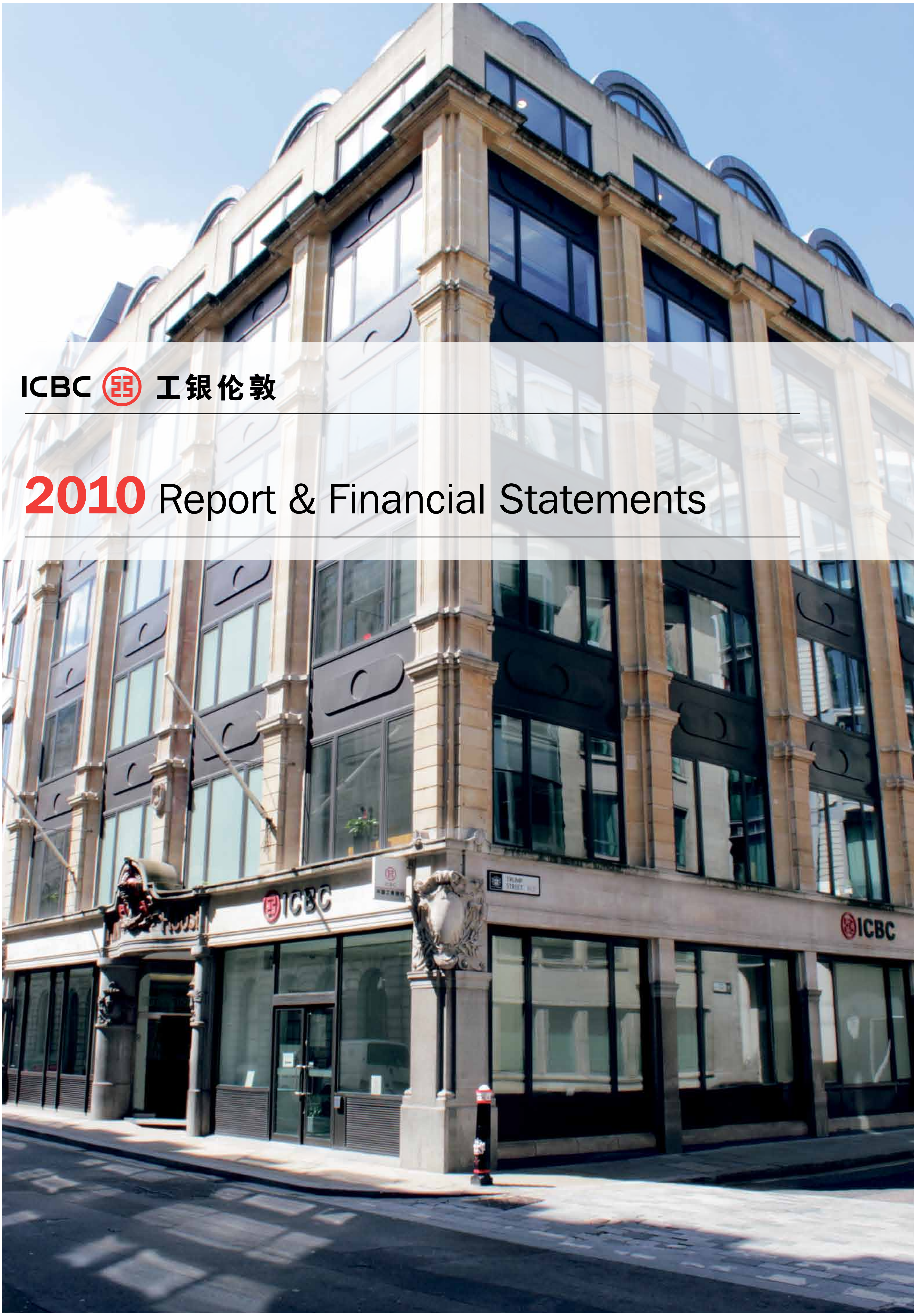
ICBC 工银伦敦

2010 Report & Financial Statements



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2010 Report & Financial Statements

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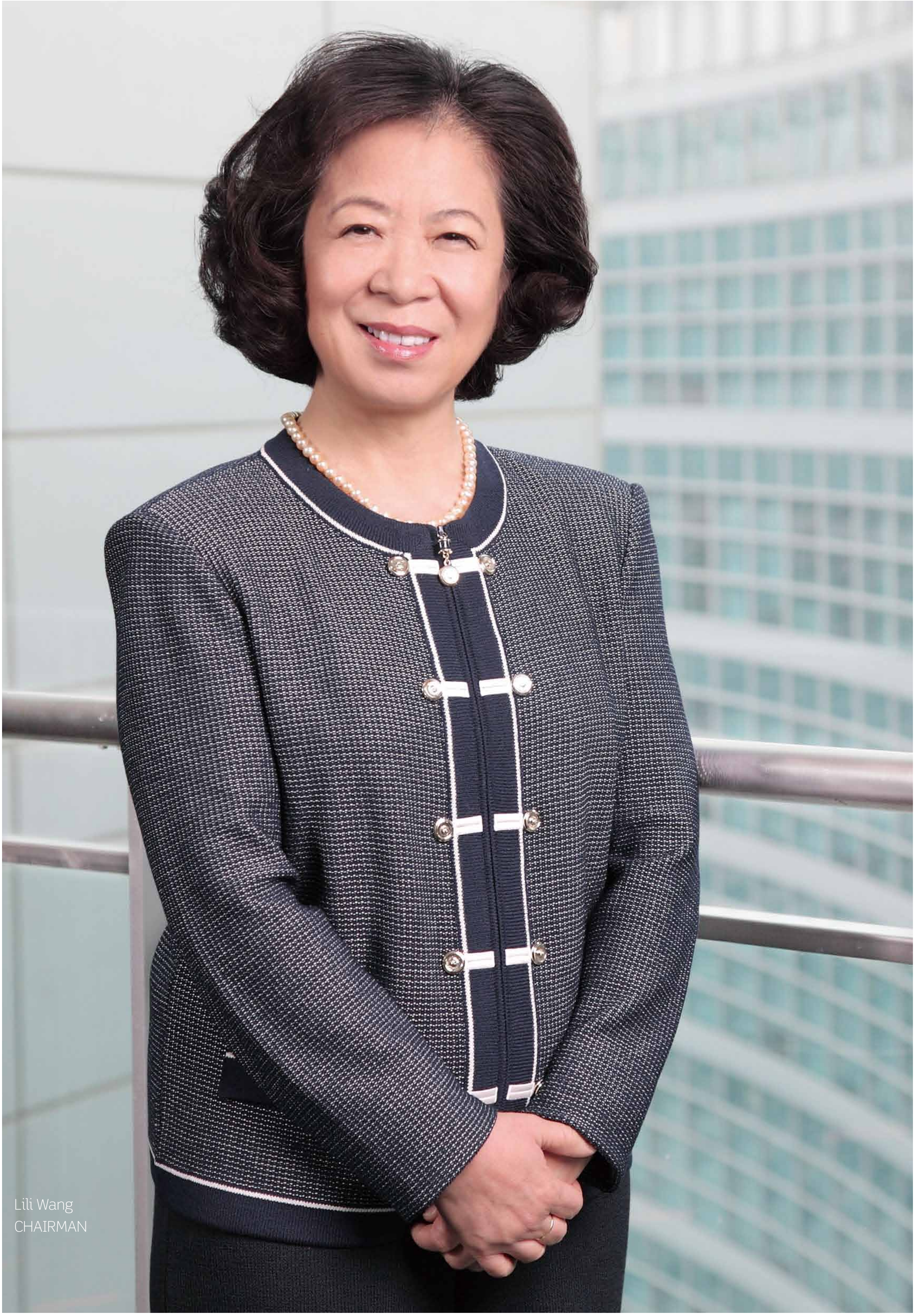


Lili Wang
CHAIRMAN

Chairman’s Statement

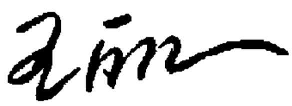
> “Our 2010 profit was achieved by careful banking with sound counterparties and it was boosted slightly by a net write-back of provisions (US$4.6 million) made in previous years, following the successful sale of our non-performing assets. Our profit after tax was US$17.7 million (2009: US$3.1 million).”

In 2010 we saw a cautious recovery in Europe from the financial turmoil of previous two years. By contrast, China rebounded strongly, returning an economic growth of about 10%. ICBC (London) Limited’s market position with focus on financing trade with China and companies with strong China – UK links has continued to serve us well. Despite continuing vulnerability in some markets our prudent management enabled us to ensure that we suffered no new default during the year and we returned a creditable profit of US$24.7 million before tax (2009: US$4.5 million). Our 2010 profit was achieved by careful banking with sound counterparties and it was boosted slightly by a net write-back of provisions (US$ 4.6 million) made in previous years, following the successful sale of our non-performing assets. Our profit after tax was US$17.7 million (2009: US$3.1 million). The new liquidity rules introduced by the FSA in 2010 will unquestionably put pressure on profits in future years but we recognise the value in the new approach to liquidity management and have fully implemented the new requirements, electing to be measured as a stand-alone bank.

We purchased a new headquarters building in the heart of the City of London in 2010 to give us more space for expansion in the years ahead and to demonstrate our strong commitment to international banking in the London market. Our staff will relocate to this new building later in 2011 following a major refurbishment.

I was delighted that ICBC (London) Limited won the 2011 Inward Investment award from the ‘48 Group’, the pre-eminent independent business network promoting British commercial relations with the People’s Republic of China since the early 1950s.

Our workforce grew by 12 % during the year, I would like to welcome these new staff to the ICBC ‘family’ and thank my fellow directors, the management team and the staff for their important contribution to the Bank’s highly successful year.



Lili Wang
CHAIRMAN

Managing Director's Business Review

Above: Jinlei Xu
MANAGING DIRECTOR

Introduction

During 2010 the UK economy was marked by continuing uncertainty with patchy economic growth which ran ahead of forecasts early in the year but was followed by a small contraction of the economy in the 4th quarter. Many commentators consider that the poor 4th quarter performance was greatly influenced by December's extreme weather conditions. Whether or not this is the case, it is clear that economic growth in the UK will be slow in 2011. By contrast, China rebounded quickly from the global economic downturn of 2009 and outperformed all major economies in 2010 with a growth rate of approximately 10%. Looking forward to 2011, economic growth in China is expected to continue at a similar impressive level to that achieved in 2010. In Europe, we saw continuing concerns, particularly regarding the banking sector, in several countries but there were no major failures.

Whilst the uncertainty in the UK economy led to concerns regarding credit for SMEs and the personal market, large UK companies with their strong international focus performed well and there was a cautious recovery in global debt markets with yields on corporate lending materially falling from the exceptionally high levels of the 2009 global financial crisis. Against this background ICBC (London) Limited achieved a significant increase in profit during the year and we improved our capital and performance ratios. We managed this by reducing our exposure to vulnerable markets and vulnerable business sectors in line with our prudent approach and by growing our balance sheet cautiously taking account of continued uncertainty and volatility in global financial markets. We were also able to write back some impairment provisions made in previous years against our Icelandic exposure. Our commercial lending was spread across growing Chinese trade flows with Europe, Africa and Latin America, recovering global industries such as Natural Resources and selective stronger UK sectors such as Retail. Syndication services were further developed with the cooperation of our parent bank and its African affiliate on larger underwritten loans. This has enabled us to enhance our market arranging profile, client relations and low risk fee income streams. During the year new sources of funding were developed to enhance our liquidity and to reduce our funding cost. The Chinatown retail branch, which opened in 2009, gained a significant

number of customer accounts in 2010 and this enabled us to enhance our services to the Chinese community in London.

Summary of Business

Our asset base grew overall by 48% to US$1,795 million by December 2010 (US$1,216 million in December 2009). Of these assets approximately US$409 million (23% of the total) were in the form of bond securities, an increase of over 25% when compared with 2009 (2009: US$327 million).

One of our focuses in 2010 was to increase the amount of our Client deposits and we had significant success in this area achieving an increase during the year of 589% to US$219.9 million (2009: US$31.9 million). The majority of our borrowings however, still came from inter-bank placements from major banks from around the world and particularly from our parent bank and other major Chinese banks. In February 2010 we borrowed US$100 million subordinated loan from our parent for 5 years which directly enhanced our capital and we also entered into a 1-year club deal to borrow US$200 million from a group of London-based banks. Our average cost of interest bearing funds during the year was 85 bps; (2009: 158 bps). Although this appears a significant reduction from 2009, part of it is accounted for by a reduction in average 3 month libor of 34 bps and any advantage gained needs to be balanced against the tighter margins in 2010. We had no difficulty in maintaining strong liquidity ratios throughout the year.

We continued to focus our lending on the corporate market, particularly where there is a Chinese connection. Our participation in syndication loans (less impairment) increased to US$1,042 million – a rise of 39% compared with the previous year (2009: US$750 million). For the second successive year we assisted in arranging selective deals, complementing our parent bank's international network in Asia and enhancing our earning scope. We also continued to expand our bi-lateral lending to a number of large internationally-focused companies where we have been able to add significant value through both the Chinese and the international networks of our parent bank. However, with committed bi-lateral lending at US$105.9 million on 31 December 2010 this does not yet form a major part of our assets.

Our documentary credit and structured trade finance business continued to grow during the year helped by the restructuring of our back office processing which was completed in 2009. This enabled us to cope with larger volumes in 2010 whilst maintaining our high levels of customer service. We also developed a wider suite of products, structuring and international risk mitigation solutions available to both our corporate and institutional client base. We further established and developed relationships with multilateral organisations possessing specific strengths in geographic areas to better support our primarily Chinese and China active international client base.

Our profit before tax for 2010 was US$24.7 million, an increase of over 449% when compared with 2009 (2009: US$4.5 million). This was boosted by the low level of impairment provisions in 2010 and the write back of provisions from 2009 following the successful sale of our impaired Icelandic assets. Net interest income at US$27 million was 13% up compared to the previous year (2009: US$24 million). The bulk of this income was from loans and Trade Finance, although a significant amount (US$10.4 million) came from our bond portfolio. Non-interest income also increased by 6% to US$3.7 million (2009: US$3.5 million). A significant amount of this income related to fees on loans and trade finance deals. We also benefited from a small contribution from foreign exchange gains of US$0.3 million (2009: US$0.5 million).

Expenses

Our total operating expenses (less impairments) for the year increased by 37% to US$10.7 million (2009: US$7.8 million). Part of this increase reflects a change in our parent bank's remuneration policy for expatriates and part was due to increasing costs to match the increase in business growth: staff numbers during the year increased by 12%.

Future Developments

We will continue to grow our balance sheet in 2011 in a cautious and steady manner whilst ensuring that we comply with all regulatory ratios, particularly relating to liquidity and capital management. The Bank purchased the freehold of a major building in the City in 2010. This reinforces our commitment to the UK market and to London in particular and it will enable us to continue to expand our activities. We are currently undertaking a complete refurbishment of the building and will relocate our UK headquarters there towards the end of 2011. At the same time our parent bank is expanding our sister operations by opening new offices in Continental Europe as well as Latin America and Middle East. This will bring even greater scope for co-operation between ICBC (London) Limited and other Group entities to access the services and product skills of the City as a regional financial centre. Origination and distribution of loan asset risk and agency services to the Group are both expected to grow and we will continue to develop our product and service range to meet the needs of our clients; for example, as the use of RMB denominated trade and investment flows develops.

Our main focus will continue to be on China-related business and we will seek opportunities to assist both UK and non UK companies and individuals building sustainable business with China. ICBC (London) has a deep network of financial institution and corporate contacts in China which we deploy to help international enterprises trading with and operating in China, as well as Chinese exporters and outward investment. With our growing resources, broader product and risk solutions and expanding financial counterparty network, we are confident ICBC (London) can continue to contribute positively to the development of business by the wider global market with China.

Our Trade Services business has underpinned our success in recent years with high levels of expertise and customer service. A full range of trade related services will continue to be offered including traditional trade finance, documentary credits, confirmation and discounting services, as well as more advanced counterparty payment risk, forfeiting, and supplier and buyer credits. Our Trade Services team in London is supported by 'around the clock' processing support from our parent company's Bills Processing Centre in China with whom we have an SLA in place. We also continue to benefit from support from the Chinese and international networks of our parent bank. Our membership of the ICBC Group and the Bank's emphasis on Chinese trade allows an industry leading breadth of group lines with China to be offered to our clients. Significant cross border flows to China from natural resource producers secured against bank risk will continue to play a major part of our portfolio.

We will continue to expand our client base in the regional corporate and institutional banking market, based on our targeted sectors and Group relationships, trading and investing between China and the UK. We will also seek to broaden our client relationships by offering a wider range of competitive products, ancillary trade finance, multi-currency deposits and structured finance. We will continue to participate strongly in the origination of syndicated mandates, and to optimise asset management, we will also source and sell assets in the secondary market.

We have jointly arranged several syndicated loans to corporate clients, banks and multilateral financial institutions as a joint active book-runner; all of these were over subscribed with aggregate commitments of over US$4 billion. Working with our Parent Company we arranged Beijing road shows supporting syndications for selective clients from Europe and Africa. We will further develop these activities and the portfolio, particularly focusing on China related ancillary prospects.

We have continued to provide retail banking services through our two retail outlets in London. The branch in Chinatown had its first full year of operation in 2010 and is now an established feature in the heart of the Chinese community in London, offering a wide range of competitively priced personal and small business services including remittance, foreign exchange and flexible bank accounts. In 2011 we will increase

significantly our service offerings to retail customers: an internet banking service will be launched in the first half of the year and this will enhance our service offering to the wider Chinese community in the UK; preparations are being finalised for the launch of a debit card in association with China UnionPay and we will launch the sale of general insurance products provided by China Taiping Insurance (UK) Limited – the UK subsidiary of a leading Chinese insurance group. In line with the liberalisation of Chinese currency exchange rules we will offer RMB denominated accounts to commercial clients undertaking business with China.

Liability Management

In 2011 we will continue our policy of diversifying our funding sources by seeking new customer deposits - particularly term deposits - from UK and international clients. We will also seek to increase our interbank funding in a cautious way and so reduce further our reliance on our parent bank. We will review carefully other potential sources of funding and, where appropriate, develop innovative solutions to strengthen even further our balance sheet and liquidity.

Reputation

The bank is authorised and regulated by the Financial Services Authority and structured in accordance with the principles of good corporate governance consistent with the status of our parent group. This includes: employing non-executive Directors; operating committees to ensure that adequate controls are employed in making all major policy and operating decisions; establishing clear policies and decision making processes and ensuring robust effectiveness of operating procedures through regular internal audit tests.

Employees

We aim to maintain a highly skilled workforce to meet the challenges and opportunities 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 our organisation.
- Supplement the skills of existing staff by recruiting suitably qualified new staff as appropriate.
- Respect diversity and promote a sensible work/life balance.
- Responsibly and appropriately reward contributions to our long term success.
- Seek to retain staff through our “family friendly” policies dealing with all staff in a sensitive and pragmatic manner.

Jinlei Xu
MANAGING DIRECTOR

Board of Directors and other information

Directors
Lili Wang (Chairman)
Jinlei Xu
Jingfen Zhao
Graham Penny (Non-executive)
Edwin Lacy (Non-executive)

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

Senior Management Team
Jinlei Xu (Managing Director)
Jingfen Zhao (Deputy Managing Director)
John Kerr (Deputy General Manager)
Bo Jiang (Deputy General Manager and Head of Marketing)

Directors' Report

The directors present their report and the financial statements of the Company for the year ended 31 December 2010.

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 business review.

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 US$17.7 million (2009: US$3.11 million). 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 Notes 26 to 30 to the financial statements.

Directors and their interests

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

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

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 413 of the Companies Act 2006.

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 a going concern. Therefore, the financial statements continue to be prepared on a going concern basis.

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the 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 audited 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 are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. 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.

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

John Kerr
COMPANY SECRETARY
28 February 2011

Independent Auditor's Report

To the members of ICBC (London) Limited

We have audited the financial statements of ICBC (London) Limited for the year ended 31 December 2010 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 31. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and the auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Chairman's statement, Managing Director's business review and Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept,

or returns adequate for our audit have not been received from branches not visited by us; or

- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Ernst & Young LLP

Kenneth Eglington
SENIOR STATUTORY AUDITOR
For and on behalf of Ernst & Young LLP,
Statutory Auditor
London / 2011

Profit and loss account

for the year ended 31 December 2010

	Notes	2010 US$000	2009 US$000
Interest and similar income on other financial assets	2	10,369	6,487
Interest and similar income on loans and advances	2	31,328	25,771
Interest and similar expense	2	(14,528)	(8,213)
Net interest income		27,169	24,045
Fees and commission income	2	3,479	3,177
Fees and commission expense	2	(337)	(312)
Net gain on financial assets and liabilities designated as fair value through profit or loss	10	-	61
Foreign exchange gain		316	541
Other operating income		438	23
Other operating expenditure		(246)	-
Non-interest income		3,650	3,490
Total income		30,819	27,535
Personnel expenses	3	6,362	4,810
Depreciation and amortisation	12	596	203
Impairment (reversal)/losses	9	(4,586)	15,242
Other operating expenses	5	3,733	2,763
Operating expenses		6,105	23,018
Profit on ordinary activities before tax		24,714	4,517
Tax charge on profit on ordinary activities	6	(7,011)	(1,400)
Profit for the financial year		17,703	3,117

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

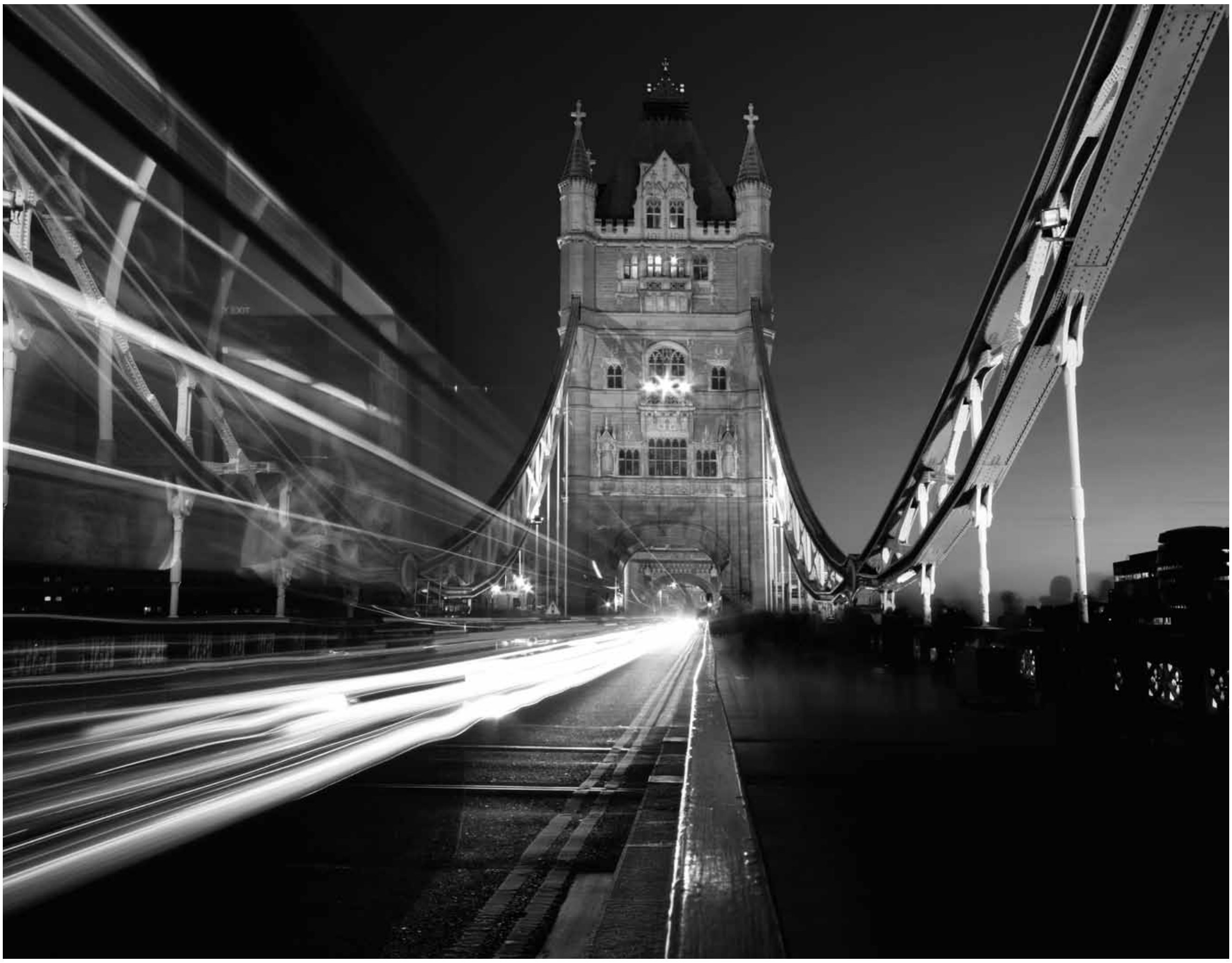
The notes on pages 14 to 44 form part of these financial statements.

Statement of total recognised gains and losses

for the year ended 31 December 2010

	2010 US$000	2009 US$000
Profit for the financial year	17,703	3,117
Change in fair value of financial investments available-for-sale	1,829	5,447
Financial investments available-for-sale reserve recycled through profit and loss upon disposal of the investment	230	1,442
Change in fair value of cash flow hedge (Note 10)	(7,037)	(308)
Foreign currency translation reserve	-	(103)
Tax charge recognised through equity	1,403	(1,939)
Total recognised gains relating to the year	14,128	7,656

The notes on pages 14 to 44 form part of these financial statements.



Balance sheet

at 31 December 2010

Registered No. 4552753

	Notes	2010 US$000	2009 US$000
Assets			
Cash and balances at central banks		155	138
Loans and advances to banks	7	641,039	278,956
Loans and advances to customers	8	704,979	602,769
Derivative financial instruments	10	-	407
Financial investments available-for-sale	11	88,618	106,945
Financial investments held-to-maturity	11	320,204	219,901
Tangible fixed assets	12	28,751	1,455
Prepayments, accrued income and other assets	13	8,817	5,529
Deferred tax assets	14	2,044	178
Total assets		1,794,607	1,216,278
Liabilities			
Deposits by banks	15	1,226,187	962,553
Customer accounts	16	219,866	31,919
Derivative financial instruments	10	7,345	801
Other liabilities		1,585	1,444
Accruals and deferred income	17	12,888	8,156
Subordinated liability	31	100,000	-
Corporation tax		4,147	2,944
Total liabilities		1,572,018	1,007,817
Share capital and reserves			
Allotted and called up share capital	18	200,000	200,000
Retained earnings	19	27,038	9,915
Available-for-sale reserve	19	913	(1,146)
Cash flow hedge reserve	19	(5,362)	(308)
Equity shareholder's funds		222,589	208,461
Total liabilities and share capital and reserves		1,794,607	1,216,278
Memorandum Items			
Contingent liabilities and commitments	20	589,854	487,398

These financial statements were approved by the directors on 28 February 2010 and are signed on their behalf by:

Jinlei Xu & Jingfen Zhao

The notes on pages 14 to 44 form part of these financial statements.

Notes to the Financial Statements

at 31 December 2010

1 Accounting policies

Basis of preparation

The financial statements of ICBC (London) Limited ("the Company") were approved for issue by the Board of Directors on 28 February 2011.

The financial statements have been prepared in accordance with the special provisions of Schedule 2 of Large and Medium-sized Companies and Group (Accounts and Reports) Regulation 2008. 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

The accounting policies adopted are consistent with those used in the previous financial year.

Functional currency

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

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 a wholly-owned subsidiary and 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 and commission 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.

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.

At the closing of the accounts on 31 December 2010, the Company used the sterling exchange rate of 1.5648.

Non monetary assets and liabilities other than 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 on a straight-line basis over the period of their estimated useful economic lives as follows:

Building (Land is not depreciable)	50 years
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 defined benefit pension scheme. However, the Company has a defined contribution plan for its 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 timeframe 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. After initial measurement, loan and advances to banks and customers are subsequently measured at amortised cost using the effective interest rate ('EIR') 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 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 than 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) Financial investments held-to-maturity

Financial investments held-to-maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Company has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments (debt securities) are subsequently measured at amortised cost using the EIR, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of EIR. The amortisation is included in 'Interest and similar income on other financial assets' in the Profit and Loss Account. The losses arising from impairment of such investments are recognised in the Profit and Loss Account line 'Impairment losses'.

If the Company were to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity, the entire category would have to be reclassified as available-for-sale on condition that the Company would be prohibited from classifying any financial asset held-to-maturity during the following two years.

(iv) 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.

(v) 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 assesses individually whether objective evidence of impairment exists for financial assets that are individually significant.

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.

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.

(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.

(iii) Financial investments held-to-maturity

Financial investments held-to-maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Company has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments (debt securities) are subsequently measured at amortised cost using the EIR, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of EIR.

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. 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 designated 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 is reported in equity is immediately transferred to the profit and loss account.

Certain derivative transactions, while providing effective economic hedges under the Company's risk management policies, do not qualify for hedge accounting under FRS 26. Changes in the fair value of derivatives that do not qualify for hedge accounting under FRS 26 and those elements of derivatives excluded from the measure of hedge effectiveness are recognised in the Profit and Loss Account.

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

2010	Loans and advances US$000	Financial investments available-for-sale US$000	Financial investments held-to maturity US$000	Derivative financial instruments at fair value through profit and loss US$000	Deposits by banks and customer accounts US$000	Total US$000
Interest receivable from financial investments	-	1,490	8,879	-	-	10,369
Other interest receivable	31,328	-	-	-	-	31,328
Interest payable	-	-	-	(3,546)	(10,982)	(14,528)
Net interest income	31,328	1,490	8,879	(3,546)	(10,982)	27,169
Fees and commissions receivable	3,479					
Fees and commissions expense	(337)					
Net fee income	3,142					
2009						
Interest receivable from financial investments	-	2,929	3,558	-	-	6,487
Other interest receivable	25,771	-	-	-	-	25,771
Interest payable	-	-	-	(1,042)	(7,171)	(8,213)
Net interest income	25,771	2,929	3,558	(1,042)	(7,171)	24,045
Fees and commissions receivable	3,177					
Fees and commissions expense	(312)					
Net fee income	2,865					

3 Staff costs

Staff costs (including directors) comprise the following:

	2010 US$000	2009 US$000
Wages and salaries	4,412	3,456
Social security costs	791	595
Pensions costs	165	102
Other costs	994	657
	6,362	4,810

Employees

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

	2010 No.	2009 No.
- Retail banking	15	13
- Corporate banking	11	10
- Investment banking	4	4
- Accounts and IT	8	7
- Administration	9	8
- Other	3	-
	50	42

4 Directors' emoluments

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

	2010 US$000	2009 US$000
Emoluments	937	671

The emoluments of the highest paid director were as follows:

	2010 US$000	2009 US$000
Salary and benefits and performance related bonuses	457	319

One director is employed by a fellow group Company which remunerates her for her services to the group as a whole. There is no appropriate basis for allocating part of this remuneration to her service to this Company.

5 Other operating expenses

Other operating expenses include:

	2010 US$000	2009 US$000
Operating lease charges - property	1,205	443
Auditors' remuneration:		
- Audit of the financial statements	107	121
- Taxation services	3	4

6 Tax on profit on ordinary activities

The tax charge is made up as follows:

	2010 US$000	2009 US$000
Current tax:		
UK corporation tax	(7,039)	(1,339)
Adjustments in respect of prior years	120	(63)
Total current tax charge for the year	(6,919)	(1,402)
Deferred tax:		
Origination and reversal of timing differences	(47)	(31)
Adjustments in respect of prior years	(45)	33
Total deferred tax credit for the year	(92)	2
Total charge for the year	(7,011)	(1,400)

The tax assessed on the profit on ordinary activities for the year is the standard rate of corporation tax in the UK of 28% (2009: 28%). The differences are reconciled below:

	2010 US$000	2009 US$000
Profit on ordinary activities before tax	24,714	4,517
Profit/(Loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2009: 28%)	6,920	1,265
Effects of:		
Expenses not deductible for tax purposes	166	105
Capital allowances in excess of depreciation of qualifying assets	(47)	(31)
Adjustments in respect of prior years	(120)	63
Current tax charge for year	6,919	1,402

7 Loans and advances to banks

	2010 US$000	2009 US$000
Gross loans and advances to banks	641,039	296,109
Less: Allowance for impairment losses (Note 9)	-	(17,153)
Net loans and advances to customers	641,039	278,956

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:

	2010 US$000	2009 US$000
Repayable:		
- on demand	5,625	21,895
- three months or less	421,353	101,923
- one year or less but over three months	70,875	90,966
- five years or less but over one year	143,186	81,325
	641,039	296,109

Gross loans and advances to banks by geographical area:

	2010 US$000	2009 US$000
China	282,708	92,348
United Kingdom	124,024	10,871
United States	68,064	7,609
Qatar	36,000	19,500
South Africa	30,000	30,000
Egypt	25,000	30,000
Bahrain	21,111	17,535
Morocco	17,170	18,454
Vietnam	16,920	-
India	3,826	17,753
Others	16,216	52,039
	641,039	296,109
Amounts include:		
Due from parent undertaking	304,017	63,422

8 Loans and advances to customers

	2010 US$000	2009 US$000
Gross loans and advances to customers	707,206	604,969
Less: Allowance for impairment losses (Note 9)	(2,227)	(2,200)
Net loans and advances to customers	704,979	602,769

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:

	2010 US$000	2009 US$000
- on demand	-	-
- three months or less	237,563	223,748
- one year or less but over three months	128,923	126,806
- five years or less but over one year	210,707	139,632
- over five years	130,013	114,783
	707,206	604,969

Gross loans and advances to customers by geographical area:

	2010 US$000	2009 US$000
Netherlands	113,469	89,492
United Kingdom	97,717	117,505
France	91,067	99,362
Ghana	86,500	65,000
Brazil	75,000	-
Ireland *	70,000	9,836
Switzerland	61,952	97,356
Venezuela	30,000	-
Singapore	28,406	-
United States	25,054	30,065
Angola	22,361	34,028
Belgium	357	37,640
Others	5,323	24,685
	707,206	604,969

** Exposure to Ireland of US$70 million at 31 December 2010 solely comprised short-term exposure to an Irish-domiciled wholly-owned subsidiary of The Industrial and Commercial Bank of China.*

9 Impairment allowance

	Financial investments available-for-sale US$000	Loan and advances - banks US$000	Loan and advances - customers US$000	Total US$000
Balance at 1 January 2009	8,406	6,834	-	15,240
Charge for the year	3,052	9,990	2,200	15,242
Foreign currency translation difference	138	329	-	467
Balance at 31 December 2009	11,596	17,153	2,200	30,949
Charge for the year	-	-	27	27
Amounts reversed on disposal	(11,123)	(15,966)	-	(27,089)
Foreign currency translation difference	(473)	(1,187)	-	(1,660)
Balance at 31 December 2010	-	-	2,227	2,227

During the year, the Company has disposed of all its impaired Icelandic assets and has written off US$19.8 million (69%) of the total impaired. After its yearly assessment, the Company has slightly increased its provision on the remaining impaired asset. The total interest accrued for the year was US$1.1 million. The overall reversal on the impaired assets has an impact on the profit and loss account of US$4.6 million.

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. These derivatives must satisfy the conditions under FRS 26 for hedge accounting in determining their designated cash flow.

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 or negative fair value.

	2010			2009		
	Notional principal amount *US$000*	Positive fair value *US$000*	Negative fair value *US$000*	Notional principal amount *US$000*	Positive fair value *US$000*	Negative fair value *US$000*
Foreign exchange derivatives						
- Forward foreign exchange contracts	-	-	-	6,847	-	-
At 31 December	-	-	-	6,847	-	-
Interest rate derivatives						
- Swaps	182,415	-	(7,345)	124,503	407	(715)
- Forward rate agreements	-	-	-	14,414	-	(86)
At 31 December	182,415	-	(7,345)	138,917	407	(801)

During the year, the Company has engaged in additional interest rate swaps against rolling short term funding at a total of US$60.3 million. The decrease of US$7.04 million in the fair value of the swaps has been recognised in the cash flow hedge reserve (Note 19).

11 Financial investments

Financial investments: available-for-sale

	2010 US$000	2009 US$000
Balance at 1 January	106,945	99,613
Additions	-	37,037
Disposals	(21,709)	(34,832)
Fair value adjustment	(1,953)	8,098
Impairment reversal/(charge) (Note 9)	11,123	(11,596)
Foreign exchange differences	(5,788)	8,625
Balance at 31 December	88,618	106,945
Analysed by maturity:		
- due within one year	28,929	17,585
- due after one year	59,689	89,360
Analysed by listing status:		
- listed	88,618	106,335
- unlisted	-	610
Analysed by sector:		
- private sector	72,316	90,864
- public sector	16,302	16,081

11 Financial investments: held-to-maturity

	2010 US$000	2009 US$000
Balance at 1 January	219,901	-
Additions	152,278	219,901
Redemptions	(44,986)	-
Premium and discount amortisation	1,611	-
Foreign exchange difference	(8,600)	-
Balance at 31 December	320,204	219,901
Analysed by maturity:		
- due within one year	57,720	47,518
- due after one year	262,484	172,383
Analysed by listing status:		
- listed	320,204	219,901
- unlisted	-	-
Analysed by sector:		
- private sector	309,101	219,901
- public sector	11,103	-

12 Tangible fixed assets

	Land and building US$000	Leasehold improvements US$000	Office furniture and equipment US$000	Computers US$000	Motor vehicles US$000	Total US$000
Cost:						
At 1 January 2010	-	1,603	391	469	89	2,552
Additions	27,855	-	20	17	-	27,892
At 31 December 2010	27,855	1,603	411	486	89	30,444
Depreciation:						
At 1 January 2010	-	540	135	333	89	1,097
Charge for the year	220	232	64	80	-	596
At 31 December 2010	220	772	199	413	89	1,693
Net book amount:						
At 31 December 2010	27,635	831	212	73	-	28,751
At 31 December 2009	-	1,063	256	136	-	1,455

13 Prepayments, accrued income and other assets

	2010 US$000	2009 US$000
Accrued income	8,054	5,122
Prepayments	404	321
Amount owing from group undertakings	52	66
Other assets	307	20
	8,817	5,529

14 Deferred tax assets

	2010 US$000	2009 US$000
Deferred tax assets included in the balance sheet comprise the following:		
(Accelerated)/Decelerated capital allowance	(43)	49
Other timing differences	2,087	129
	2,044	178
Movement in deferred tax assets during the year is as follows:		
Balance at 1 January	178	582
Deferred tax (charged)/credited to the profit and loss account (Note 6)	(92)	2
Deferred tax charged to equity	1,958	(406)
Balance at 31 December	2,044	178

The Finance (No 2) Act 2010 includes legislation to reduce the main rate of corporation tax from 28% to 27% from 1 April 2011.

Further reductions to the main rate are proposed to reduce the rate by 1% per year to 24% by 1 April 2014. These changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements. In the Directors' opinion, these changes will not have a significant impact on the deferred tax balances.

15 Deposits by banks

	2010 US$000	2009 US$000
Repayable:		
- on demand	65,015	99,894
- three months or less	552,402	675,712
- one year or less but over three months	527,770	186,947
- five years or less but over one year	81,000	-
	1,226,187	962,553
Amounts include:		
Deposits by parent undertaking	705,920	808,642

16 Customer accounts

	2010 US$000	2009 US$000
Repayable:		
- on demand	72,096	7,067
- three months or less	91,444	21,989
- one year or less but over three months	56,326	2,863
	219,866	31,919

17 Accruals and deferred income

	2010 US$000	2009 US$000
Accrued interest payable	5,373	2,462
Deferred income	7,515	5,694
	12,888	8,156

18 Share capital

	2010 US$000	2009 US$000
Authorised share capital, Ordinary shares of US$1 each:		
Balance at 31 December	250,000	250,000
Allotted, called up and fully paid, Ordinary shares of US$1 each:		
Balance at 31 December	200,000	200,000

19 Reconciliation of shareholder's funds and movements on reserves

	Share capital *US$000*	Retained earnings *US$000*	Available-for-sale reserve *US$000*	Cash flow hedge reserve *US$000*	Foreign currency translation reserve *US$000*	Total share holder's funds *US$000*
At 1 January 2009	200,000	8,737	(8,035)	-	103	200,805
Profit for the year	-	3,117	-	-	-	3,117
Change in fair value of financial investments available-for-sale	-	-	5,447	-	-	5,447
Tax credit on change in fair value of financial investments available-for-sale	-	(1,533)	-	-	-	(1,533)
Financial investments available-for-sale reserve recycled through profit and loss upon disposal of the investment	-	-	1,442	-	-	1,442
Change in cash flow hedge reserve	-	-	-	(308)	-	(308)
Reversal of foreign currency translation reserve	-	-	-	-	(103)	(103)
Deferred tax asset recognised through equity	-	(406)	-	-	-	(406)
At 31 December 2009	200,000	9,915	(1,146)	(308)	-	208,461

	Share capital *US$000*	Retained earnings *US$000*	Available-for-sale reserve *US$000*	Cash flow hedge reserve *US$000*	Foreign currency translation reserve *US$000*	Total share holder's funds *US$000*
At 1 January 2010	200,000	9,915	(1,146)	(308)	-	208,461
Profit for the year	-	17,703	-	-	-	17,703
Change in fair value of financial investments available-for-sale	-	-	1,829	-	-	1,829
Tax charge on change in fair value of financial investments available-for-sale	-	(555)	-	-	-	(555)
Financial investments available-for-sale reserve recycled through profit and loss upon disposal of the investment	-	-	230	-	-	230
Change in cash flow hedge reserve	-	-	-	(7,037)	-	(7,037)
Deferred tax asset recognised through equity	-	(25)	-	1,983	-	1,958
At 31 December 2010	200,000	27,038	913	(5,362)	-	222,589

20 Memorandum items – contingent liabilities and commitments

	2010 US$000	2009 US$000
Undrawn documentary credits and short-term trade related transactions	169,039	248,249
Undrawn loans and advances	420,815	232,302
Forward foreign exchange contracts	-	6,847
	589,854	487,398

Operating lease commitments

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

	2010 US$000	2009 US$000
Within one year	-	-
Within two to five years	274	282
More than five years	633	652

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. 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 which are publicly available.

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

	2010 US$000	2009 US$000
Assets:		
Denominated in US Dollars	1,406,933	874,909
Denominated in currencies other than US Dollars	387,674	341,369
Total assets	1,794,607	1,216,278
Liabilities and shareholder's funds:		
Denominated in US Dollars	1,185,602	662,007
Denominated in currencies other than US Dollars	386,416	345,810
Total liabilities	1,572,018	1,007,817
Denominated in US Dollars	222,589	208,461
Total shareholder's funds	222,589	208,461

24 Fair values of financial instruments

For the determination of the fair values of financial instruments the Company uses the following valuation techniques.

Derivatives

Derivatives which are valued using a valuation technique with market observable inputs are mainly interest rate swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations .The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Financial investments – available-for-sale

Fair values of investments listed in active markets are based on bid prices at the balance sheet date. Available-for-sale financial assets which are valued using a valuation technique or pricing models primarily consist of unquoted equities and debt securities.

These assets are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

A gain of US$229,934 was recycled to other operating income as a result of redemptions of available for sale financial investments.

24 Fair values of financial instruments

Fair value hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1 – quoted prices in active markets for identical assets or liabilities

Level 2 – other techniques for which all inputs which have a significant effect on the recorded fair value are observable either directly or indirectly

Level 3 – techniques which use inputs which have significant effect on the recorded fair value that are not based on observable market data

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy.

2010	Level 1 *US$000*	Level 2 *US$000*	Level 3 *US$000*	Total *US$000*
Assets				
Financial investments available-for-sale:				
Government debt securities	16,302	-	-	16,302
Other debt securities	72,316	-	-	72,316
	88,618	-	-	88,618
Liabilities				
Derivative financial instruments:				
Interest rate swaps	-	7,345	-	7,346
	-	7,345	-	7,346

2009	Level 1 *US$000*	Level 2 *US$000*	Level 3 *US$000*	Total *US$000*
Assets				
Derivative financial instruments:				
Interest rate swaps	-	407	-	407
Financial investments available-for-sale:				
Government debt securities	16,081	-	-	16,081
Other debt securities	90,254	-	610	90,864
	106,335	407	610	107,352
Liabilities				
Derivative financial instruments:				
Interest rate swaps	-	801	-	801
	-	801	-	801

24 Fair values of financial instruments

The movement of level 3 debt securities from 2009 to 2010 was due to the impaired assets sold by the Company during the year.

Fair value of financial investments not carried at fair value

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and maturity.

For loans and receivables and deposits, the carrying amounts are not significantly different from their fair value.

25 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, 100140, China.

26 Risk management

The Company adopts a comprehensive risk management system where the Board of Directors, the Senior Management and other employees of the Company perform their respective duties and responsibilities in supervising and managing various risks at different levels.

The Company's organisational structure of risk management corresponds to this comprehensive risk management system. At the Board level, there is a Risk Oversight Committee and an Audit Committee; at the Executive Management level, there is a Risk Management Committee and a Credit Committee, performing risk management responsibilities.

The principles of risk management include a fine balance of risks and returns, and internal checks and balances with regards to efficiency, risk diversification, and combination of quantitative and qualitative analysis.

Adequate policies are in place to guide the Company's risk management in various business areas. The major policies are:

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

26 Risk management

Risk mitigation

The major financial risks faced by the Company include credit risk, liquidity risk, market risk and operational risk.

Departmental policy and procedure manuals are written in accordance with the Company's approach to these risks 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.

As part of its overall market risk management, the Company uses derivatives and other financial instruments to manage exposures risks against interest rates and exchange rate changes. In accordance with the Company's policy, the risk profile of the Counterparty is assessed before entering into hedge transactions, which are authorised by the appropriate level of seniority within the Company. The effectiveness of hedges is assessed by the Treasury Department and monitored regularly.

27 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 & 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.

The ratings used by the Company for its investment grade and sub-investment grade financial assets are by Moody's, Standard & Poor's and Fitch's. In the absence of a rating by Moody's, Standard & Poor's or Fitch, customers are categorised as unrated (although the Company assigns internal ratings as part of the credit assessment).

Limits for banks have been reviewed and approved annually by the Credit Committee and the 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. Credit, Marketing and Treasury Departments operate within the limits approved.

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 credit reviews of all banks to which we lend and have paid increased attention to their reliance on volatile wholesale markets, as well as their location, ownership and sectoral/geographical concentration. Our exposure to certain banks has been adjusted accordingly and we have focussed on short-term, trade related business; and ▸ PAGE 40

27 Credit risk

- We have also changed our procedures so that Credit Committee and the Board review, more frequently, accounts identified for inclusion on our Watchlist and assess the appropriateness of allowances for potential credit losses.

Counterparty credit risk in our debt securities is based on policy guidelines relying on credit analysis and credit ratings by Moody's, Standard & Poor's or Fitch. Acquisition of debt securities by Treasury is carried out in accordance with Company policy (subject to Credit Committee and Board approval) 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.

The difference between the gross and net exposure is collateral held and impairment provision made.

	2010		2009	
	Gross maximum exposure *US$000*	Net maximum exposure *US$000*	Gross maximum exposure *US$000*	Net maximum exposure *US$000*
Loans and advances to banks	641,039	641,039	296,109	278,956
Loans and advances to customers	707,206	574,967	604,969	385,051
Financial investments available-for-sale	88,618	88,618	118,542	106,945
Financial investments held-to-maturity	320,204	320,204	219,901	219,901
	1,757,067	1,624,828	1,239,521	990,853
Contingent liabilities	-	-	6,847	6,847
Commitments	589,854	589,854	480,551	480,551
	589,854	589,854	487,398	487,398
Total credit risk exposure	2,346,921	2,214,682	1,726,919	1,478,251
Impairment provisions	-	2,227	-	30,949
Cash collateral:				
Deposits by parent undertaking	130,013	-	217,719	-

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 participations are fully repaid.

27 Credit risk

Credit quality per class of financial assets

At 31 December	2010 Current US$000	2010 Overdue US$000	2009 Current US$000	2009 Overdue US$000
Loans and advances to banks				
Investment grade	607,226	-	204,551	-
Sub-investment grade	-	-	1,222	216
Unrated	33,813	-	72,318	649
	641,039	-	278,091	865

At 31 December	2010 Current US$000	2010 Overdue US$000	2009 Current US$000	2009 Overdue US$000
Loans and advances to customers				
Investment grade	311,734	-	363,337	-
Sub-investment grade	30,000	-	-	-
Unrated	365,472	-	239,432	-
	707,206	-	602,769	-

At 31 December	Available for sale US$000	Held to-maturity US$000	Available for sale US$000	Held to-maturity US$000
Financial investments				
Investment grade	88,588	310,424	101,341	219,901
Sub-investment grade	-	9,780	5,604	-
Unrated	30	-	-	-
	88,618	320,204	106,945	219,901

27 Credit risk

Regional Exposure

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

	2010		2009	
	Exposure	Exposure	Exposure	Exposure
	US$million	*%*	*US$million*	*%*
Asia and Pacific	576	24.5	370	21.8
Europe:				
- United Kingdom	516	22.0	411	24.3
- Other EU	529	22.5	390	23.0
- Non EU	166	7.1	182	10.7
Middle East	82	3.5	78	4.6
North America	174	7.4	96	5.7
South America	120	5.1	4	0.2
Africa	184	7.9	165	9.7
Total regional exposures	2,347	100	1,696	100

28 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.

	2010		2009	
	Contractual cash flow band		Contractual cash flow band	
	Up-to	Up-to	Up-to	Up-to
	8 days	1 month	8 days	1 month
At 31 December	*US$000*	*US$000*	*US$000*	*US$000*
Cumulative inflows	567,136	799,966	438,736	834,463
Cumulative outflows	(259,609)	(503,302)	(349,306)	(718,033)
Net cash flows	307,527	296,664	89,430	116,430
Total deposits	1,546,053		994,472	
Liquidity mismatch ratio	19.89 %	19.19 %	8.99 %	11.71 %

28 Liquidity risk

The table below summarises the maturity profile of the Company's financial assets and liabilities with respect to its cash flows and in managing liquidity risk.

2010

	Not more than 1 month US$000	More than 1 month but not more than 3 months US$000	More than 3 months but not more than 6 months US$000	More than 6 months but not more than 1 year US$000	More than 1 year but not more than 5 years US$000	More than 5 years US$000	Total US$000
Financial assets							
Cash and balances with central bank	155	-	-	-	-	-	155
Loans and advances							
- to banks	247,430	180,236	42,997	29,133	143,765	-	643,561
- to customers	193,248	49,165	15,186	150,640	222,398	80,642	711,279
Net settled derivative assets	320	1,071	332	-	-	-	1,723
Financial investments							
- available-for-sale	9,390	6,726	-	12,888	60,305	30	89,339
- held-to-maturity	-	28,885	8,592	21,305	267,304	-	326,086
Total undiscounted financial assets	450,543	266,083	67,107	213,966	693,772	80,672	1,772,143
Financial liabilities							
Deposits by banks	318,580	301,146	329,746	200,450	186,307	-	1,336,229
Customer accounts	103,237	60,464	54,975	1,590	-	-	220,266
Net settled derivative liabilities	382	1,454	2,999	-	-	-	4,835
Total undiscounted financial liabilities	422,199	363,064	387,720	202,040	186,307	-	1,561,330
Net undiscounted financial assets/(liabilities)	28,344	(96,981)	(320,613)	11,926	507,465	80,672	210,813

28 Liquidity risk

2009

	Not more than 1 month *US$000*	More than 1 month but not more than 3 months *US$000*	More than 3 months but not more than 6 months *US$000*	More than 6 months but not more than 1 year *US$000*	More than 1 year but not more than 5 years *US$000*	More than 5 years *US$000*	Total *US$000*
Financial assets							
Cash and balances with central bank	138	-	-	-	-	-	138
Loans and advances							
- to banks	87,117	19,287	36,358	54,607	81,316	-	278,685
- to customers	168,613	39,867	38,481	105,004	176,858	69,320	598,143
Net settled derivative assets	245	133	147	-	-	-	525
Financial investments							
- available-for-sale	5,093	285	7,445	5,000	76,235	9,000	103,058
- held-to-maturity	607	1,884	3,120	44,951	158,190	19,442	228,194
Other financial assets	300,632	-	-	-	-	-	300,632
Total undiscounted financial assets	562,445	61,456	85,551	209,562	492,599	97,762	1,509,375
Financial liabilities							
Deposits by banks	606,928	170,710	162,240	25,702	-	-	965,580
Customer accounts	11,810	17,304	1,842	1,055	-	-	32,011
Net settled derivative liabilities	366	262	785	-	-	-	1,413
Other financial liabilities	19,998	-	-	-	-	-	19,998
Total undiscounted financial liabilities	639,102	188,276	164,867	26,757	-	-	1,019,002
Net undiscounted financial/(liabilities)/assets	(76,657)	(126,820)	(79,316)	182,805	492,599	97,762	490,373

28 Liquidity risk

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

	Contractual expiry band					
	0 - 1 month	2 – 3 months	4 - 6 months	7 - 12 months	1 - 5 years	Total
2010	*US$000*	*US$000*	*US$000*	*US$000*	*US$000*	*US$000*
Commitments	69,378	42,236	64,004	49,036	365,200	589,854
Total	69,378	42,236	64,004	49,036	365,200	589,854
2009						
Contingent liabilities	6,847	-	-	-	-	6,847
Commitments	10,415	81,120	18,949	101,046	269,021	480,551
Total	17,262	81,120	18,949	101,046	269,021	487,398

29 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.

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

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair value of financial instruments. The interest rate sensitivity exposure of the Company at 31 December 2010 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. The sensitivity of the profit and loss account is the effect of the assumed changes in interest rates on the profit or loss for the year, based on the floating rate non-trading financial assets and liabilities held as at 31 December 2010, including the effect of hedging instruments.

29 Market risk

Interest rate sensitivity table

2010	Not more than 3 months *US$000*	More than 3 months but not more than 6 months *US$000*	More than 6 months but not more than 1 year *US$000*	More than 1 year but not more than 5 years *US$000*	More than 5 years *US$000*	Non-interest bearing *US$000*	Total *US$000*
Assets							
Liquid assets	-	-	-	-	-	155	155
Loans and advances							
- to banks	560,494	35,011	28,364	17,170	-	-	641,039
- to customers	598,902	106,077	-	-	-	-	704,979
Financial investments							
- available-for-sale	62,616	-	-	25,972	-	30	88,618
- held-to-maturity	165,692	8,283	-	146,229	-	-	320,204
Fixed and other assets	-	-	-	-	-	39,612	39,612
Total assets	1,387,704	149,371	28,364	189,371	-	39,797	1,794,607
Liabilities and shareholder's funds							
Deposits by banks	917,417	327,770	-	81,000	-	-	1,326,187
Customer accounts	163,539	54,757	1,570	-	-	-	219,866
Other liabilities	-	-	-	-	-	25,965	25,965
Shareholder's funds	-	-	-	-	-	222,589	222,589
Total liabilities and shareholder's funds	1,080,956	382,527	1,570	81,000	-	248,554	1,794,607
Off balance sheet	142,415	40,000	-	(182,415)	-	-	-
Interest rate sensitivity gap	449,163	(193,156)	26,794	(74,044)	-	(208,757)	-
Cumulative gap	449,163	256,007	282,801	208,757	208,757	-	-

29 Market risk

The table below shows how interest rate movements affect profit and loss of the Company for 2010:

	Not more than 3 months US$000	More than 3 months but not more than 6 months US$000	More than 6 months but not more than 1 year US$000	More than 1 year but not more than 5 years US$000	More than 5 years US$000	Total US$000
Basis points						
+100	561	(241)	67	(1,481)	-	(1,094)
+200	1,123	(483)	134	(2,962)	-	(2,188)
-100	(561)	241	(67)	1,481	-	1,094
-200	(1,123)	483	(134)	2,962	-	2,188

For each shift in the basis points on its funding rate, the Company can expect the change in the amount of its profit or loss as illustrated. The impact on the repricing periods within one year shows a net profit and a net loss respectively to a positive and negative shift in the basis points. However, for the repricing periods exceeding one year, even though it shows a reverse effect, the directors are confident of being able to manage the situation to avoid a negative impact on the profit and loss account.

29 Market risk

Interest rate sensitivity table

2009	Not more than 3 months *US$000*	More than 3 months but not more than 6 months *US$000*	More than 6 months but not more than 1 year *US$000*	More than 1 year but not more than 5 years *US$000*	More than 5 years *US$000*	Non-interest bearing *US$000*	Total *US$000*
Assets							
Liquid assets	-	-	-	-	-	138	138
Loans and advances							
- to banks	210,088	38,572	9,859	19,572	-	865	278,956
- to customers	467,938	119,411	15,420	-	-	-	602,769
Financial investments							
- available-for-sale	80,818	-	-	16,081	9,436	610	106,945
- held-to-maturity	120,515	-	-	79,018	20,368	-	219,901
Fixed and other assets	-	-	-	-	-	7,569	7,569
Total assets	879,359	157,983	25,279	114,671	29,804	9,182	1,216,278
Liabilities and shareholder's funds							
Deposits by banks	775,606	161,524	25,423	-	-	-	962,553
Customer accounts	29,057	1,826	1,036	-	-	-	31,919
Other liabilities	-	-	-	-	-	13,345	13,345
Shareholder's funds	-	-	-	-	-	208,461	208,461
Total liabilities and shareholder's funds	804,663	163,350	26,459	-	-	221,806	1,216,278
Off balance sheet	98,615	40,000	-	(110,173)	(28,442)	-	-
Interest rate sensitivity gap	173,311	34,633	(1,180)	4,498	1,362	(212,624)	-
Cumulative gap	173,311	207,944	206,764	211,262	212,624	-	-

29 Market risk

The table below shows how interest rate movements affect profit and loss of the Company for 2009:

	Not more than 3 months *US$000*	More than 3 months but not more than 6 months *US$000*	More than 6 months but not more than 1 year *US$000*	More than 1 year but not more than 5 years *US$000*	More than 5 years *US$000*	Total *US$000*
Basis points						
+100	217	43	(3)	90	-	347
+200	433	87	(6)	180	-	694
-100	(217)	(43)	3	(90)	-	(347)
-200	(433)	(87)	6	(180)	-	(694)

30 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. Operational procedures are reviewed regularly by Senior Management and Internal Audit, and with a frequency determined by the level of risks involved.

31 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 healthy capital ratios in order to support its business and to maximise shareholder value. 2010, including the effect of hedging instruments.

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.

31 Capital

Regulatory capital

	2010 Actual *US$000*	2010 Required *US$000*	2009 Actual *US$000*	2009 Required *US$000*
Tier 1 capital	222,589	137,926	208,461	118,380
Tier 2 capital	100,000	-	-	-
Total capital	322,589	137,926	208,461	118,380
Risk weighted assets	1,040,219		897,276	
Tier 1 capital ratio	21.40 %		23.23 %	
Tier 2 capital ratio	9.61 %		- %	
Total capital ratio	31.01 %		23.23 %	

In 2009 the Company has entered into an agreement with its parent in order to secure a subordinated loan for the purpose of strengthening its capital. A 5-year loan of US$100 million to mature on 20 February 2015 was later agreed during the year. The interest payment will carry a margin of 0.5% plus a Libor rate which is to be fixed on a quarterly basis.

32 FSA Pillar 3 disclosures

The FSA's Pillar 3 disclosures can be found at the following web address: www.icbclondon.com.

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