cash flows of the financial asset; or it retains the contractual right to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipient. The Branch derecognises a financial liability when, and only when the obligation specified in the contract is discharged or cancelled or expires.

1.7 Foreign exchange transactions

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

Foreign exchange transactions are recorded at the exchange rate ruling at the transaction date and time. Loans and advances derived from foreign exchange transactions are recorded at the exchange rate ruling at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at the spot rate of exchange ruling at the reporting date. Gains and losses arising on translation are recorded in profit or loss and included in other operating income.

The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in the foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities

Notes to the annual financial statements for the year ended 31 December 2017

1. Accounting policies (Continued)

1.7 Foreign exchange transactions (Continued)

denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

1.8 Fee and commission income

Fee and commission income arises on financial services provided by the Branch. Fee and commission income is recognised when the corresponding service is provided.

Fee and commission expense arises on financial services provided to the Branch. Fee and commission expense is recognised on the accrual basis and, where applicable, in terms of a written agreement. Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, loan origination fees and syndication fees, are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period. Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

1.9 Provisions

Provisions are recognised when the Branch has a present legal or constructive obligation that can be measured reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Where the effect of discounting is material, provisions are discounted. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

1.10 Operating leases

Branch as lessee

Leases of assets are classified as operating leases if the lessor effectively retains all the risks and rewards of ownership. Payments made under operating leases, net of any incentives received from the lessor, are recognized in profit or loss on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

1.11 Contingencies and commitments

Transactions are classified as contingencies where the Branch's possible obligations depend on uncertain future events not wholly within the control of the Branch, or a present obligation that is not recognised as it is not probable that an

Notes to the annual financial statements for the year ended 31 December 2017

1. Accounting policies (Continued)

outflow of resources will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability. These principally consist of third party obligations.

1.12 Financial guarantee contracts

Financial guarantees are contracts that require the Branch 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 terms of a debt instrument. Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable). Financial guarantees are included within other liabilities.

1.13 Fair value measurement

The Branch measures financial instruments, such as, derivatives, at fair value at each reporting date. Also, fair values of financial instruments measured at amortised cost are disclosed in note 28.
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:
(a) In the principal market for the asset or liability, or
(b) In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to the Branch.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Branch uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

(a) Level 1- Quoted (unadjusted) market prices in active markets for identical assets or liabilities
(b) Level 2- Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
(c) Level 3- Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

Notes to the annual financial statements for the year ended 31 December 2017

1. Accounting policies (Continued)

1.13 Fair value measurement (Continued)

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Branch determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

1.14 Standards issued but not yet effective

The following new standards and amendments became effective as of 1 January 2017 and did not have an impact on the annual financial statements:

Standards effective 1 January 2017:
- Amendments to IAS 7 *Disclosure Initiative*

The standards and interpretations listed below will, or have become effective after 1 January 2018:

Standards effective 1 January 2018:
- IFRS 15 *Revenue from contracts with customers* (effective 1 January 2018)
- IFRS 9 *Financial Instruments* (effective 1 January 2018)
- IFRS 16 *Leases* (effective 1 January 2019)
- IFRIC Interpretation 22 Foreign Currency
- Transactions and Advance Consideration (effective 1 January 2019)
- IFRIC Interpretation 23 Uncertainty over Income Tax Treatments (effective 1 January 2019)
- Prepayment Features with Negative Compensation - Amendments to IFRS 9 (effective 1 January 2019)

IFRS 15 *Revenue from contracts with Customers*

IFRS 15 replaces all existing revenue requirements in IFRS (IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate ,IFRIC 18 Transfer of Assets from Customers and SIC 31 Revenue - Barter Transactions Involving Advertising Services) and applies to all revenue arising from contracts with customers, unless the contracts are in the scope of other standards, such as IAS 17. It also provides a model for the recognition and measurement of gains and losses on disposal of certain non-financial assets including property, equipment and intangible assets.

The standard outlines the principles an entity must apply to measure and recognise revenue. The core principle is that an entity will recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer.

Notes to the annual financial statements for the year ended 31 December 2017

1. Accounting policies (Continued)

1.14 Standards issued but not yet effective (Continued)

The principles in IFRS 15 will be applied using a five-step model:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when (or as) the entity satisfies a performance obligation

The standard requires entities to exercise judgment, taking into consideration of all the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

Effective date and transition
The standard applies to annual periods beginning on or after 1 January 2018, although early application is permitted. Retrospective application will be required.

Impact
The standard will affect entities across all industries. Adoption will be a significant undertaking for most entities with potential changes to an entity's current accounting, systems and processes. The Branch have assessed the impact of this standard and no impact has been identified.

IFRS 9 *Financial Instruments*
In July 2014 the International Accounting Standards Board issued the International Financial Reporting Standard 9 ("IFRS 9") - Financial Instruments which reflect all stages of the financial instruments project. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. In Oct 2017 the International

Accounting Standards Board issued the amendments to IFRS 9, which clarifies that financial asset passes the cash flow characteristics test regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments will take effect on January 1, 2019 and early application is permitted. The Branch will apply IFRS 9 and the amendments from January 1, 2018. The Branch does not have any debt instrument with compensation for early repayment.

In IFRS9, financial assets measurement are classified into three categories: amortized cost, fair value through other comprehensive income and fair value through profit or loss based on the entity's business model for managing the financial assets and their contractual cash flow characteristics. Financial assets in equity instruments are measured at fair value through profit or loss, unless the Branch makes an irrevocable election at initial recognition for fair value through

Notes to the annual financial statements for the year ended 31 December 2017

1. Accounting policies (Continued)

1.14 Standards issued but not yet effective (Continued)

other comprehensive income in which case the accumulated fair value changes in other comprehensive income will not be recycled to profit or loss in the future.

Business model reflects how the entity manages the financial assets to generate cash flows. Financial assets that are held within a business model whose objective is to hold the financial assets in order to collect contractual cash flows would be measured at amortised cost. If the objectives of the business model is achieved by both collecting contractual cash flows and selling financial assets, these financial assets would be measured at fair value through other comprehensive income. If

any financial assets held by entity don't fall within the two above-mentioned business models, the business model of the financial asset is classified in "other", which is measured at fair value through profit or loss. The key factors which are taken into account when the Branch determines a business model of financial assets mainly includes: how the asset's contractual cash flow was collected in the past, how the performance of the financial assets held within that business model are evaluated and reported to key management personnel and how managers of the portfolio of financial assets are compensated.

Assessing the cash flow characteristics is to identify whether the cash flow is solely payments of principal and interest on the outstanding principal. If the financial assets are held within a business model whose objective is achieved by collecting cash flows or by both collecting contractual cash flows and selling financial assets, the Branch will assess whether financial instrument's cash flows are solely payments of principal and outstanding interest on the principal amount. When making the assessment, the Branch takes into account whether the contractual cash flows are consistent with the basic lending arrangements. If the terms of the contract trigger a risk or exposure fluctuation that is inconsistent with the basic lending arrangements, the relevant financial assets is classified as being measured at fair value through profit or loss.

IFRS 9 requires a change for measuring the impairment of financial asset from the "incurred loss model" to an "expected credit loss model" which can be applied to financial assets measured at amortized cost, financial assets at fair value through other comprehensive income, loan commitments and financial guarantee contracts.

Expected credit losses are credit losses of the financial instruments weighted by default risks. Credit loss is the difference between all cash flows discounted at the original effective interest rate, in accordance with the contract and all the cash flows that the Branch expects to receive. For financial assets purchased or originated credit impaired financial assets, the Branch discounts them with the effective interest rate through credit adjustment. When estimating cash flows, the Branch considers all contractual terms (such as prepayments, extension, call options or other similar options etc.) over the expected life of the financial instrument, and the cash flows from the sale of the collateral held as well as the cash flows from other credit enhancement within the contractual terms.

Notes to the annual financial statements for the year ended 31 December 2017

1. Accounting policies (Continued)

1.14 Standards issued but not yet effective (Continued)

The Branch measures expected credit losses of a financial instrument in a way which reflects: an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; the time value of money; reasonable and supportable information that is available without undue cost or effort at the reporting date about past events.

The Branch conducted expected credit loss assessment consolidating forward-looking information in which complex models and a large number of assumptions are applied in measuring expected credit losses. These models and assumptions relate to the future macroeconomic conditions and borrower's creditworthiness (e.g. the default possibility of a customer and the relevant losses). The Branch applies judgments, assumptions and estimation technology in the measurement of expected credit losses in accordance with the requirements of accounting standards, e.g:

- Criteria for assessing the significant increase in credit risk
- Definition of default and impaired assets
- Parameters measuring expected credit loss
- Forward-looking information relating to macroeconomic indicators

The Branch assesses at each reporting date whether the credit risk of the relevant financial instrument has increased significantly since initial recognition. In assessing whether the credit risk has significantly increased since initial recognition, the Branch considers reasonable and reliable information that is available without undue cost or effort, including qualitative and quantitative analysis based on the historical data of the Branch, external credit risk rating and forward-looking information. Based on the individual financial instrument or the portfolio of financial instruments with similar credit risk characteristics, the Branch compares the default risk of financial instruments at the balance sheet date with that on the initial recognition date to determine the changes of default risk over the expected lifetime of the financial instrument.

The Branch classifies financial assets into three stages to calculate the expected credit losses using changes to the credit risk of financial instruments since initial recognition

Stage one: Financial assets with no significant increase in credit risk since initial recognition are classified in stage one in the expected credit loss model, and are measured at the amount equal to the expected credit losses arising from default events on a financial instrument that are possible within the 12 months after the reporting date;

Stage two: Financial assets whose credit risk increases significantly from the initial recognition, but there is no objective evidence of impairment are classified in stage two of the expected credit loss model, over the lifetime period of the financial instrument;

Notes to the annual financial statements for the year ended 31 December 2017

1. Accounting policies (Continued)

1.14 Standards issued but not yet effective (Continued)

Stage three: Financial assets with objective evidence of impairment at the reporting date are classified in stage three of the expected credit loss model, and their impairment provisions are measured at the amount equivalent to the expected credit losses over the lifetime period of the financial instrument;

If the loss allowance of the financial asset was measured at an amount equal to the lifetime expected credit loss in the previous reporting period, but determined at the current reporting date that the credit risk has not increased significantly since initial recognition, the Branch will measure the loss allowance at an amount equal to 12-month expected credit losses on the current reporting date. When one or more quantitative, qualitative or past due indicators in the following is triggered, the Branch determines that the credit risk on a financial instrument has increased significantly:

Quantitative criteria

- At the reporting date, the increase in remaining lifetime probability of default (PD) is considered significant, comparing with the one at initial recognition.

Qualitative criteria

- Significant adverse change in debtor's operation or financial status;
- If an asset is classified on the watch-list based on credit risk characteristics identified.

Backstop criteria

- The contractual payments of the debtor's any principal, advances, interest or corporate bond are more than 30 days past due.

To determine whether a default occurred under IFRS 9, the Branch make use of the internal credit risk management for financial instruments, and considers both quantitative and qualitative indicators. When the Branch assesses whether a borrower is in default, the following factors are mainly considered:

The borrower experiences financial difficulties.
The debtors are in breach of contract, such as defaulting in repayment of interest or principal, repayment of interest or principal past due

The borrower is granted arrangements due to financial difficulties of the borrower in terms of economic condition or contract, which would not be granted in any other cases.
The borrower will probably become insolvent or undertake a financial restructure.
Disappearance of an active market for the financial assets due to financial difficulties of an issuing party or borrower.
Financial assets purchased or originated at a big discount which reflects previous credit loss

Notes to the annual financial statements for the year ended 31 December 2017

1. Accounting policies (Continued)

1.14 Standards issued but not yet effective (Continued)

The debtor has any of the principal, advances, interest or investments in corporate bonds of the Bank overdue for more than 90 days.

Credit impairment of a financial asset may be impacted by many factors simultaneously rather than individually

The Branch measure impairment based on expected credit loss of 12-month or lifetime credit loss for different assets, depending on whether credit risk increases significantly or credit loss has been incurred. The key parameter of measuring expected credit loss includes probability of default, loss given default and exposure at default.

The definitions are as follows:

Probability of default is the probability that a given borrower will default during a given 12-month period or over the expected lifetime.

Loss given default is the loss rate in default predicted by the Branch in case of default. The LGD differs by counter party, collection method, priority of claim, collateral and guarantees received. LGD is equal to the loss percentage of EAD in the case of default, calculated for 12-month period or over the expected lifetime.

Exposure at default is the amount of exposure that the Branch will incur for 12-month period or over the expected lifetime.

The Group, built the expected credit loss model with probability of default, loss given default, exposure at default, considering quantitative analysis of historic statistics (such as credit rating of a counterparty, means of guarantee and category of collateral, means of repayment etc.) and forward-looking information based on the current risk management model and the requirements of IFRS 9.

The assessment of a significant increase in credit risk and the calculation of ECL both involve forward-looking information. Through the analysis of historical data, the Bank identifies the key economic indicators that affect the credit risk and ECL of various business types.

The impact of these economic indicators on the PD and the LGD varies according to different types of business. The Bank applied experts' judgement in this process, according to the result of experts' judgement, the Bank predicts these economic indicators on a quarterly basis and determines the impact of these economic indicators on the PD and the LGD by conducting regression analysis.

In addition to providing a baseline economic scenario, the Bank combines statistical analysis with experts' judgement to determine the weight of other possible scenarios. The Bank measures the related impairment for the ECL of the 12-month

Notes to the annual financial statements for the year ended 31 December 2017

1. Accounting policies (Continued)

1.14 Standards issued but not yet effective (Continued)

ECL (stage I) or the weighted average lifetime credit losses (stage II and stage III). The weighted credit loss above is calculated by multiplying the ECL for each scenario by the weight of the corresponding scenario.

When the Branch amends or re-negotiates contracts with counterparty which can lead to changes of cash flow rather than termination of financial assets, the balance of the financial assets will be recalculated using re-negotiated or amended contractual cash flow. The Branch determines whether the credit risk increased significantly by comparing default risk on the reporting date based on amended contractual articles and the initial recognition date based on the original contract, provided the asset was not derecognized when the contract was amended.

The objective of the new hedge accounting model is to represent in the financial statements the effect of an entity's risk management strategy that use financial instruments to manage hedging. Greater flexibility has been introduced to the types of transactions eligible for hedge accounting. In order to remove the risk of conflict between conventional accounting and the new hedge accounting standard, IFRS 9 includes options to keeping hedge accounting methodology under IAS 39.

IFRS9 has taken effect from opening January 2018 in the Branch, and the Branch will recognize an adjustment to its opening January 2018 retained earnings and OCI, to reflect the application of the IFRS 9 in the Branch's financial statement and will not restate comparative periods. Management is still estimating the final impact of IFRS 9 relating to the implementation of the ECL requirements.

IFRS 16 Leases

IFRS 16 requires that a lessee is to account for all leases under a single on-balance sheet model, which is subject to certain exemptions. All leases are to be accounted for in a manner similar to finance leases in terms of IAS 17. There are two recognition exemptions: leases of 'low-value' assets and short-term leases (leases with a term less than 12 months).

The lessee will recognize a liability to pay rental with a corresponding asset, and account for depreciation and interest expense separately. In addition, the lessee will be required to reassess certain key considerations upon certain events. IFRS 16 will require the lessee to provide more detailed and extensive disclosures in relation to leases.

Effective date and transition

The new standard will be effective from 1 January 2019, however earlier application is permitted, but not before the entity has applied IFRS 15.

Impact

The bank is currently assessing the impact that the new standard will have on the annual financial statements.

Notes to the annual financial statements for the year ended 31 December 2017

2. Net interest income

In thousands of ZAR	2017	2016
Interest income		
Cash and cash equivalents	118,559	90,709
Loans and advances to banks	345,832	145,990
Loans and advances to customers	1,380,785	1,122,180
Investment securities	381,403	254,432
Total interest income	2,226,579	1,613,311
Interest expense		
Deposits from banks	(333,812)	(190,038)
Deposits from customers	(898,248)	(902,118)
Commercial paper	(486,295)	(250,790)
Total interest expense	(1,718,355)	(1,342,946)
Net interest income/(expense)	508,224	270,365

The total interest income balance includes related parties interest income of R94 014 (2016: R47 731). The total interest expense balance includes related parties interest expense of R202 015 (2016: R110 575).

3. Net fee and commission income

In thousands of ZAR	2017	2016
Fee and commission income		
Service charges	5,161	5,595
Guarantee fees	4,781	4,721
Loan fees	107,558	83,838
Other fees	1,212	658
Total fee and commission income	118,712	94,812
Fee and commission expense		
Brokerage fees	-	(222)
Other fees	(21,678)	(8,296)
Total fee and commission expense	(21,678)	(8,518)
Net fee and commission income	97,034	86,294

The other fees include the financial enterprise fee.

Notes to the annual financial statements for the year ended 31 December 2017

4. Other operating income

In thousands of ZAR	2017	2016
Other income	18	270
Realised foreign currency exchange loss on FEC's	(11,649)	(318,659)
Unrealised foreign currency revaluation gain on FEC's	323,533	759,734
Total operating income	311,902	441,345

5. Operating expenses

In thousands of ZAR	2017	2016
Personnel expenses	(146,148)	(143,459)
Depreciation and amortization	(7,449)	(6,018)
Rental expenses	(18,310)	(18,538)
Other professional service fees	(3,262)	(6,083)
Auditor's fees	(1,978)	(2,264)
IT expenses	(2,660)	(3,767)
Head office management expenses	(9,874)	(8,313)
Other expenses	(36,490)	(18,564)
Total operating expenses	(226,171)	(207,006)

The other expenses include marketing fees, membership fees and operating fees.

Notes to the annual financial statements for the year ended 31 December 2017

6. Credit impairments (Continued)

In thousands of ZAR	2017			2016		
	Total	Specific	Portfolio	Total	Specific	Portfolio
Balance at the beginning of the year	(677,809)	(566,012)	(111,797)	(419,006)	(353,510)	(65,496)
Impairment reversal/ (charge) during the year	27,021	14,438	12,583	(258,803)	(212,502)	(46,301)
Transfer from portfolio to specific	-	(693)	693	-	-	-
Loans and advances to banks	2,187	-	2,187	948	-	948
Loans and advances to customers	24,834	15,131	9,703	(259,751)	(212,502)	(47,249)
Balance at the end of the year	(650,788)	(551,574)	(99,214)	(677,809)	(566,012)	(111,797)
Loans and advances to banks	(11,739)	-	(11,739)	(13,926)	-	(13,926)
Loans and advances to customers	(639,049)	(551,574)	(87,475)	(663,883)	(566,012)	(97,871)

In thousands of ZAR	2017	2016
Specific impairments		
Corporates	(545,133)	(554,421)
Small and medium corporates	(6,441)	(11,591)
	(551,574)	(566,012)

7. Income tax expense

The major components of income tax for the years ended 31 December 2017 and 2016 are:

In thousands of ZAR	2017	2016
Statement of profit or loss		
Current tax expense:	(188,702)	(23,505)
Current year income tax charge	(188,743)	(36,093)
Withholding income tax	-	15
Over provision of tax	41	12,573
Deferred tax expense:		
Relating to the origination and reversal of temporary differences	(13,023)	(56,990)
Income tax expense reported in the statement of profit or loss	(201,725)	(80,495)
Statement of OCI		
Deferred tax expense related to items recognised in OCI during the year		
Available-for-sale investment securities	(6,334)	(14,575)
Deferred tax *expense income* reported in OCI	(6,334)	(14,575)

Notes to the annual financial statements for the year ended 31 December 2017

7. Income tax expense (Continued)

Reconciliation of tax expense and the accounting profit multiplied by the tax rate for 2017 and 2016:

	2017		2016	
	%	Amount	%	Amount
Accounting profit before income tax		718,010		332,196
At income tax rate	28.00	(201,043)	28.00	(93,015)
Over provision of tax	0.00	41	(3.78)	12,573
Non-taxable income	-	-	0.01	(53)
Non-deductible expenses	(0.10)	(713)	-	-
Total income tax expense	28.10	(201,725)	24.23	(80,495)
Income tax expense reported in the statement of comprehensive income		(201,725)		(80,495)

8. Cash and cash equivalents

In thousands of ZAR	2017	2016
Cash at banks and on hand	738,077	489,462
Cash placements	4,743,235	704,253
Total cash and cash equivalents	5,481,312	1,193,715

Total amount of R 5,481,312 (2016: R 1 193 715) includes related parties' deposits of R5,205，091 (2016: R880 030).

9. Derivative financial instruments

In thousands of ZAR	2017	2016
Derivative financial assets:		
Balance at the beginning of the year	199,265	181,430
Fair value gain	434,005	17,835
Balance at the end of the year	633,270	199,265
Derivative financial liabilities:		
Balance at the beginning of the year	(113,160)	(855,059)
Fair value (loss)/gain	(110,471)	741,899
Balance at the end of the year	(223,631)	(113,160)
Net derivative financial instruments	409,639	86,105

The derivative financial instruments are held for risk management purposes. Derivative financial instruments are disclosed at fair value and comprise foreign exchange contracts held for short-term risk management purposes.

Notes to the annual financial statements for the year ended 31 December 2017

10. Loans and advances to banks

In thousands of ZAR	2017	2016
Non-current assets	3,669,044	2,649,516
Syndicated loans	3,677,256	2,656,243
Less: portfolio impairment	(8,212)	(6,727)
Current assets	2,080,113	3,858,896
Syndicated loans	827,304	1,799,723
Wholesale loans	744,977	2,062,534
Trade finance loans	511,359	3,838
Intra-group loans	-	-
Less: portfolio impairment	(3,527)	(7,199)
	5,749,157	6,508,412

Syndicated loans are structured term loans with financial institutions.

11. Loans and advances to customers

In thousands of ZAR	2017	2016
Non-current assets	14,282,054	11,550,764
Term loans	722,389	593,571
Wholesale loans	3,034,345	780,210
Housing loans	32,925	36,079
Syndicated loans	10,560,245	10,210,922
Less: specific impairment	(12,061)	-
Less: portfolio impairment	(55,789)	(70,018)
Current assets	11,943,896	8,498,470
Trade finance	54,953	156,928
Term loans	32,065	60,356
Wholesale loans	9,929,893	6,839,037
Non-interest bearing loans	821,317	835,454
Housing loans	180	170
Syndicated loans	1,676,687	1,200,390
Less: specific impairment	(539,513)	(566,012)
Less: portfolio impairment	(31,686)	(27,853)
	26,225,950	20,049,234

Notes to the annual financial statements for the year ended 31 December 2017

12. Investment securities

In thousands of ZAR	2017	2016
Opening Balance	4,093,702	2,464,982
Purchases	4,695,297	2,346,941
Maturities	(3,412,484)	(777,333)
Coupons received	(407,021)	(247,244)
Interest income accrued	381,403	254,432
Fair value movement through OCI gain/(loss)	22,621	51,924
Balance at the end of the year	5,373,518	4,093,702
Total investment securities	5,373,518	4,093,702
Current assets	2,940,352	2,951,509
Non-current assets	2,433,166	1,142,193

Investment securities relate to mainly investments in government bonds and treasury bills. The investment securities are classified as available-for-sale securities and are held mainly for liquidity purposes to comply with the Regulations 27 of the South African Reserve Bank, as stipulated in BA310. Included in the balance at year end is R425 million of credit linked notes issued by Investec Bank Limited.

Notes to the annual financial statements for the year ended 31 December 2017

13. Property, plant and equipment

In thousands of ZAR	Computer equipment	Office equipment	Motor vehicles	Total
Cost				
Balance at 1 January 2016	9,812	16,751	4,111	30,674
Acquisitions	954	16,321	12	17,287
Balance at 31 December 2016	10,766	33,072	4,123	47,961
Balance at 1 January 2017	10,766	33,072	4,123	47,961
Acquisitions	637	676		1,313
Disposals/Write off	(2,024)	(1,839)		(3,863)
Balance at 31 December 2017	9,379	31,909	4,123	45,411
Accumulated depreciation and impairment expenses				
Balance at 1 January 2016	5,818	8,847	2,505	17,170
Depreciation	2,031	3,336	538	5,905
Balance at 31 December 2016	7,849	12,183	3,043	23,075
Balance at 1 January 2017	7,849	12,183	3,043	23,075
Depreciation	1,893	4,899	458	7,249
Disposals/Write off	(2,024)	(1,839)	-	(3,863)
Balance at 31 December 2017	7,717	15,243	3,501	26,461
Carrying amounts				
Balance at 1 January 2017	2,917	20,889	1,080	24,885
Balance at 31 December 2017	1,662	16,666	622	18,950
Movement for 2017	(1,255)	(4,223)	(458)	(5,935)

Notes to the annual financial statements for the year ended 31 December 2017

14. Intangible assets

In thousands of ZAR	Purchased Software	Total
Cost		
Balance at 1 January 2016	1,608	1,608
Acquisitions	15	15
Balance at 31 December 2016	1,623	1,623
Balance at 1 January 2017	1,623	1,623
Acquisitions	401	401
Disposals/ Write of	(1,348)	(1,348)
Balance at 31 December 2017	676	676
Amortisation and impairment expenses		
Balance at 1 January 2016	1,453	1,453
Amortisation	113	113
Amortisation provision from Disposals/ Write of	-	-
Impairment	-	-
Balance at 31 December 2016	1,566	1,566
Balance at 1 January 2017	1,566	1,566
Amortisation	87	87
Amortisation provision from Disposals/ Write of	(1,348)	(1,348)
Balance at 31 December 2017	305	305
Carrying amounts		
Balance at 1 January 2017	57	57
Balance at 31 December 2017	371	371
Movement for 2017	314	314

Notes to the annual financial statements for the year ended 31 December 2017

15. Deferred tax asset

In thousands of ZAR	Opening Balance	Recognised in profit or loss	Recognised in equity	Closing Balance
2017				
Impairment loss	23,477	(14,809)	-	8,668
Available-for-sale securities	(499)	-	(6,334)	(6,833)
Audit fee provision	525	53	-	578
Leave provision	747	58	-	805
Bonus provision	4,257	4,346	-	8,603
Deferred commission	31,456	(2,822)	-	28,634
Operating lease straight lining	536	152	-	688
Total deferred tax asset	60,500	(13,023)	(6,334)	41,143

In thousands of ZAR	Opening Balance	Recognised in profit or loss	Recognised in equity	Closing Balance
2016				
Impairment loss	87,991	(64,514)	-	23,477
Available-for-sale securities	14,076	-	(14,575)	(499)
Audit fee provision	403	122	-	525
Leave provision	522	225	-	747
Bonus provision	4,182	75	-	4,257
Deferred commission	24,816	6,640	-	31,456
Operating lease straight lining	24	512	-	536
Total deferred tax asset	132,014	(56,940)	(14,575)	60,500

16. Other assets

In thousands of ZAR	2017	2016
Amounts receivable and prepayments	2,512	2,421
Restricted deposits with the central bank	755,355	501,408
Total other assets	757,867	503,829

Restricted deposits are non-interest bearing minimum reserves held to comply with the regulations of the South African Reserve Bank, which is stipulated in BA310. These balances do not form part of the Branch's cash management activities and therefore are not disclosed as part of cash and cash equivalents.

Notes to the annual financial statements for the year ended 31 December 2017

17. Deposits from banks

In thousands of ZAR	2017	2016
Non-Current Liabilities		
Deposits from intra-groups	8,929,005	1,829,259
Current Liabilities		
Intra-group deposits and loans	3,844,966	6,926,408
Inter-bank deposits and loans	3,566,010	3,563,605
	7,410,976	10,490,013
Total deposits from banks	16,339,981	12,319,272

Deposits from banks are mostly the money market loans that are used to fund the operations of the Branch except for the clearing accounts held for intra-group purposes.

18. Deposits from customers

In thousands of ZAR	2017	2016
Non-current liabilities	3,034	9,902
Term deposits	3,034	9,902
Current liabilities	15,322,926	12,094,678
Current deposits	2,227,053	2,371,063
Term deposits	12,931,173	9,535,944
Margin deposits	164,700	187,671
	15,325,960	12,104,580

19. Provisions

In thousands of ZAR	Bonuses and leave pay	IT fee and Head Office fee	Audit and other professional fees	Total
Opening balance at 1 January 2016	16,796	16,252	1,442	34,490
Arising during the year	13,175	12,443	1,502	27,120
Utilisation of provisions	(11,695)	(12,070)	(659)	(24,424)
Reversal of provisions	(404)	(2,260)	(410)	(3,074)
Closing balance at 31 December 2016	17,872	14,365	1,875	34,112
Arising during the year	91,514	18,855	1,560	111,929
Utilisation of provision	(75,653)	(11,682)	(1,660)	(88,995)
Reversal of provisions	(133)	(273)	287	(119)
Closing balance at 31 December 2017	33,600	21,265	2,062	56,927

Notes to the annual financial statements for the year ended 31 December 2017

19. Provisions (Continued)

Salaries and wages include the annual bonus provision as well as compensation and leave pay provisions. IT fees are charged from the centralized IT support center as well as Bank of China Limited.

20. Other liabilities

In thousands of ZAR	2017	2016
Accounts payable	69,316	73,440
Deferred commission income	102,266	112,342
Operating lease accrual	2,459	1,796
Total other liabilities	174,041	187,578

Accounts payable includes accrued expenses relating to inward remittances and other payables and advances from customers.

21. Branch capital

In thousands of ZAR	2017	2016
Balance at the beginning of the year	3,300,000	3,300,000
Equity contribution		
Balance at the end of the year	3,300,000	3,300,000

22. Fair value reserve

In thousands of ZAR	2017	2016
Balance at the beginning of the year	1,282	(36,067)
Recognised directly in the statement of comprehensive income	16,287	37,349
Fair value gain/(loss)	22,621	51,924
Less: deferred tax (expense)/income	(6,334)	(14,575)
Balance at the end of the year	17,569	1,282

The fair value reserve reflects the unrealised fair value gain or loss on investment securities, which comprise government bonds, adjusted for deferred tax.

Notes to the annual financial statements for the year ended 31 December 2017

23. Obligations under operating leases

The Branch has the following operating lease commitments in respect of its premises:

In thousands of ZAR	2017	2016
Less than one year	12,160	11,245
Between one to five years	27,010	39,170
Total operating lease commitments	39,170	50,415

The rental recognised in the current financial year is R13 860 (2016: 14 176). The operating lease commitments include building and parking commitments until January 2021.

24. Contingent liabilities and commitments

In thousands of ZAR	2017	2016
Guarantees	610,381	320,454
Letters of credit	2,019,183	1,096,713
Total contingent liabilities and commitments	2,629,564	1,417,167

The Branch provides financial guarantees and letters of credit to the performance of customers to third parties, and no material loss is anticipated as a result of these transactions. The Branch also provides revocable loan commitments to customers.

Financial guarantees: All domestic guarantees are issued based on a facility with the Branch. These guarantees may run against an expiry date, or with no expiry date depending on the type of guarantee issued. Most common guarantee will be demand guarantee whereby it's guaranteed against a project, service or maintenance plan over a period of time. If there are late payments received, no payments received or maintenance is not kept according to the contract, demand will be made to the Branch to effect payment.

International guarantees are issued against a counter guarantee received from overseas inter group branches or other overseas banks. They will request the Branch to reissue a guarantee based on a counter guarantee. The Branch will re-issue the guarantee to the local client (beneficiary), and if complying demand is received from the beneficiary the bank is liable for payment, the Branch will claim the funds against the counter guarantee for the payment due.
The value of the guarantees received are R206 million (2016: R216 million *)

Letters of credit: A letter from the Branch guaranteeing that a buyer's payment to a seller will be received on time and for the correct amount provided no discrepancies are noted on the documents presented under the L/C. In the event the buyer is unable to make payment on the purchase, the Branch will be required to cover the full or remaining amount of the purchase.

Notes to the annual financial statements for the year ended 31 December 2017

24. Contingent liabilities and commitments (Continued)

For all import letters of credit, the client is required to have a facility with the Branch before issuance. There are two types of import letters of credit–usance and sight. For usance once the acceptance of the bill has been done, if the client is unable to pay for the bill at the maturity date and the Branch is required to pay, the funds are then drawn down as a loan and paid on the clients' behalf. For sight, no documents will be released to the client unless payment has first been received. If by the 5th working day no funds have been received from the client to pay for the letter of credit, funds are then drawn down as a loan and paid on the client's behalf. The Branch will then claim principal and interest charges for late payment received.

Income taxes: The branch is subject to various taxes and the calculation of the branch's tax charge and provisions for income taxes necessarily involve a degree of estimation and judgement. There are a number of transactions and calculations for which the ultimate tax treatment is uncertain. The branch is subject to enquiries and requests for information by SARS as part of its normal business activities. There is uncertainty about both the timing and final outcome of such tax enquiries.

*The value of the counter-guarantees were previously not presented, however this has been corrected in the current reporting period.

25. Commercial paper

In thousands of ZAR	2017	2016
Long-term commercial paper of which:	4,703,794	650,000
Principal amount	4,703,794	650,000
Short-term commercial paper of which:	2,629,571	2,913,920
Principal amount	2,520,000	2,856,000
Accrued interest	109,571	57,920
Total	7,333,365	3,563,920

Short-term accrued interest includes interest accruals in respect of both the long-term and short-term commercial paper notional amounts outstanding on which coupon payments are due in the first three months of 2018.

Balance at the beginning of the year 1 January 2017	3,563,920
Proceeds from issue of commercial paper	6,573,793
Repayment of commercial paper	(2,856,000)
Coupon interest paid on commercial paper	(434,644)
Interest accruals	544,215
Effect of foreign exchange movements	(57,919)
Balance at the end of the year 31 December 2017	7,333,365

Notes to the annual financial statements for the year ended 31 December 2017

26. Notes to the cash flow statement

26.1 Taxation paid

In thousands of ZAR	2017	2016
Balance at the beginning of the year	47,544	(20,608)
Over provision of tax in relation to prior years	(41)	15
Amounts charged to the income statement	(188,702)	23,505
Amount owing at the end of the year	(63,459)	47,544
Amount paid to SARS during the current year	(204,658)	50,456
Amount paid to SARS during the current year		
- With respect to prior years	-	(49,413)
- With respect to the current year	204,658	83,636
Tax paid	204,658	34,223

27. Capital management

The Branch maintains an actively managed capital base to cover risks inherent in the business and meet the capital adequacy requirements of the local banking supervisor, the South African Reserve Bank. The adequacy of the Branch's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision (BIS rules/ratios) as adopted by the South African Reserve Bank in supervising the Branch.

During the past year, the Branch had complied in full with all its externally imposed capital requirements (2016: the same).

The primary objectives of the Branch's capital management policy are to ensure that the Branch complies with externally imposed capital requirements and maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise equity participants' value. The Branch manages its capital structure and makes adjustments to it and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Branch will determine the amount of dividend payments to equity participants, if any, return capital to equity participants or issue capital securities. No changes have been made to the objectives, policies and processes from the previous years. However, they are under constant review by the committee.

Regulatory capital:

In thousands of ZAR	2017	2016
Tier 1 Equity Capital	3,300,000	3,300,000

27. Capital management (Continued)

Risk weighted assets	36,319,677	25,784,911
Tier 1 capital ratio	11.8497%	15.6522%
Total capital ratio	13.0429%	18.2750%

Regulatory capital hereby consists of Tier 1 capital, which comprises share capital. Certain adjustments are made to IFRS-based results and reserves, as prescribed by the South African Reserve Bank.

28. Risk management disclosures

This section provides details of the Branch's exposure to risk and describes the methods used by management to control risk. The most important types of financial risk to which the Branch is exposed are credit risk, liquidity risk, market risk and operational risk. Market risk includes currency risk, interest rate risk and equity price risk.

28.1 Derivative financial instruments

The Branch enters into a variety of derivative financial instruments for risk management purposes. This section details the derivative financial instruments used by the Branch. Further details of the Branch's objectives and strategies in the use of derivatives are set out in the sections of this note under banking activities. Details of the nature and terms of derivative instruments outstanding at the reporting date are set out in note 9.

Derivative financial instruments used by the Branch include forward exchange contracts. Derivatives are either standardised contracts transacted through regulated exchanges (referred to as exchange-traded products) or individually negotiated over-the-counter contracts (referred to as OTC-products). A description of the main types of derivative instruments used by the Branch is set out below:

(i) Swaps

The Branch agrees with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed notional amount. The Branch is subject to credit risk arising from the respective counterparties' failure to perform. Market risk arises from the possibility of unfavorable movements in interest rates relative to the contractual rates.

(ii) Forward exchange contracts

Forward exchange contracts are commitments to either purchase or sell a currency at a specified future date for a specified price and may be settled in cash or with another financial asset. Forward exchange contracts result in credit exposure to the counterparty. They also result in exposure to market risk based on changes in market prices relative to contractual amounts.

28.2 Banking activities

Below is a discussion of the various risks the Branch is exposed to as a result of its banking activities and the approach taken to manage those risks:

(i) Liquidity risk

Liquidity risk arises in the general funding of the Branch's activities and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

The Branch has access to Head Office funding. The Branch strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The Branch continually assesses liquidity risk by identifying and monitoring changes in funding required for business goals and targets set in terms of the overall Branch strategy.

In addition, the Branch holds a portfolio of liquid assets as part of its liquidity risk management strategy.

(ii) Interest rate risk

The Branch's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets (including investments) and interest-bearing liabilities mature or reprice at different times or in differing amounts. Risk management activities are aimed at optimising net interest income, given market interest rate levels consistent with the Branch's business strategies.

Interest rate derivatives are primarily used to bridge the mismatch in the repricing of assets and liabilities. This is done in accordance with the guidelines established by the Branch's asset-liability management committee.

Part of the Branch's return on financial instruments is obtained from controlled mismatching of the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates or, if earlier, the dates on which the instruments mature.

(iii) Currency risk

The Branch is exposed to currency risk through transactions in foreign currencies. The Branch's funding is diversified in local currency and foreign currencies. As the currency in which the Branch presents its annual financial statements is the South African Rand, the Branch annual financial statements are affected by movements in the exchange rates between the South African Rand and the foreign currencies.

The Branch's transactional exposures give rise to foreign currency gains and losses that are recognised in the statement of other comprehensive income.

(iv) Credit risk

The Branch is subject to credit risk through its banking activities and in cases where it acts as an intermediary on behalf of customers or other third parties or issues guarantees.

The risk that counterparties to both derivative and other instruments might default on their obligations is monitored on an on-going basis.

The Branch's primary exposure to credit risk arises through its loans and advances. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the statement of financial position. The Branch is exposed to credit risk on various other financial assets, including derivative financial instruments and interest bearing securities. The current credit exposure in respect of these instruments is equal to the carrying amount of these assets in the statement of financial position. In addition, the Branch is exposed to off statement of financial position credit risk through commitments to extend credit and guarantees issued. The maximum credit risk in respect of these commitments is the amount disclosed in the contingent liability note (note 24).

Concentrations of credit risk (whether on or off statement of financial position) arise when counterparties have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

The major concentrations of credit risk arise by location and type of customer in relation to loans and advances, commitments to extend credit and guarantees issued. The Branch has no significant exposure to any individual customer or counterparty.

28.3 Financial instruments measured at fair value

Financial instruments measured at fair value, comprises derivative financial instruments and investment securities.

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments:

(i) Investment securities

Fair value is based on quoted market prices at the reporting date without any deduction for transaction costs.

(ii) Derivative financial instruments

The fair value of derivatives is estimated at the amount that the Branch would receive or pay to terminate the contract at the statement of financial position date taking into account current market conditions and current creditworthiness of the counterparties.

For loans and advances, cash and cash equivalent, other assets, commercial paper and the receivable interest, the carrying amounts approximate their fair value. Commercial paper is measure at amortised cost and the interest on commercial paper is determined based on the 3 months JIBAR which is a market related rate. The interest on loans and advances is determined based on credit quality (prime) therefore market rates.

Notes to the annual financial statements for the year ended 31 December 2017

The table below represents the Branch's financial instruments according to the category into which it is classified:

In thousands of ZAR	Total carrying amount	Fair value through profit or loss	Loans and receivable	Available for sale
As at 31 December 2017				
Assets				
Loans and advances to banks	5,749,157	-	5,749,157	-
Loans and advances to customers	26,225,950	-	26,225,950	-
Investment securities	5,373,518	-	-	5,373,518
Cash and cash equivalents	5,481,312	-	5,481,312	-
Derivative financial instruments	633,270	633,270	-	-
Other assets	757,867	-	757,867	-
Total financial instrument assets	44,221,074	633,270	38,214,286	5,373,518

In thousands of ZAR	Total carrying amount	Fair value through profit or loss	Liabilities held at amortised cost
As at 31 December 2017			
Liabilities			
Deposits from customers	15,325,960	-	15,325,960
Deposits from banks	16,339,981	-	16,339,981
Derivative financial instruments	223,631	223,631	-
Commercial paper	7,333,365	-	7,333,365
Other liabilities and provisions	230,968	-	230,968
Total financial instrument liabilities	39,453,905	223,631	39,230,274

In thousands of ZAR	Total carrying amount	Fair value through profit or loss	Loans and receivable	Available for sale
As at 31 December 2016				
Assets				
Loans and advances to banks	6,508,412	-	6,508,412	-
Loans and advances to customers	20,049,234	-	20,049,234	-
Investment securities	4,093,702	-	-	4,093,702
Cash and cash equivalents	1,193,715	-	1,193,715	-
Derivative financial instruments	199,265	199,265	-	-
Other assets	501,931	-	501,931	-
Total financial instrument assets	32,546,259	199,265	28,253,292	4,093,702

In thousands of ZAR	Total carrying amount	Fair value through profit or loss	Liabilities held at amortised cost
As at 31 December 2016			
Liabilities			
Deposits from customers	12,104,580	-	12,104,580
Deposits from banks	12,319,272	-	12,319,272
Derivative financial instruments	113,160	113,160	-
Commercial paper	3,563,920	-	3,563,920
Other liabilities	73,440	-	73,440
Total financial instrument liabilities	28,174,372	113,160	28,061,212

The remaining financial instruments approximate fair value owing to their nature being short-term.

Foreign exchange derivatives

This category of derivatives reflect forex forward contracts as it is linked to the foreign exchange (FX) market and it traded as over-the-counter derivatives.

These derivatives are valued using industry standard models. Input parameters include FX rates, interest rates, FX volatilities, interest rate volatilities, FX interest rate correlations and others as appropriate. No unobservable inputs are used in the valuation of the FX forward contracts, as these are generally of a very short-term (within twelve months) and hence publicly quoted inputs are available.

Investment securities

Investment securities refer to government bonds held by the Branch. These liquid government bonds are actively traded through an exchange or clearing house and are marked to the closing levels observed in these markets. Publicly quoted prices are available for all positions held as at 31 December 2017 and hence no market prices have to be sourced from broker quotes, inter-dealer prices or other reliable pricing services. No adjustments were made to market prices observed.

The nature of the valuation techniques set out in the table above is summarised as follows:

Level 1

Financial instruments valued using inputs that are based on unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available and the price represents actual and regularly occurring market transactions on an arm's length basis.

An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

Notes to the annual financial statements for the year ended 31 December 2017

The category includes liquid government bonds and financial instruments classified as investment securities.

Level 2

Financial instruments valued using inputs other than quoted prices as described above for level 1 but which are observable for the asset or liability, either directly or indirectly, such as:

- Quoted price for similar assets/liabilities in an active market;
- Quoted price for identical or similar assets or liabilities in inactive markets;
- Valuation model using observable inputs; and
- Valuation model using inputs derived from/corroborated by observable market data.

This category includes foreign exchange derivatives only.

There have been no transfers between Level 1 and Level 2 during the period.

Level 3

Level 3 inputs are unobservable inputs for the asset or liability.

Unobservable inputs are used to measure fair value to the extent that relevant observable inputs are not available, allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. The Branch develops unobservable inputs using the best information available in the circumstances, which might include the Branch's own data, taking into account all information about market participant assumptions that is reasonably available.

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The table below provides the fair value of financial assets and liabilities per category:

In thousands of ZAR	Total	Quoted prices in active prices (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
As at 31 December 2017				
Assets measured at fair value:				
Derivative financial instruments	633,270		633,270	-
Investment securities	5,373,518	4,948,186	425,332	-
	6,006,788	4,948,186	1,058,602	-

In thousands of ZAR	Total	Quoted prices in active prices (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
As at 31 December 2017				
Liabilities measured at fair value:				
Derivative financial instruments	223,631		223,631	-
	223,631		223,631	-

In thousands of ZAR	Total	Quoted prices in active prices (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
As at 31 December 2016				
Assets measured at fair value:				
Derivative financial instruments	199,265	-	199,265	-
Investment securities	4,093,702	4,093,702	-	-
	4,292,967	4,093,702	199,265	-

In thousands of ZAR	Total	Quoted prices in active prices (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
As at 31 December 2016				
Liabilities measured at fair value:				
Derivative financial instruments	113,160	-	113,160	-
	113,160	-	113,160	-

Notes to the annual financial statements for the year ended 31 December 2017

28.4 Credit risk

Credit risk is the risk that the Branch will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The Branch manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Branch has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process aims to allow the Branch to assess the potential loss as a result of the risks to which it is exposed to and what corrective action to take.

Impairment assessment

For accounting purposes, the Branch uses an incurred loss model for the recognition of losses on impaired financial assets. This means that losses can only be recognised when objective evidence of a specific loss event has been observed.

Triggering events include the following:

- A breach of contract such as a default of payment
- Where the Branch grants the customer a concession due to the customer experiencing financial difficulty
- It becomes probable that the customer will enter bankruptcy or other financial reorganization
- Other observable data that suggests that there is a decrease in the estimated future cash flows from the loans

This approach differs from the expected loss model used for regulatory capital purposes in accordance with Basel III.

Individually assessed allowances (Specific impairment)

The Branch determines the allowances appropriate for each individually significant loan or advance on an individual basis, taking into account any overdue payments of interests, credit rating downgrades, or infringement of the original terms of the contract. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance if it is in a financial difficulty, projected receipts and the expected payout should bankruptcy ensue, the availability of other financial support, the realisable value of collateral and the timing of the expected cash flows.

Impairment allowances are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances (Portfolio impairment)

Allowances are assessed collectively for losses on loans and advances that are not individually significant (including credit cards, residential mortgages, government debt and unsecured consumer lending) and for individually significant loans and advances that have been assessed individually and found not to be impaired. The Branch generally bases its analyses on historical experience.

Notes to the annual financial statements for the year ended 31 December 2017

However, when there are significant market developments, regional and/or global, such as the market turmoil in 2007/2008, the Branch would include macroeconomic factors within its assessments. These factors include, depending on the characteristics of the individual or collective assessment: unemployment rates, current levels of bad debt, changes in the law, changes in regulation, bankruptcy trends, and other consumer data. The Branch may use the aforementioned factors as appropriate to adjust the impairment allowances.

Allowances are evaluated separately at each reporting date with each portfolio. The collective assessment is made for groups of assets with similar risk characteristics, in order to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident in the individual loans assessments (referred to as unidentified or portfolio impairment).

The collective assessment takes account of data from the loan portfolio (such as historical losses on the portfolio, levels of arrears, credit utilisation, loan to collateral ratios and expected receipts and recoveries once impaired) or economic data (such as current economic conditions, unemployment levels and local or industry-specific problems). The approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance is also taken into consideration.

Local management is responsible for deciding the length of this period, which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Branch's overall policy.

Financial guarantees and letters of credit are assessed in a similar manner as for loans.

Credit ratings for all loans and advances balances are obtained from KMV Moody's, an external source. These ratings are converted to internal equivalents, based on an individual balance review process. The table below presents the Branch's exposure to credit risk, per classification of internal ratings:

EXTERNAL RATING	INTERNAL RATING	31 December 2017	31 December 2016
AAA	AAA	3,204,236	1,141,456
AA	AA	7,558,941	5,072,258
A+	A	4,590,977	8,485,621
A-	BBB	5,930,462	8,432,226
BBB+	BB	5,342,490	493,919
BBB	B	3,897,309	903,442
BB	CCC	1,161,043	2,028,725
CCC	D	289,649	
Total exposure, net of portfolio impairment		31,975,107	26,557,647

Net exposure per AFS	31,975,107	26,557,647
Loans and advances to banks: Non-current	3,669,044	2,649,517
Loans and advances to banks: Current	2,080,113	3,858,896
Loans and advances to customers: Non-current	14,282,054	11,550,764
Loans and advances to customer: Current	11,943,896	8,498,470

Notes to the annual financial statements for the year ended 31 December 2017

Collateral and Guarantees *In thousands of ZAR*	Loans and advances to customers		Loans and advances to banks		Investment securities	
	2017	2016	2017	2016	2017	2016
Collateral held	164,700	187,670	-	-	-	-
Guarantees held	8,498,785	9,166,634	-	-	-	-
Total	8,663,485	9,354,304	-	-	-	-
Concentration by sector						
Construction & engineering	603,591	515,437	-	-	-	-
Finance & insurance	9,866,912	305,717	5,749,157	6,508,412	425,332	-
Resources & mining	4,512,572	5,113,640	-	-	-	-
Manufacturing	2,582,961	2,439,772	-	-	-	-
Technology, media & telecommunications	5,879,956	5,186,016	-	-	-	-
Commercial real estate	4,807,995	2,847,833	-	-	-	-
Retailers & wholesalers	2,167,532	2,544,843	-	-	-	-
Sovereign	-	-	-	-	4,948,186	4,093,702
Private household	25,704	31,176	-	-	-	-
Other	1,527,884	1,064,800	-	-	-	-
Total carrying amount	31,975,107	20,049,234	5,749,157	6,508,412	5,373,518	4,093,702

Collateral held relates to cash provided by debtors as security in return for granting of debt instruments by the Branch. Guarantees held relate to commitments provided by debtors for a loss it may incur because of failure to make payment when due in accordance with the terms of the related debt instruments.

Terms and conditions for collateral:
The facility must be covered by 100% security value at all times (Same currency facility and cash cover), and it can't be sold or repledged in the absence of default. The facility must be covered by 110% security value at all times (Different currency facility and different currency cash cover) Should the cash cover currency to facility currency exchange rate (security value) drop below 110% of the total facilities, additional cash cover to be deposited to bring the exposure within the approved facilities, within 3 (three) working days. The Branch reserves the right to convert the cash covers and repay the loan automatically. In the case of irrevocable standby letter of guarantee an additional amount will be requested from the issuing branch.

	Loans and advances to customers		Loans and advances to banks	
	2017	2016	2017	2016
Total exposure	31,975,107	20,049,234	5,749,157	6,508,412
Collateral held	164,700	187,670	-	-
Uncollateralised	31,810,407	19,861,564	5,749,412	6,508,412

Notes to the annual financial statements for the year ended 31 December 2017

28.5 Liquidity risk

In thousands of ZAR	Carrying amount	On demand	Less than 1 month	Between 1-3 months	Between 3-12 months	Between 1-3 years	More than 3 years	Total undiscounted cash flow
As at 31 December 2017								
Non-derivative liabilities								
Deposits from banks	16,389,981	154,019	2,429,006	3,544,431	3,346,876	11,083,555	185,894	18,743,781
Deposits from customers	15,325,959	2,391,753	6,700,557	4,600,969	1,744,120	3,386	-	15,440,785
Commercial paper	7,333,366	-	-	2,294,506	326,355	5,214,955	-	7,835,816
Other liabilities	69,387	69,387	-	-	-	-	-	69,387
Sub-total	39,068,693	2,615,159	9,129,563	10,439,906	3,417,351	16,301,896	185,894	42,089,769
Derivative liabilities								
Derivative outflow	223,631	-	80,949	112,250	30,432	-	-	223,631
Sub-total	223,631	-	80,949	112,250	30,432	-	-	223,631
Financial letter of credit	2,019,183	-	529,243	1,483,901	6,039	-	2,019,183	-
Financial guarantee	610,381	-	3,673	21,290	483,780	-	610,381	-
Sub-total	2,629,564	-	5323,916	1,505,191	489,819	-	101,639	2,527,925
Total	41,921,888	2,615,159	9,748,428	12,057,347	3,937,602	16,301,896	287,533	44,942,965

Notes to the annual financial statements for the year ended 31 December 2017

28.5 Liquidity risk

	Carrying amount	On demand	Less than 1 month	Between 1-3 months	Between 3-12 months	Between 1-3 years	More than 3 years	Total undiscounted cash flow
In thousands of ZAR								
As at 31 December 2016								
Non-derivative liabilities								
Deposits from banks	12,319,272	754,325	2,126,681	2,207,650	5,028,043	1,911,314	410,561	12,438,575
Deposits from customers	12,104,580	2,558,734	4,120,071	4,389,382	1,157,256	4,446	-	12,225,889
Commercial paper	3,563,920	-	69,524	62,327	2,958,506	744,185	-	3,834,542
Other liabilities	73,440	73,440	-	-	-	-	-	73,440
Sub-total	28,061,212	3,386,500	6,316,276	6,659,359	9,143,805	2,659,945	410,561	28,756,446
Derivative liabilities								
Derivative outflow	113,160	-	68,384	38,003	6,773	-	-	113,160
Sub-total	113,160	-	68,384	38,003	6,773	-	-	113,160
Financial letter of credit	1,096,713	-	9,190	542,840	544,683	-	-	1,096,713
Financial guarantee	320,454	-	15,687	-	201,353	251	103,163	320,454
Sub-total	1,417,167	-	24,877	542,840	746,036	251	103,163	1,417,167
Total	29,591,539	3,386,500	6,409,537	7,240,202	9,896,614	2,660,196	513,724	30,106,773

Notes to the annual financial statements for the year ended 31 December 2017

Maturities of financial assets	On demand	Between 1-3 months	Between 3-12 months	Between 1-5 years	Over 5 years	Total
In thousands of ZAR						
As at 31 December 2017						
Cash and cash equivalents	795,107	4,666,104	-	-	-	5,461,211
Derivative financial instruments	-	449,187	21,656	162,427	-	633,270
Loans and advances to banks	-	844,533	1,235,581	3,669,044	-	5,749,157
Loans and advances to customers	289,649	7,075,258	4,579,321	11,502,605	3,204,448	26,651,282
Investment securities	-	-	2,940,352	2,007,834	-	4,948,186
Other assets	756,197	-	-	-	-	756,197
Total carrying amount	1,840,953	13,035,082	8,776,910	17,341,910	3,204,448	44,199,303

Maturities of financial assets	On demand	Between 1-3 months	Between 3-12 months	Between 1-5 years	Over 5 years	Total
In thousands of ZAR						
As at 31 December 2016						
Cash and cash equivalents	489,462	704,253	-	-	-	1,193,715
Derivative financial instruments	-	199,265	-	-	-	199,265
Loans and advances to banks	-	842,284	3,016,612	2,498,981	150,535	6,508,412
Loans and advances to customers	279,078	3,785,749	4,433,643	6,297,198	5,253,566	20,049,234
Investment securities	-	394,936	2,551,120	1,147,646	-	4,093,702
Other assets	501,931	-	-	-	-	501,931
Total carrying amount	1,270,471	5,926,487	10,001,375	9,943,825	5,404,101	32,546,259

Notes to the annual financial statements for the year ended 31 December 2017

28.6 Currency risk

The table below represents the Branch's exposure to major global currencies. The category for "other" consists primarily of CNY and HKD;

In thousands of ZAR	ZAR	USD	EUR	GBP	Other	Total
As at 31 December 2017						
Assets						
Cash and cash equivalents	271,906	4,072,416	8,200	13,542	1,115,248	5,481,312
Derivative financial instruments	8	310,948	-	-	322,314	633,270
Loans and advances to banks	144,445	5,093,353	-	-	511,359	5,749,157
Loans and advances to customers	12,157,959	8,124,830	5,107,776	835,385	-	26,225,950
Investment securities	5,373,518	-	-	-	-	5,373,518
Other assets	756,026	167	-	-	4	756,197
Total assets	18,703,862	17,601,714	5,115,976	848,927	1,948,925	44,219,404
Liabilities						
Derivative financial instruments	-	17,365	-	-	206,266	223,631
Deposits from banks	1,755,664	8,281,199	5,106,929	839,152	357,037	16,339,981
Deposits from customers	12,335,758	2,921,113	3,004	3,038	6,3046	15,325,959
Commercial paper	4,456,742	-	-	-	2,876,624	7,333,366
Other liabilities	1,775	65,926	-	-	1,686	69,387
	18,549,939	11,285,603	5,109,933	842,190	3,504,659	39,292,324
	153,924	6,316,111	6,043	6,737	(1,555,734)	4,927,081

Sensitivity analysis

	ZAR	USD	EUR	GBP	Other	Total
Total currency position	153,924	6,316,111	6,043	6,737	(1,555,734)	4,927,081
Reasonable shift in rates	10%	10%	10%	10%	10%	10%
Exchange rate	1.0000	12.3828	14.8643	16.7329	1.9010	
Impact on profit or loss (depreciation in rate)	-	631,611	604	674	(155,573)	477,316
Impact on profit or loss (appreciation in rate)	-	(631,611)	(604)	(674)	155,573	(477,316)

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In thousands of ZAR	ZAR	USD	EUR	GBP	Other	Total
As at 31 December 2016						
Assets						
Cash and cash equivalents	171,813	421,255	4,854	5,464	590,329	1,193,715
Derivative financial instruments	190,891	8,334	1	-	39	199,265
Loans and advances to banks	274,299	6,234,113	-	-	-	6,508,412
Loans and advances to customers	11,289,125	8,050,312	697,227	-	12,570	20,049,234
Investment securities	4,093,702	-	-	-	-	4,093,702
Other assets	501,764	167	-	-	-	501,931
Total assets	16,521,594	14,714,181	702,082	5,464	602,938	32,546,259
Liabilities						
Derivative financial instruments	74,444	38,716	-	-	-	113,160
Deposits from banks	2,028,714	8,713,684	694,087	-	882,787	12,319,272
Deposits from customers	8,949,077	2,233,114	2,760	3,077	916,552	12,104,580
Commercial paper	3,563,920	-	-	-	-	3,563,920
Other liabilities	23,030	49,082	1,330	-	(2)	73,440
Total liabilities	14,639,185	11,034,596	698,177	3,077	1,799,337	28,174,372
Net gap on statement of financial position	1,882,409	3,679,585	3,905	2,387	(1,196,399)	4,371,887

Sensitivity analysis

Total currency position	1,882,409	3,679,585	3,905	2,387	(1,196,399)	4,371,8
Reasonable shift in rates	10%	10%	10%	10%	10%	10
Exchange rate	1.0000	13.7386	14.4571	17.0084	1.9701	
Impact on profit or loss (depreciation in rate)	-	367,958	391	239	-119,640	248,9
Impact on profit or loss (appreciation in rate)	-	(367,958)	(391)	(239)	119,640	(248,94

Assume that the rates of rand against all foreign currencies appreciate or depreciates by 10%.

Notes to the annual financial statements for the year ended 31 December 2017

28.7 Interest rate risk

In thousands of ZAR	Interest bearing	Non-interest bearing	Total
As at 31 December 2017			
Assets			
Cash and cash equivalents	5,481,312	-	5,481,312
Derivative financial instruments	-	633,270	633,270
Loans and advances to banks	5,749,157	-	5,749,157
Loans and advances to customers	26,225,950	-	26,225,950
Investment securities	5,373,518	-	5,373,518
Other assets	-	756,197	756,197
Total assets	42,829,937	1,389,467	44,219,404
Liabilities			
Derivative financial instruments	-	223,631	223,631
Deposits from banks	16,339,981	-	16,339,981
Deposits from customers	15,325,960	-	15,325,960
Commercial paper	7,333,365	-	7,333,365
Other liabilities	-	69,387	69,387
Total liabilities	38,999,306	293,018	39,292,324
Net gap on statement of financial position	3,830,632	1,096,449	4,927,081

Sensitivity analysis

	Interest bearing	Total
Reasonable possible shift in rates	0.5%	0.5%
As at 31 December 2017		
Impact on profit or loss (increase)	19,153	19,153
Impact on profit or loss (decrease)	(19,153)	(19,153)
Impact on equity (increase)	24,455	24,455
Impact on equity (decrease)	(24,455)	(24,455)

The table above represents the impact on [profit or loss, and equity, based on a 1% shift (appreciation or depreciation) in interest rates and statement of financial position items. An increase/ (decrease) in interest rates results in an increase/ (decrease) in profit or loss.

Notes to the annual financial statements for the year ended 31 December 2017

In thousands of ZAR	Interest bearing	Non-interest bearing	Total
As at 31 December 2016			
Assets			
Cash and cash equivalents	1,193,715	-	1,193,715
Derivative financial instruments	-	199,265	199,265
Loans and advances to banks	6,508,412	-	6,508,412
Loans and advances to customers	20,049,234	-	20,049,234
Investment securities	4,093,702	-	4,093,702
Other assets	-	501,931	501,931
Total assets	31,845,063	701,196	32,546,259
Liabilities			
Derivative financial instruments	-	113,160	113,160
Deposits from banks	12,319,272	-	12,319,272
Deposits from customers	12,104,580	-	12,104,580
Commercial paper	3,563,920	-	3,563,920
Other liabilities	-	73,440	73,440
Total liabilities	27,987,772	186,600	28,174,372
Net gap on statement of financial position	3,857,291	514,596	4,371,887

Sensitivity analysis

	Interest bearing	Total
Reasonable possible shift in rates	0.5%	0.5%
As at 31 December 2016		
Impact on profit or loss (increase)	19,286	19,286
Impact on profit or loss (decrease)	(19,286)	(19,286)
Impact on equity (increase)	20,469	20,469
Impact on equity (decrease)	(20,469)	(20,469)

The table above represents the impact on profit or loss, and equity, based on a 1% shift (appreciation or depreciation) in interest rates and statement of financial position items. An increase/ (decrease) in interest rates results in an increase/ (decrease) in profit or loss.

Notes to the annual financial statements for the year ended 31 December 2017

29. Related parties

In thousands of ZAR	2017	2016
Deposits and loans held with intra-group entities		
Bank of China Limited, Beijing Branch	-	28
Bank of China (Hong Kong) Limited (fellow subsidiary)	3,480	176,020
Bank of China Limited, Tokyo Branch	2	2
Bank of China Limited, London Branch	1,375,877	5,464
Bank of China Limited, Frankfurt Branch	8,200	4,855
Bank of China Limited, New York Branch	335,804	255,113
Bank of China Limited, Head Office (Parent Company)	99,162	4,775
Bank of China Limited, Singapore Branch	27	27
Bank of China Limited, Shanghai Branch	57,378	17,927
Bank of China Limited, Shanghai Clearing	4,538	
Bank of China Limited, Cayman Branch		415,819
Bank of China Limited, Xinjiang Branch	20,244	
Bank of China Limited, Paris Branch	229,920	
Total	5,205,091	880,030

In thousands of ZAR	2017	2016
Deposits and loans from intra-group entities		
Bank of China (Hong Kong) Limited (fellow subsidiary)	-	(497,770)
Bank of China Limited, London Branch	(140)	(63)
Bank of China Limited, Beijing Branch	(2,484,356)	
Bank of China Limited, Head Office	(9,322,206)	(5,409,290)
Bank of China Limited, Cayman Branch	-	(355,791)
Bank of China (Zambia) Limited (fellow subsidiary)	(12,432)	(13,406)
Bank of China Limited, Macau Branch	(892,941)	(2,477,285)
Bank of China Limited, Taiwan Branch	(2,973)	
Bank of China Limited, Tanzania Rep office	(463)	(2,062)
Total	(12,774,434)	(8,755,667)

Notes to the annual financial statements for the year ended 31 December 2017

In thousands of ZAR	2017	2016
Guarantee received		
Bank of China Limited, Hunan Branch	15,000	15,000*
Bank of China Limited, Hebei BranchChina Merchants Bank Nanjing Branch	190,681	190,681*
	0	10,000*

* The value of the counter-guarantees were previously not presented, however this has been disclosed in the current reporting period

Interest income from intra-group entities		
Bank of China (Hong Kong) Limited (fellow subsidiary)	7,366	2,733
Bank of China Limited, Head Office (Parent Company)	1,943	2
Bank of China Limited, London Branch	1,598	99
Bank of China Limited, Paris Branch	1,874	901
Bank of China Limited, Frankfurt Branch	17,013	4,589
Bank of China Limited, Singapore Branch	-	1,915
Bank of China Limited, New York Branch	373	290
Bank of China Limited, Cayman Branch	57,677	35,212
Bank of China Limited, Shanghai Branch	1,886	1,281
Bank of China Limited, Shanghai Branch CL	175	261
Bank of China Limited, Xiamen Branch	-	13
Bank of China Limited, Fujian Branch	-	373
Bank of China Limited, Hong Kong Branch	1,799	-
Bank of China Limited, Seoul Branch	67	59
Bank of China Limited, Abu Dhabi Branch	-	3
Bank of China Limited, Xinjiang Branch	2,095	-
Bank of China Limited, Nanjing Branch	148	-
Total	94,014	47,731

In thousands of ZAR	2017	2016
Expenses to intra-group entities		
Bank of China Limited, Head Office (Parent Company)	(15,441)	(8,313)
Bank of China Limited, London IT Centre	(1,544)	(1,568)
Bank of China Limited, Paris back office	(8,749)	(3,305)
Bank of China Limited, Shanghai Branch	(638)	-
Bank of China Limited, Guangdong Branch	(521)	-
Total	(26,893)	(13,186)

Notes to the annual financial statements for the year ended 31 December 2017

In thousands of ZAR	2017	2016
Interest expense to intra-group entities		
Bank of China Limited, Head Office (Parent Company)	(85,323)	(31,083)
Bank of China Limited, Beijing Branch	-	(3,860)
Bank of China Limited, Taipei Branch	(2,904)	(22,602)
Bank of China Limited, Hong Kong Branch	(50,723)	-
Bank of China Limited, Seoul Branch	(129)	(2,050)
Bank of China Limited, London Branch	(933)	(322)
Bank of China Limited, Paris Branch	(120)	-
Bank of China Limited, Cayman Branch	(1,758)	(2,443)
Bank of China Limited, Dubai Branch	(35)	(12)
Bank of China Limited, Frankfurt Branch	(66)	(3,819)
Bank of China Limited, Macau Branch	(13,395)	(26,563)
Bank of China Limited, Hungary Branch	(246)	(59)
Bank of China Limited, Luxemburg Branch	(416)	(139)
Bank of China Limited, Sydney Branch	(290)	(1,054)
Bank of China Limited, Mauritius (Fellow subsidiary)	(204)	-
Bank of China Limited, Canada (Fellow subsidiary)	(72)	-
Bank of China Limited, Hong Kong (Fellow subsidiary)	(45,401)	(16,569)
Total	(202,015)	(110,575)

The net balance consists of:	2017	2016
Cash and cash equivalents	5,127,572	926,053
Loans and advances to banks	77,519	386
Deposits from banks	(12,774,434)	(8,847,662)
Head Office and London IT Centre fee payable	(26,893)	(13,186)
Total	(7,596,236)	(7,934,409)

Compensation of key management personnel of the Bank

In thousands of ZAR	2017	2016
Short-term employee benefits	20,301	26,778
Total	20,301	26,778

The remuneration and benefits include fixed salaries, performance bonuses, allowances, life insurance, medical-aid insurance, and accommodation rental.

30. Events after reporting period

There are no subsequent events after the reporting period up to the date of signature of the annual financial statements.

Notes to the annual financial statements for the year ended 31 December 2017

31. Segment reporting

Reportable segments
For management purposes, the Bank of China Johannesburg Branch is organized into one main operating segment. The chief operating decision maker makes all significant operating decisions are based upon analysis of the Bank as a whole (i.e. as one segment). The financial results from this segment are equivalent to the financial statements of the Branch as a whole.

Entity wide disclosures:
Geographic segmentation: Bank of China Johannesburg Branch operates in South Africa.
Major customers: There are no single external customers that individually contribute 10% or more of the Branch's revenue.