中国工商银行（伦敦）
ICBC (London)

Report and Financial Statements 2008

ICBC (London) | Report and Financial Statements 2008

36 King Street, London EC2V 8BB
Tel: +(44) 20 73978888
Fax: +(44) 20 73978890

Swift: ICBKGB2L

Authorised and regulated by the Financial Services Authority

Contents

Chairman's Statement

In 2008 we witnessed major disruption in financial markets throughout the world which left few, if any, banks entirely unscathed. Throughout this period, ICBC (London) Limited maintained its strong management of risk and prudent approach to managing its lending and balance sheet. This helped to ensure that our losses were minimised and that we continued to comply with our regulatory ratios even in a 'worst case' scenario.

Unfortunately, we were not immune from the massive global downturn. Although the majority of our lending remains sound and we do not have any direct exposure to sub-prime debt, we did have some exposure to banks which were not able to 'weather the storm'. This resulted in the need to make specific provisions for impaired lending on three transactions with the result that our reported profit is $180,000 - considerably reduced from the figure we reported for 2007 ($6.225million).

Notwithstanding this unwelcome news, the underlying performance of our Company remained strong. In 2008 our profit before tax and provisions was over $14.28 million, an increase of 130% on the figure for 2007 ($6.4 million). The Company had a number of significant successes in 2007: the proportion of our income from non-interest sources rose dramatically and we also installed a new payments system and successfully implemented a contract to process all remittances to China on behalf of one of the UK's largest banks.

I would like to thank my fellow directors, the management team and the staff for their important contribution to the Company during this very difficult time.

Lili Wang
Chairman

Managing Director's Business Review

Introduction

2008 was a difficult year for world economies but particularly so for the financial services industry. The credit crunch that started in 2007 bit even harder in 2008 and we, along with all other banks, were faced with a relatively unresponsive money market and we had to pay relative higher prices for our funding. As a result of the totally unprecedented turmoil that the money markets and many banks suffered in 2008 we were not immune from losses in the market. The collapse of a number of Icelandic banks in the second half of the year left us with a need to make provisions for non-performing loans for the first time in our history. Even so, our prudent approach to lending combined with our strong capital ratios helped to manage the impact on our remaining business and on our overall profitability. After making realistic provisions for non-performing loans we returned a profit before tax in the year ended 31 December 2008, of $181,000 ($6.225 million 2007).

Summary of Business

The underlying performance of the Company during the year was very good: our profit for 2008 before provisions and tax was $14.282 million (2007: $6.402 Million) – an increase of approximately 140%.

We continued our policy of participating in syndicated loans, particularly where there was a Chinese dimension and of expanding our trade finance business. We also built and developed a number of new relationships with corporate customers both as a result of our focused business development and our participation in the syndicated market. We are confident that these relationships will yield significant business opportunities in the future both for us in the UK and for our parent company in China.

Our trade finance team had an extremely good year with a dramatic increase in transactions from both local customers and transactions received from China. We also traded deals with other banks depending upon our respective appetites for the particular risks.

Our retail business did not develop as fast as we would have wished due to a variety of factors including the need for some customers to use their cash deposits for other purposes during these trying times, and the very competitive market for retail deposits. During the year we enhanced our computer systems to enable us to offer a very competitive and fast remittance service to China and we won, and successfully implemented, a major contract with a large UK bank to route all of their China – bound remittances to the beneficiaries in China. This is an aspect of our business that we are keen to expand in the coming years.

The majority of our total income, $14.796 million or 74% of the total, came from net interest income. This was up by 47% compared with the previous year ($10.080 million in 2007). This income was largely derived from our portfolio of medium and longer term loans. However, a significant proportion came from short term lending associated with our trade services business – a business line that we have expanded considerably during the last year.

Non-interest income increased dramatically to $5.283 million in 2008: a rise of 250% compared with 2007. It also formed a larger proportion of our total income than previously (26 % of total income compared with 13 % of total income in 2007). The most significant growth was in trade finance brokerage deals but it included fees from other sources including loan commitment fees and income from our remittance businesses.

Our operating expenses excluding provisions for bad and doubtful debts increased in 2008 by about 12% compared with 2007. This was largely due to increased staff levels during the year as we recruited staff for the new payments business and to strengthen further both our risk management and marketing functions.

ICBC (London) Limited escaped the worst ravages of the market turmoil on 2008 that left many banks with greatly reduced capital resources. Nevertheless, our capital did marginally reduce as a result of having to increase our 'available for sale reserve' provision to $8.035 million ($2.383 million in 2007). This was necessary to reflect the continuing market reduction of the value of the bond investments but, because of our strong capital ratios, it did not impact on our portfolio of assets. Total assets at the end of 2008 were $866.944 million – an increase of over 6% on the previous year–end.

On the liabilities side, client deposits increased more than twofold from $23.8 million in December 2007 to $58.7 million in December 2008. This was as a result of attracting new corporate deposits to the Company with personal deposits showing a more modest level of growth.

Managing Director's Business Review (continued)

Interbank borrowing increased marginally. This included a one year club deal that we had arranged with a number of major banks. However, our assets remain mainly financed by inter-bank and intra-Group deposits. Even with the tight access to credit at the moment, our strong capital ratios have been an important factor in ensuring that we have had few problems in being able to secure the necessary funding to maintain our business activities.

Future Developments

Twelve months ago many economists were predicting that the turmoil in the inter-bank market would reduce in the second half of 2008 and that there would be a return to a more liquid market by the beginning of 2009. Instead we saw an unprecedented collapse in the balance sheets of many major banks and with it a collapse in market confidence. It is clear that, in view of the global nature of the current market difficulties, it is going to take a while for confidence to return. We are, therefore planning for an extended period of uncertainty. However, with our strong balance sheet, our success in the London market and our extensive knowledge of, and access to, China and Chinese banks, we are very well placed to facilitate increased trade as the market picks up. Our main focus will remain China-related business and we will seek opportunities to assist both UK and non-UK companies and individuals who wish to do business with China. We have already developed very strong links with banks in China, with regional branches of our parent company, and with international enterprises operating in China. These links will enable us to make a major contribution to assisting both companies and individuals seeking to do business in this major global market.

International Trade Finance

Our trade services business has been a major success in recent years fuelled by our market expertise and high levels of customer service. In 2009 we will be investing in new infrastructure to increase our capacity to handle this business line and we will seek to build further upon our recent dramatic growth. Our primary focus will remain the financing of trade between China and Europe but we will also consider other markets where we are able to manage risk effectively through our knowledge of both the market and the counterparties. We will continue to offer our full range of trade-related services including forfaiting, supplier and buyer credits, letters of guarantee and acceptances.

Corporate Banking

Our presence within the European corporate banking arena has grown over the last year and we continue to find opportunities to broaden our customer base, either through our own products and services or through the strength of our parent company in its own home market.

Relationships continue to be built primarily around our lending activities either on a bilateral or syndicated loan participation basis, or through our trade-related services. The recent market turmoil has created many new opportunities in this regard, whilst the weak economic outlook requires us to proceed with caution. Nevertheless, we anticipate the further development of our activities and portfolio, particularly where there are some Chinese-related ancillary prospects.

Retail Banking

A change in our mainframe computer system in 2009 will give us greater potential to develop additional services for the retail market including internet banking. We are planning a major new initiative later in the year which will enable us to attract new retail business and to make our product offerings more accessible, particularly to the Chinese community in London. We will seek further opportunities to promote our remittance services to new markets and will continue to grow our personal and small business account base. This will be achieved by continuing to offer competitive interest rates on savings accounts and competitive pricing on other banking services. We will also continue to work closely with our parent to ensure that we provide an excellent service to customers of the ICBC group visiting the UK.

Reputation

The Company values its status as a bank Authorised and Regulated by the Financial Services Authority and it is structured in accordance with the principles of good corporate governance in banking. This includes: employing non-executive directors; establishing a range of committees to ensure at least 'four eyes' are involved in all major policy and operating decisions; establishing clear policies and decision making processes and ensuring that the effectiveness of our operating procedures is regularly tested by internal audit.

Managing Director's Business Review (continued)

Employees

The Company aims to maintain a highly skilled workforce to meet the challenges of a fast growing financial services company. To achieve this we will:

- provide opportunities for our staff to develop their skills and capabilities so that they can progress in the organisation;
- supplement the skills of our existing staff by recruiting suitably qualified new staff where appropriate;
- respect diversity and promote a sensible work/life balance;
- responsibly reward contributions to the Company's success; and
- seek to retain key staff by adopting 'family friendly' policies and dealing with all staff in a sensitive manner.

许金雷

Jinlei Xu

中国工商银行（伦敦）
ICBC (London)

Managing Directors

Directors

Lili Wang (Chairman)
Jinlei Xu
Jingfen Zhao
Graham Penny
Edwin Lacy

Secretary

John Kerr

Auditors

Ernst & Young LLP
1 More London Place
London
SE1 2AF

Registered Office

2nd Floor Kings House
36 King Street
London
EC2V 8BB

Management Team

Jinlei Xu (Managing Director)
Jingfen Zhao (Deputy Managing Director)
John Kerr (Deputy General Manager)
Bo Jiang (Deputy General Manager & Head of Credit and Marketing)
Qiang Xiao (Head of Financial Control)
Qinghui Zeng (Head of Banking)
Eddie Lau (IT Manager)

Directors' Report

The directors present their report and the financial statements of the Company for the year ended 31 December 2008.

Financial statements

The financial statements are prepared in US Dollars as this is the underlying currency in which the Company conducts its principal activities.

Business review and future developments

Details of business review and future developments have been included in the Managing Director's Report.

The financial statements of the Company for the year to 31 December 2008 incorporate the requirements of FRS 29 in disclosing its financial instruments.

Results and dividends

The trading results for the year, and the Company's financial position at the end of the year are shown in the attached financial statements.

No dividend has been paid and the directors do not recommend the payment of a dividend for the year.

The profit of the Company for the year, after taxation, amounted to $180,000 (2007: $4,329,000). The credit balance on the profit and loss account is to be carried forward.

Principal activities

The principal activities of the Company are international banking and related services within the scope of permission granted to the Company under the Financial Services and Markets Act 2000.

Financial instruments

The Company's principal business risks, financial risk management objectives and policies are discussed in the Notes 25 to 29 to the financial statements.

Events since the balance sheet date

Since the balance sheet date a credit event occurred in respect of Straumur Burdaras whose liability to us at the time of the event was EUR 5 million. Following the Icelandic government take over of the other three major Icelandic banks, we carefully considered whether there was evidence as at 31 December 2008 that Straumur Burdaras would be unable to meet its obligations. As a result of this assessment we were satisfied that at that time there was no such evidence and unfortunately liquidity conditions worsened for this bank, especially in March 2009 and it was recently also taken over by the Icelandic government. At the date of this report it was not possible to accurately assess the impact of this event on the Company's financial statements.

There have been no other significant events since the balance sheet date.

Directors and their interests

The directors who held office during the year were as follows:

Lili Wang (Chairman)

Jinlei Xu

Jingfen Zhao

Graham Penny

Edwin Lacy

No contracts of significance in relation to the Company's business in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year, within the meaning of Section 324 of the Companies Act 1985.

Donations

During the financial year the Company made a charitable donation of $27,800 to the Chinese Red Cross for victims of its earthquake in the Sichuan Province in May 2008 (2007: $nil).

Going Concern

The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as going concern. Therefore, the financial statements continue to be prepared on a going concern basis.

Directors' Report (continued)

Statement of directors' responsibilities

The directors are responsible for the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under the law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate information included in the Company's website.

Directors' statement as to disclosure of information to auditors.

The directors who were members of the board at the time of approving the directors' report are listed above. Having made enquiries of fellow directors and of the Company's auditors, each of these directors confirms that:

- To the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the Company's auditors are unaware; and
- Each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

A resolution to reappoint Ernst & Young LLP for the ensuing year will be proposed at the Annual General Meeting.

By order of the board

J Kerr

John Kerr
Company Secretary
27 March 2009

Independent Auditor's Report to the member of ICBC (London) Limited

We have audited the financial statements of ICBC (London) Limited ("the Company") for the year ended 31 December 2008 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses, Reconciliation of Movement in Shareholder's Funds and the related notes 1 to 30. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of the directors and the auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements. The information given in the directors' report includes that specific information presented in the managing director's review of the business that is cross referred from the business review section of the directors' report.

In addition, we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the directors' report, the chairman's statement and the managing director's review of the business. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2008 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

Ernst Young LLP

Ernst & Young LLP
Registered Auditor
London
27 March 2009

Profit and Loss Account for the year ended 31 December 2008

	Notes	2008 $000	2007 $000
Interest receivable from financial investments	2	4,181	4,924
Other interest receivable	2	38,403	28,877
Interest payable	2	(27,788)	(23,721)
Net interest income		14,796	10,080
Fees and commission income	2	5,392	776
Fees and commission expense	2	(287)	(96)
Net gain on financial assets and liabilities designated as fair value through profit or loss	10	972	670
Foreign exchange (loss)/gain		(1,029)	117
Other operating income		235	39
Non-interest income		5,283	1,506
Total income		20,079	11,586
Personnel expenses	3	3,638	3,016
Depreciation and amortisation		172	177
Impairment losses on loans and advances	9	14,101	177
Other operating expenses	5	1,987	1,991
Operating expenses		19,898	5,361
Profit on ordinary activities before tax		181	6,225
Tax on profit on ordinary activities	6	(1)	(1,896)
Profit for the financial year		180	4,329

All activities of the Company are considered to relate to continuing operations.

The notes on pages 14 to 39 form part of these financial statements.

Statement of Recognised Gains and Losses for the year ended 31 December 2008

	2008 *$'000*	*2007* *$'000*
Profit for the financial year	180	4,329
Change in fair value of financial investments available-for-sale	(6,129)	(2,005)
Reversal of financial investments available-for-sale reserve due to impairment	371	-
Tax credit on change in fair value of financial investments available-for-sale	1,294	624
Financial investments available-for-sale reserve recycled through profit and loss upon disposal of the investment	106	172
Reversal of cash flow hedge (Note 10)	-	(14)
Foreign currency translation reserve	103	-
Deferred tax asset recognised through equity (Note 14)	262	123
Total recognised gains and losses relating to the year	(3,813)	3,229
Total recognised gains and losses since last annual report	(3,813)	3,229

The notes on pages 15 to 41 form part of these financial statements.

Balance Sheet at 31 December 2008

	Notes	2008 $000	2007 $000
Assets			
Cash and balances at central banks		62	67
Loans and advances to banks	7	481,704	479,245
Loans and advances to customers	8	276,227	203,239
Derivative financial instruments	10	57	18
Financial investments available-for-sale	11	99,613	126,058
Tangible fixed assets	12	511	152
Prepayments, accrued income and other assets	13	8,289	5,963
Deferred tax assets	14	481	220
Total assets		866,944	814,962
Liabilities			
Deposits by banks	15	599,645	577,423
Customer accounts	16	58,761	23,812
Derivative financial instruments	10	36	13
Other liabilities		2,859	3,272
Accruals and deferred income	17	4,579	5,176
Corporation tax		-	389
Total liabilities		665,880	610,085
Share capital and reserves			
Authorised and called up share capital	18	200,000	200,000
Retained earnings	19	8,996	7,260
Available-for-sale reserve	19	(8,035)	(2,383)
Foreign currency translation reserve	19	103	-
Equity shareholder's funds		201,064	204,877
Total liabilities and share capital and reserves		866,944	814,962
Memorandum Items			
Contingent liabilities and commitments	20	371,406	224,065

These financial statements were approved by the directors on 27 March 2009 and are signed on their behalf by:

许金雷

Jinlei Xu

赵景芬

Jingfen Zhao

The notes on pages 14 to 39 form part of these financial statements.

Notes to the Financial Statements at 31 December 2008

1. Accounting policies

Basis of accounting

The financial statements of ICBC (London) Limited were approved for issue by the Board of Directors on 27 March 2009.

The financial statements have been prepared in accordance with applicable Accounting Standards in the UK as defined in Section 256. The financial statements of the Company have been prepared in accordance with the specific provisions of Part VII of the Companies Act 1985 relating to banking companies / groups. The financial statements are prepared under the historical cost convention modified to include the revaluation of derivatives and other financial instruments.

Review of accounting policies

During October 2008, the Accounting Standards Board issued amendments to FRS 26 financial instruments recognition and measurements and FRS 29: financial instruments: disclosures – reclassification of financial assets that are effective retrospectively from 1 July 2008. The amendments to FRS 26 allow transfers out of trading financial assets in limited circumstances. The amendments to FRS 29 introduce additional disclosure requirements if an entity has reclassified financial assets in accordance with the amendments to FRS 26.

Pursuant to this change in accounting policy, the Company has opted not to effect any changes and will continue with its current adoption in disclosing its financial instruments.

Financial statements

The financial statements are prepared in US Dollars as this is the underlying currency in which the Company conducts its principal activities.

Cash flow statement

Under FRS1 (revised 1996), the Company is exempt from the requirement to prepare a cash flow statement on the ground that it is consolidated in the financial statements of The Industrial and Commercial Bank of China, which are publicly available.

Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing financial instruments classified as available-for-sale financial investments, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a short period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Company revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or group of similar financial assets has been reduced to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Fee income on loans and advances

The Company earns fee and commission income from services it provides to its customers that are provided over a certain period of time.

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income, management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

Taxation

The charge for taxation is based on the profit or loss for the year and takes into account any taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Notes to the Financial Statements at 31 December 2008

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or a right to pay less, tax in the future have occurred at the balance sheet date, with the following exceptions:

- Provision is made for tax on gains on disposal of fixed assets that have been rolled over into replacement assets only where, at the balance sheet date, there is a commitment to dispose of the replacement assets with no likely subsequent roll over and/or available capital losses.
- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Foreign currencies

Transactions in currencies other than US Dollars are recorded in US Dollars at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in currencies other than US Dollars are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

Non monetary assets and liabilities other then US Dollars are measured in terms of historical cost and translated in US Dollars at their original transaction rate.

Tangible fixed assets and depreciation

Fixed assets are recorded at cost less any accumulated depreciation.

Depreciation is calculated to write down the cost of fixed assets to their estimated residual values on a straight-line basis over the period of their estimated useful economic lives as follows:

Leasehold improvements, furniture and office equipment	-	5 years
Motor vehicles	-	5 years
Computer hardware and software	-	3 years

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Pension costs

The Company does not operate a pension scheme. However, the Company contributes to the personal pension schemes of each eligible employee. Contributions are charged to the profit and loss account as incurred.

Operating leases

Rentals payable under operating leases are charged to the profit and loss account as incurred.

Financial instruments

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace are recognised on the trade date, i.e. the date that the Company commits to purchase or sell the asset. Derivatives are recognised on trade date basis.

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus, in the case of financial assets and financial liabilities not at fair value through profit or loss, any directly attributable incremental costs of acquisition or issue.

(i) Loans and advances to banks and customers

Loans and advances to banks and customers are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified in any of the other categories as described in FRS 26. After initial measurement, loan and advances to banks and customers are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortisation is included in 'interest receivable' in the profit and loss account. The losses arising from the impairment are recognised in the profit and loss account.

(ii) Financial investments available-for-sale

Financial investments available-for-sale are those which are designated as such or do not qualify to be classified as any of the other categories as described in FRS 26.

At the initial recognition of financial investments available-for-sale, all financial instruments (debt securities) are to be carried at fair value. After initial measurement, financial investments available-for-sale are subsequently measured at fair value. Unrealised gains and losses are recognised directly in equity in the available-for-sale reserve. When the security is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the profit and loss account. Where the Company holds more that one investment in the same security they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding financial investments available-for-sale is reported as interest income using the effective interest rate. The losses arising from impairment of such investments are recognised in the profit and loss account and removed from the available-for-sale reserve.

(iii) Deposits by banks and customer accounts

Deposits by banks and customer accounts which are borrowed funds not designated at fair value through profit or loss are classified as other financial liabilities, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset. After initial measurement, such borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are not an integral part of the effective interest rate.

(iv) Derivatives recorded at fair value through profit and loss

Derivatives include interest rate swaps, forward foreign exchange contracts and forward rate agreements. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are taken to the profit and loss account.

Impairment of financial assets

(i) Loans and advances to banks and customers

For loans and advances to banks and customers carried at amortised cost, the Company first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company 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. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit and loss account. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written back when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company. If, in a subsequent year, the amount of estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the profit and loss account.

Notes to the Financial Statements at 31 December 2008

The present value of the estimated cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of available external credit ratings. Where external credit ratings are not available, internal ratings which are equivalent are used in assessing credit risks.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) Financial investments available-for-sale

For financial investments available-for-sale, the Company assesses at each balance sheet date whether there is objective evidence that an investment or a group of investments is impaired.

Impairment is assessed based on the same criteria as financial assets carried at amortised cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of 'interest receivable'. If, in a subsequent year, the fair value increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the profit and loss account, the impairment loss is reversed through the profit and loss account.

Hedge accounting

The Company makes use of derivative instruments to manage exposures to interest rate and foreign currency risks, including exposures arising from forecast transactions. In order to manage particular risks, the Company applies hedge accounting for transactions which meet the specified criteria.

At inception of the hedge relationship, the Company formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

Also, at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designed risk in the hedged item. Hedges are formally assessed each quarter. A hedge is regarded as highly effective if the changes in the cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%. For situations where the hedged item is a forecast transaction, the Company assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the profit and loss account.

For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is initially recognised directly in equity in the cash flow hedge reserve. The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in the profit and loss account.

When the hedged cash flow affects the profit and loss account, the gain or loss on the hedging instrument is 'recycled' in the corresponding income or expense line of the profit and loss account. When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the hedged forecast transaction is ultimately recognised in the profit and loss account. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that are reported in equity is immediately transferred to the profit and loss account.

Notes to the Financial Statements at 31 December 2008

Corresponding amounts

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

2. Analysis of profit and loss account by classification basis

2008	Loans and advances *$000*	Financial Investments available-for-sale *$000*	Derivative financial instruments at fair value through profit and loss *$000*	Deposits by banks and customer accounts *$000*	Total *$000*
Interest receivable from financial investments	-	4,181	-	-	4,181
Other interest receivable	38,357	-	46	-	38,403
Interest payable	-	-	(68)	(27,720)	(27,788)
Net interest income	38,357	4,181	(22)	(27,720)	14,796
Fees and commissions receivable	5,392				
Fees and commissions payable	(287)				
Net non-interest income	5,105				

2007	Loans and advances *$000*	Financial Investments available-for-sale *$000*	Derivative financial instruments at fair value through profit and loss *$000*	Deposits by banks and customer accounts *$000*	Total *$000*
Interest receivable from financial investments	-	4,924	-	-	4,924
Other interest receivable	28,769	-	108	-	28,877
Interest payable	-	-	(84)	(23,637)	(23,721)
Net interest income	28,769	4,924	24	(23,637)	10,080
Fees and commissions receivable	776				
Fees and commissions payable	(96)				
Net non-interest income	680				

Notes to the Financial Statements at 31 December 2008

3. Staff costs

Staff costs (including directors) comprise the following:

	2008	*2007*
	$000	*$000*
Wages and salaries	2,443	2,357
Social security costs	468	290
Pensions costs	115	95
Other costs	612	274
	3,638	3,016

Employees

The average number of persons employed during the year was made up as follows:

	2008	*2007*
	No.	*No.*
- Retail banking	9	7
- Corporate banking	8	7
- Investment banking	3	2
- Accounts and IT	6	5
- Administration	7	7
	33	28

4. Directors' emoluments

The directors' aggregate emoluments in respect of qualifying services were:

	2008	*2007*
	$000	$000
Emoluments	517	664

The emoluments of the highest paid director were as follows:

	2008	2007
	$000	*$000*
Salary and benefits and performance related bonuses	251	338

5. Other operating expenses

	2008 $000	2007 $000
Operating lease charge - property	578	500
Auditors' remuneration;		
- Audit of the financial statements	111	106
- Taxation services	4	17

6. Tax on profit on ordinary activities

The tax charge is made up as follows:

	2008 $000	2007 $000
Current tax:		
UK corporation tax	-	1,917
Tax overprovided in previous year	-	(4)
Total current tax	-	1,913
Deferred tax:		
Origination and reversal of timing differences	(2)	(17)
Prior years' adjustment	3	-
Total deferred tax	1	(17)
Total charge for the year	1	1,896

The tax assessed on the profit on ordinary activities for the year is the standard rate of corporation tax in the UK of 28% (2007: 30%). The differences are reconciled below:

	2008 $000	2007 $000
Profit on ordinary activities before tax	181	6,225
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28%	52	1,868
Expenses not deductible for tax purposes	23	30
Capital allowances for year in deficit of depreciation	(2)	2
Tax overprovided in previous year	-	(4)
Tax losses utilised	(73)	-
Current tax charge for year	-	1,896

The tax losses utilised arise from items recorded in the Statement of recognised gains and losses.

Notes to the Financial Statements at 31 December 2008

7. Loans and advances to banks

	2008 $000	2007 $000
Gross loans and advances to banks	488,538	479,685
Less: Allowance for impairment losses (Note 9)	(6,834)	(440)
Net loans and advances to customers	481,704	479,245

The maturity profile of gross loans and advances to banks analysed by the remaining period as at 31 December to the contractual maturity dates is as follows:

	2008 $000	2007 $000
Repayable:		
- on demand	1,279	1,394
- three months or less	235,186	169,029
- one year or less but over three months	173,665	110,489
- five years or less but over one year	78,408	198,773
	488,538	479,685

Gross loans and advances to banks by geographical area:

	2008 $000	2007 $000
China	164,056	101,990
United Kingdom	130,533	36,712
Bahrain	32,241	37,255
India	27,357	30,706
Iceland	17,471	33,027
Others	116,880	239,995
	488,538	479,685

	2008 $000	2007 $000
Amounts include:		
Due from parent undertaking	73,851	69,990

8. Loans and advances to customers

	2008 $000	2007 $000
Gross loans and advances to customers	276,227	203,938
Less: Allowance for impairment losses (Note 9)	-	(699)
Net loans and advances to customers	276,227	203,239

The maturity profile of gross loans and advances to non-bank customers analysed by the remaining period as at 31 December to the contractual maturity dates is as follows:

	2008 $000	2007 $000
- on demand	-	-
- three months or less	113,308	133,766
- one year or less but over three months	81,601	27,275
- five years or less but over one year	81,318	19,897
- over five years	-	23,000
	276,227	203,938

Gross loans and advances to customers by geographical area:

	2008 $000	2007 $000
United Kingdom	161,086	36,021
Switzerland	74,342	83,985
United States	31,299	33,563
China	-	23,000
Others	9,500	27,369
	276,227	203,938

9. Impairment allowance

		Collective impairment			
	Individual impairment $000	Loan and advances - banks $000	Loan and advances - customers $000	Total $000	Total $000
Balance at 1 January 2008	-	440	699	1,139	1,139
Charge to profit and loss account	15,240	(440)	(699)	(1,139)	14,101
Balance at 31 December 2008	15,240	-	-	-	15,240

Notes to the Financial Statements at 31 December 2008

9. Impairment allowance

	Individual impairment $000	Collective impairment: Loan and advances - banks $000	Collective impairment: Loan and advances - customers $000	Collective impairment: Total $000	Total $000
Balance at 1 January 2007	-	334	628	962	962
Charge to profit and loss account	-	106	71	177	177
Balance at 31 December 2007	-	440	699	1,139	1,139

After its yearly assessment, the Company considered provision for collective impairment to be no longer applicable as every individual asset was specifically reviewed for impairment. The provision for collective impairment was therefore reversed.

10. Derivative financial instruments

The Company is exposed to variability in future interest cash flows on non-trading assets and liabilities which bear interest at a variable rate. The Company uses interest rate swaps and forward rate agreements as cash flow hedges of these risks. Also, the Company is exposed to foreign exchange risks which are hedged with currency swaps. Whilst in view of the directors these derivatives are economic hedges, they do not meet the conditions under FRS 26 for hedge accounting.

In the following table, notional principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The fair value of a derivative financial instrument represents the positive or negative cash flows which would have occurred had the rights and obligations arising from that instrument been closed out by the Company in an orderly market transaction at balance sheet date. The replacement cost is considered to be the same as the positive fair value.

	2008			2007		
	Notional principal amount $000	Positive fair value $000	Negative fair value $000	Notional principal amount $000	Positive fair value $000	Negative fair value $000
Foreign exchange derivatives						
- Forward foreign exchange contracts	24,437	57	11	29,480	18	-
At 31 December	24,437	57	11	29,480	18	-
Interest rate derivatives						
- Swaps	916	-	25	1,549	-	13
At 31 December	916	-	25	1,549	-	13

At 31 December 2008, the derivative instruments were not found to be effective hedges. Therefore, there was no cash flow movement in the Company hedge reserve under its equity.

11.Financial investments: available-for-sale

	2008 $000	2007 $000
Balance at 1 January	126,058	61,699
Additions	-	73,946
Disposal	(9,000)	(9,000)
Fair value adjustment	(14,096)	(2,549)
Foreign exchange differences	(3,349)	1,962
Balance at 31 December	99,613	126,058

At 31 December 2008, as part of its fair value adjustment the Company also included an impairment provision of $8.4 million on its impaired Icelandic bonds with a total nominal value of $12 million. A total disposal notional value of $9 million was also made during the financial year as a result of a call for redemption by the issuers.

	2008 $000	2007 $000
Analysed by maturity:		
- due within one year	11,422	4,938
- due after one year	88,191	121,120
Analysed by listing status:		
- listed	93,344	95,449
- unlisted	6,269	30,609
Analysed by sector:		
- private sector	99,613	126,058
- public sector	-	-

Notes to the Financial Statements at 31 December 2008

12. Tangible fixed assets

	Leasehold improvements $000	Office furniture and equipment $000	Computers $000	Motor vehicles $000	Total $000
Cost:					
At 1 January 2008	451	98	273	89	911
Additions	248	140	106	-	494
At 31 December 2008	699	238	379	89	1,405
Depreciation:					
At 1 January 2008	408	78	204	69	759
Charge for the year	43	19	58	15	135
At 31 December 2008	451	97	262	84	894
Net book amount:					
At 31 December 2008	248	141	117	5	511
At 31 December 2007	43	20	69	20	152

13. Prepayments, accrued income and other assets

	2008 $000	2007 $000
Accrued income	5,978	5,708
Prepayments	174	190
Amount owing from group undertakings	16	28
Corporation tax recoverable	2,105	-
Other assets	16	37
	8,289	5,963

14. Deferred tax assets

	2008 $000	2007 $000
Deferred tax assets included in the balance sheet comprise the following:		
Decelerated capital allowance	47	49
Tax losses carried forward	284	-
Other timing differences	150	171
	481	220

14. Deferred tax assets (continued)

	2008 $000	2007 $000
Movement in deferred tax assets during the year is as follows:		
Balance at 1 January	220	80
Deferred tax credited to the profit and loss account	(1)	17
Deferred tax credited directly to equity	262	123
Balance at 31 December	481	220

Based on the likely timing and level of future profits, the management of the Company have concluded the deferred tax asset should be recognised in respect of the current tax losses.

15. Deposits by banks

	2008 $000	2007 $000
Repayable:		
- on demand	41,897	18,219
- three months or less	509,125	486,050
- one year or less but over three months	48,623	73,154
	599,645	577,423

	2008 $000	2007 $000
Amounts include:		
Deposits by parent undertaking	301,659	469,811

During the financial year, the Company entered into transactions, in the ordinary course of business, and acted in the capacity as an agent in certain treasury funding transactions between the parent undertaking and the overseas branches of the parent undertaking. The Company undertakes no risk or obligation arising from these back-to-back transactions as these transactions were transacted on identical and reciprocal terms and maturity periods, with no right of recourse to the Company.

The balances outstanding at 31 December of these inter-group funding activities are as follows:

	2008 $000	2007 $000
Due from overseas branches and affiliate of parent undertaking	420,878	1,537,150
Due to parent undertaking	420,878	1,537,150

Notes to the Financial Statements at 31 December 2008

16. Customer accounts

	2008	2007
	$000	$000
Repayable:		
- on demand	4,910	7,524
- three months or less	47,658	13,871
- one year or less but over three months	6,193	2,417
	58,761	23,812

17. Accruals and deferred income

	2008	2007
	$000	$000
Accrued interest payable	3,640	4,008
Deferred income	939	1,168
	4,579	5,176

18. Share capital

	2008	2007
	$000	$000
Authorised share capital, Ordinary shares of $1 each:		
Balance at 1 January	250,000	150,000
Additions	-	100,000
Balance at 31 December	250,000	250,000
Allotted, called up and fully paid, Ordinary shares of $1 each:		
Balance at 1 January	200,000	100,000
New ordinary shares issued and paid up	-	100,000
Balance at 31 December	200,000	200,000

19.Reconciliation of shareholder's funds

	Share capital $000	Profit and loss account $000	Available-for-sale reserve $000	Cash flow hedge reserve $000	Foreign currency translation reserve $000	Total share holder's funds $000
At 1 January 2007	100,000	2,184	(550)	14	-	101,648
New ordinary shares issued and paid up	100,000	-	-	-	-	100,000
Profit for the year	-	4,329	-	-	-	4,329
Change in fair value of financial investments available-for-sale	-	-	(2,005)	-	-	(2,005)
Tax credit on change in fair value of financial investments available-for-sale	-	624	-	-	-	624
Financial investments available-for-sale reserve recycled through profit and loss upon disposal of the investment	-	-	172	-	-	172
Deferred tax asset recognised through equity	-	123	-	-	-	123
Reversal of cash flow hedge reserve	-	-	-	(14)	-	(14)
At 31 December 2007	200,000	7,260	(2,383)	-	-	204,877
At 1 January 2008	200,000	7,260	(2,383)	-	-	204,877
Profit for the year	-	180	-	-	-	180
Change in fair value of financial investments available-for-sale	-	-	(6,129)	-	-	(6,129)
Tax credit on change in fair value of financial investments available-for-sale	-	1,294	-	-	-	1,294
Reversal of financial investments available-for-sale reserve due to impairment	-	-	371	-	-	371
Financial investments available-for-sale reserve recycled through profit and loss upon disposal of the investment	-	-	106	-	-	106
Deferred tax asset recognised through equity	-	262	-	-	-	262
Foreign currency translation reserve	-	-	-	-	103	103
At 31 December 2008	200,000	8,996	(8,035)	-	103	201,064

Notes to the Financial Statements at 31 December 2008

20.Memorandum items – contingent liabilities and commitments

	2008 $000	2007 $000
Undrawn documentary credits and short-term trade related transactions	239,291	107,426
Undrawn loans and advances	107,678	87,146
Forward foreign exchange contracts	24,437	29,493
	371,406	224,065

At 31 December 2008, the Company was committed to a total undrawn balance of $77.6 million on its term and revolving facilities. A further $30 million was due on forward value deposits.

Capital and operating lease commitments

At 31 December 2008, the Company had annual commitments under non-cancellable operating leases as set out below:

	2008 $000	2007 $000
Within one year	-	-
Within two to five years	-	-
More than five years	592	500

During the financial year the Company acquired additional space in its existing premises comprising the fourth floor. The lease agreement is for a period of ten years with an annual rental charge of $226,612.

21.Segmental information

The directors consider the profit on ordinary activities to arise principally from the provision of international banking and related services and integral treasury dealing which are conducted by the Company. The directors consider that no segmental information is required.

22.Related party transactions

The Company was a wholly owned subsidiary of The Industrial and Commercial Bank of China for the year ended 31 December 2008. Accordingly, the Company has applied the exemption in paragraph 3 (c) of the Financial Reporting Standard 8 (“FRS 8”). This exempts the Company from disclosure of transactions with related parties that are included in the consolidated financial statements of The Industrial and Commercial Bank of China.

The Company is also exempt under the terms of paragraph 16 of FRS 8 from disclosing details of those transactions falling within the definition of ‘banking transactions’.

23. Analysis of total assets and liabilities/shareholder's funds by currency

	2008 *$000*	*2007* *$000*
Assets:		
Denominated in US Dollars	588,689	528,446
Denominated in currencies other than US Dollars	278,255	286,516
Total assets	866,944	814,962
Liabilities and shareholder's funds:		
Denominated in US Dollars	555,806	532,342
Denominated in currencies other than US Dollars	311,138	282,620
Total liabilities and shareholder's funds	866,944	814,962

At 31 December 2008, the closing shareholder's funds which are denominated in US Dollars were $201 million (2007: $204.9 million).

24. Ultimate parent company

The ultimate parent company and controlling party is The Industrial and Commercial Bank of China, which is incorporated in China. The financial statements of the Company are consolidated in the group financial statements. Copies of the group financial statements of The Industrial and Commercial Bank of China are available from 55, Fuxingmennei Dajie, Beijing, 100032, China.

Notes to the Financial Statements at 31 December 2008

25. Risk management

The Company has a formal structure for managing risks, including establishing risk limits and reporting lines and a system of control procedures. This structure is reviewed regularly by Senior Management who are charged with the responsibility for managing and controlling the exposures of the Company.

The financial risks faced by the Company cover credit risk, liquidity risk, interest rate risk and operational risk.

The Company adopts a cautious and prudent approach to the management of risk and, at all times, seeks to eliminate unnecessary risks and minimise losses from avoidable risks. In adopting this approach the Company has considered the costs involved and sought to minimise risk provided that it is cost-justifiable.

The Board of directors set the policy regarding risk and the Risk Committee and Credit Committee assess the effectiveness of that policy in practice. A number of major prudential policies have been agreed by the Company and are reviewed by the Board regularly. The major policies are:

- Risk policy
- Credit policy
- Liquidity policy
- Provisioning policy
- Large exposures policy
- Treasury policy
- Operational risk policy
- Fraud policy

Departmental policy and procedure manuals are written in accordance with the Company's approach to risk management. Employees are instructed to operate within the guidelines set out in their own departmental policies and procedures and internal audit periodically carries out audits to assess compliance. If any member of staff detects an apparently unidentified risk in their standard operating procedures they are instructed to inform their departmental head immediately who should investigate the risk and if necessary, enhance the controls.

26. Credit risk

The Company places great importance on credit risk management. A credit analysis is performed on each loan request or asset to assess the counterparty's ability to repay.

Counterparty credit risk is assessed by the Company using both quantitative and qualitative analysis. The Company also uses and relies on the credit ratings of three major credit rating agencies, namely Moody's, Standard and Poor's and Fitch in the exercise of evaluating credit risk and building risk profile of the counterparty.

The Company uses an internal scoring model to grade corporates that are not rated by the three external credit agencies. The model focuses mainly on quantitative data and financial ratios and a rating is assigned based on Standard & Poor's rating grades.

Limits for banks have been reviewed and approved annually by the credit committee and board of directors. Credit applications are prepared with notes and analysis and submitted for approval. Exposures are monitored and controlled by the credit analyst against individual limits set and approved for counterparties. Marketing and treasury operate within the limits approved.

26. Credit risk (continued)

Following the failure of the Icelandic banks and the increased uncertainty regarding future economic conditions, the Company has increased its control procedures concerning these areas of risk. In particular:

- We have examined concentrations of risk in geographical areas and business sectors and scaled these down where it was considered prudent to do so;
- We have carried out additional reviews of all banks to which we lend and paid increased attention to their reliance on volatile wholesale markets, their geographical location and concentration, in addition to their credit profile. Our exposure to certain banks has been adjusted accordingly;
- We have also changed our procedures so that credit committee and the board review, more frequently, accounts identified for inclusion on our watch list and assess the appropriateness of allowances for potential credit losses, and
- We are actively pursuing a policy of using collateral to mitigate further credit risk.

Counterparty credit risk related to our treasury portfolio is based on policy guideline relying on investment grade credit ratings sourced as described above. Acquisition of debt securities by treasury are carried out using the policy as guideline to ensure that only securities judged to be of investment grade are acquired.

Maximum exposure to credit risk

The table below shows maximum exposure to credit risk for the components of the balance sheet including derivatives.

	2008		*2007*	
	Gross maximum exposure *$000*	Net maximum exposure *$000*	Gross maximum exposure *$000*	Net maximum exposure *$000*
Loans and advances to banks	488,538	481,704	479,685	479,685
Loans and advances to customers	276,227	162,422	203,938	121,410
Financial investments available-for-sale	108,019	99,613	126,058	126,058
	872,784	743,739	809,681	727,153
Contingent liabilities	54,437	54,437	29,493	29,493
Commitments	316,969	316,969	194,572	194,572
	371,406	371,406	224,065	224,065
Total credit risk exposure	1,244,190	1,115,145	1,033,746	951,218
Impairment provisions	-	15,240	-	-

Notes to the Financial Statements at 31 December 2008

26. Credit risk (continued)

Maximum exposure to credit risk (continued)

	Gross maximum exposure $000	Net maximum exposure $000	Gross maximum exposure $000	Net maximum exposure $000
Cash collateral:				
Deposits by parent undertaking	-	113,805	-	82,528

By way of the master netting agreement effective in 2007 with its parent undertaking, the Company has secured cash collateral against some selected funding of its syndicated loans portfolio. Under this agreement the Company will request and monitor deposits by its parent undertaking on the basis of its funding requirement for the selected loans participation. In return, the Company has agreed to pay to its parent undertaking, a marginal deduction of fees and interest that become due and receivable periodically in arrears during the course of its funding until final maturity. Deposits taken as collateral will only be released when corresponding loans participation are fully repaid.

Credit quality per class of financial assets

	2008		*2007*	
	Current	Overdue	Current	Overdue
At 31 December	*$000*	*$000*	*$000*	*$000*
Loans and advances to banks				
Investment grade	465,003	-	389,143	-
Sub-investment grade	23,389	146	90,390	152
Total	488,392	146	479,533	152

	2008		*2007*	
	Current	Overdue	Current	Overdue
At 31 December	*$000*	*$000*	*$000*	*$000*
Loans and advances to customers				
Investment grade	240,488	-	180,108	-
Sub-investment grade	35,739	-	23,830	-
Total	276,227	-	203,938	-

26. Credit risk (continued)

Credit quality per class of financial assets (continued)

At 31 December	*2008* Available for sale *$000*	*2007* Available for sale *$000*
Financial investments		
Investment grade	96,026	126,058
Sub-investment grade	11,993	-
Total	108,019	126,058

At 31 December 2008, the Company had overdue loan of $145,575 from a foreign bank. The management of the Company believes this will be collected fully within the short term therefore continue to classify it as performing loan.

Regional Exposure

The table below analyses the geographical spread of loans to banks, customers and financial investments.

	2008		*2007*	
	Exposure $million	Exposure %	Exposure $million	Exposure %
Asia and pacific	467	37.5	351	33.9
Europe	630	50.7	504	48.8
Middle East	62	5.0	79	7.6
North America	49	3.9	53	5.1
Africa	36	2.9	47	4.6
Total	1,244	100	1,034	100

27. Liquidity risk

The Company's liquidity policy is to maintain sufficient liquid resources to cover cash flow imbalances and fluctuations in funding to retain full public confidence in the solvency of the Company and to enable the Company to meet its financial obligations as well as requirements under the FSA guidelines. This is achieved through maintaining a strong capitalisation and prudent levels of liquid assets and through management control of the growth of the business.

During the financial year the Company consistently maintained daily mismatch liquidity ratios, which is based on net liquid assets to customer liabilities as set out under regulatory guidelines. A minimum of 0% matched liquidity position is to be maintained for cash flows up to 8 days and a cumulative not exceeding (-5)% for cash flows up to 1 month.

Notes to the Financial Statements at 31 December 2008

27.Liquidity risk (continued)

At 31 December	2008 Contractual cash flow band Up-to 8 days $000	2008 Up-to 1 month $000	2007 Contractual cash flow band Up-to 8 days $000	2007 Up-to 1 month $000
Cumulative inflows	258,950	609,313	163,242	333,496
Cumulative outflows	(230,128)	(597,689)	(104,343)	(309,994)
Net cash flows	28,822	11,624	58,899	23,502
Total deposits	658,406		601,235	
Liquidity mismatch ratio	4.38 %	1.77 %	9.80 %	3.91 %

The table below shows the contractual expiry by maturity of the Company's contingent liabilities and commitments.

	Contractual expiry band					
2008	0 - 1 month *$000*	2 – 3 months *$000*	4 - 6 months *$000*	7 - 12 months *$000*	1 - 5 years *$000*	Total *$000*
Contingent liabilities	30,000	24,437	-	-	-	54,437
Commitments	67,156	55,377	65,803	18,344	110,289	316,969
Total	97,156	79,814	65,803	18,344	110,289	371,406
2007						
Contingent liabilities	15,286	14,207	-	-	-	29,493
Commitments	22,625	31,140	22,095	17,465	101,247	194,572
Total	37,911	45,347	22,095	17,465	101,247	224,065

28.Market risk

Market risk is the risk that the fair value of future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. Market risk arises from both the Company's trading and non-trading activities.

Notes to the Financial Statements at 31 December 2008

28.Market risk (continued)

Foreign exchange risk

Foreign exchange risk is controlled by net short open and forward foreign exchange gap limits. Foreign exchange trading has not been a core activity of the Company during the year, and in the opinion of the directors, the risk inherent in these limits is considered to be minimal.

Interest rate risk

The interest rate sensitivity exposure of the Company at 31 December 2008 is set out below. Items are allocated to time bands by reference to the earlier of the next contractual interest rate re-pricing date and the maturity date.

Interest rate sensitivity table

2008

	Not more than 3 months *$000*	More than 3 months but not more than 6 months *$000*	More than 6 months but not more than 1 year *$000*	More than 1 year but not more than 5 years *$000*	More than 5 years *$000*	Non-interest bearing *$000*	Total *$000*
Assets							
Liquid assets	-	-	-	-	-	62	62
Loans and advances							
- to banks	360,308	120,250	859	287	-	-	481,704
- to customers	245,502	30,725	-	-	-	-	276,227
Financial investments available-for-sale	1,959	5,876	2,087	83,974	4,217	1,500	99,613
Fixed and other assets	-	-	-	-	-	9,338	9,338
Total assets	607,769	156,851	2,946	84,261	4,217	10,900	866,944
Liabilities and shareholder's funds							
Deposits by banks	551,022	48,623	-	-	-	-	599,645
Customer accounts	52,568	2,232	3,961	-	-	-	58,761
Other liabilities	-	-	-	-	-	7,474	7,474
Shareholder's funds	-	-	-	-	-	201,064	201,064
Total liabilities and shareholder's funds	603,590	50,855	3,961	-	-	208,538	866,944
Off balance sheet	-	916	-	-	-	-	916
Interest rate sensitivity gap	4,179	106,912	(1,015)	84,261	4,217	(197,638)	916
Cumulative gap	4,179	111,091	110,076	194,337	198,554	916	-

Notes to the Financial Statements at 31 December 2008

28.Market risk (continued)

The table below shows how interest rate movements affect profit and loss of the Company for 2008:

	Not more than 3 months $000	More than 3 months but not more than 6 months $000	More than 6 months but not more than 1 year $000	More than 1 year but not more than 5 years $000	More than 5 years $000	Total $000
Basis points						
+100	5	134	(3)	1,685	-	1,821
+200	10	267	(5)	3,370	-	3,642
-100	(5)	(134)	3	(1,685)	-	(1,821)
-200	(10)	(267)	5	(3,370)	-	(3,642)

For each positive shift in the basis points on its funding rate, the Company can expect the total increase in the amount of its interest income as illustrated. The reverse will be a corresponding same degree of drop in its interest income.

Other than the effect on the profit and loss, the management of the Company are of the opinion that interest rate movements have no other significant effect on the equity of the Company.

Interest rate sensitivity table

2007

	Not more than 3 months $000	*3 months but not more than 6 months $000*	*More than 6 months but not more than 1 year $000*	*More than 1 year but not more than 5 years $000*	*More than 5 years $000*	*Non-interest bearing $000*	*Total $000*
Assets							
Liquid assets	-	-	-	-	-	67	67
Loans and advances							
- to banks	332,035	142,045	4,153	1,452	-	(440)	479,245
- to customers	142,541	61,397	-	-	-	(699)	203,239
Financial investments available-for-sale	-	-	4,938	121,120	-	-	126,058
Fixed and other assets	-	-	-	-	-	6,353	6,353
Total assets	474,576	203,442	9,091	122,572	-	5,281	814,962
Liabilities and shareholder's funds							
Deposits by banks	504,269	73,154	-	-	-	-	577,423
Customer accounts	21,395	1,422	995	-	-	-	23,812
Other liabilities	-	-	-	-	-	8,850	8,850
Shareholder's funds	-	-	-	-	-	204,877	204,877
Total liabilities and shareholder's funds	525,664	74,576	995	-	-	213,727	814,962
Off balance sheet	-	1,549	-	-	-	-	1,549

28. Market risk (continued)

	Not more than 3 months $000	3 months but not more than 6 months $000	More than 6 months but not more than 1 year $000	More than 1 year but not more than 5 years $000	More than 5 years $000	Non-interest bearing $000	Total $000
Interest rate sensitivity gap	(51,088)	130,415	8,096	122,572	-	(208,446)	1,549
Cumulative gap	(51,088)	79,327	87,423	209,995	209,995	1,549	-

	Not more than 3 months $000	More than 3 months but not more than 6 months $000	More than 6 months but not more than 1 year $000	More than 1 year but not more than 5 years $000	More than 5 years $000	Total $000
Basis points						
+100	(64)	163	20	2,451	-	2,570
+200	(128)	326	40	4,903	-	5,141
-100	64	(163)	(20)	(2,451)	-	(2,570)
-200	128	(326)	(40)	(4,903)	-	(5,141)

29. Operational risk

The Company defines operational risks as risks of loss resulting from inadequate or failed internal processes, people and systems or from external events. It is a pervasive risk that involves all aspects of business as well as other people with whom the Company deals. The Company's policy is to ensure that the risk of losses from operational failure are minimised. To this purpose the Company has a variety of control systems and operational procedures are reviewed regularly by Senior Management and Internal Audit, and with a frequency determined by the level of risks involved.

30. Capital

The Company maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Company's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ("BIS rules/ratios") and adopted by the Financial Services Authority in supervising the Company.

During the past year, the Company had complied in full with its externally imposed capital requirements.

The primary objectives of the Company's capital management are to ensure that the Company complies with externally imposed capital requirements and that the Company maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholder's value.

Notes to the Financial Statements at 31 December 2008

30. Capital (continued)

The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend payment to shareholder or issue capital securities.

Regulatory capital

	2008 Actual $000	Required $000	Actual $000	2007 Required $000
Tier 1 capital	200,170	79,536	199,800	60,267
Tier 2 capital	-	-	1,140	-
Total capital	200,170	79536	200,940	60,267
Risk weighted assets	603,726		401,782	
Tier 1 capital ratio	33.16 %		49.73 %	
Tier 2 capital ratio	- %		0.28 %	
Total capital ratio	33.16 %		50.01 %	