ICBC (LONDON) PLC

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Authorised and regulated by the
Financial Services Authority

ICBC (LONDON) PLC

REPORT & FINANCIAL STATEMENTS 2012

2012 ICBC (LONDON) PLC

REPORT AND FINANCIAL STATEMENTS

ICBC (LONDON) PLC

REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

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Lili Wang
Chairman

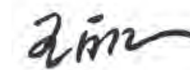
In these troubled economic times banks have to tread a very careful path of being prudent in the management of their balance sheets and lending whilst playing an important and very necessary part in society by helping to stimulate national economies and world trade. During 2012 we, ICBC (London) plc, strengthened our balance sheet by building up a substantial liquidity buffer as required by the FSA's prudential rules whilst, at the same time, expanding our lending and increasing our profitability. We achieved this through an increased focus on risk management and continuing our traditionally prudent approach to lending. Ideally, we would like to expand our lending even faster to help foster international trade – particularly between the UK and China – but the current regulatory restrictions which cause us to operate as a subsidiary in the UK rather than as a branch of our Chinese parent, tends to restrict the amount we can lend.

Nevertheless 2012 has been a very good year for the Bank. In March, we demonstrated our commitment to the UK market by moving into our new landmark headquarters building in King William Street in the heart of the City of London. This new building provides an outstanding working environment for our staff, an impressive yet comfortable environment in which to receive our customers and much needed room for future expansion.

Our profit before tax and provisions in 2012 was $31.59 million; an increase of 28% on the previous year (2011: $24.7 million): after tax it was $24.03 million – up by 34% on 2011 (2011: $ 17.9 million). At the end of 2012 we had no specific provisions for bad debts. During the year our operating expenses reduced although underlying staff costs and depreciation increased. This was partly due to the move of premises and partly because of an increase in our workforce which grew by 27% during the year. Much of this increase in staff numbers was directly attributed to our increased focus on risk control and compliance. 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 very successful year.

"During 2012 we, ICBC (London) plc, strengthened our balance sheet by building up a substantial liquidity buffer as required by the FSA's prudential rules whilst, at the same time, expanding our lending and increasing our profitability.

In early 2013 our Managing Director, Jinlei Xu left the Bank to take up a new post within the ICBC Group. Under Mr Xu's management the Bank has become firmly established as a successful and profitable Bank in London. I would particularly like to thank Mr Xu for his contribution to our success and to wish him well in his future career.



Lili Wang
Chairman

INTRODUCTION

With the passing of each year since the financial crisis of 2008 we have anticipated recovery in the UK economy. In 2012 however, hopes of a steady, albeit slow, recovery were dashed and all commentators are now very cautious about predictions for 2013. Clearly, Europe's economic woes will take some time to resolve. On 22 February 2013, Moody's cut the UK rating from AAA to Aa1. The S&P's rating is currently still at AAA. China also, has seen a scaling back of growth levels as the new Government seeks to rebalance the economy but this is from a position of significant economic strength. Against this background, we remain confident about our decision to invest in the UK economy and are fully committed to continued growth in this marketplace. There remains considerable potential for banks such as ours, bridging the gap between Europe – and particularly the UK – and China. In 2012 we expanded our base of customers that trade with China by supporting sound investment opportunities and we continued to provide trade finance support to a number of major international companies investing in China and operating out of China.

In recognition of our commitment to the UK market in March 2012 we moved into our newly refurbished offices at 81 King William Street. The building combines a classical façade with a completely remodelled and highly functional interior. It also gives us much needed room for expansion and a comfortable environment in which to meet our customers.

On the regulatory front 2012 was the year when we incurred significant additional expense in complying with the regulator's new liquidity rules and various other regulatory requirements introduced as a consequence of the 2008 financial crisis. This has increased our own cost base somewhat. All of the new regulatory requirements were however, fully complied with and notwithstanding these additional costs, we had another very successful year.

"In recognition of our commitment to the UK market in March 2012 we moved into our newly refurbished offices at 81 King William Street.

SUMMARY OF BUSINESS

The Bank grew its balance sheet in 2012 by 14.7% to $2.88bn (2011: $2.51bn), whilst maintaining good asset quality and an improvement in both country and industry sector diversification. Investment in risk management is ongoing, and over the year several new initiatives were undertaken: a new Credit Middle Office was established to manage the loan administration and the loan agency functions; a dedicated new risk department was also established to ensure that the Bank's enhanced focus on overall risk management is fully embedded in its culture and specifically, to provide line management with enhanced information and tools for managing the Bank's regulatory capital and liquidity. Our parent company's advanced Global Credit Management System (GCMS) was also implemented during the year. This system added to our risk control and provided us with greater coordination of global limits with other parts of the ICBC Group. During the year our only problematic loan was fully repaid and at the end of the year we had no non-performing loans. ICBC (London) plc ("the Company") has recognised a collective provision of $43k at the year end.

Our lending business expanded our client base across various industry sectors and we undertook lending to two additional industry sectors in 2012. Our lending continued to be concentrated in the corporate sector with new advances both through the syndicated loan market as well as an increasing number of self-arranged bi-lateral deals. ICBC undertook an arranging role in several large commodity client facilities exceeding $4 billion. We also participated in a number of facilities for supply chain organizations, secured on inventory and receivables – typically concerning trade flows to China. Self-arranged transactions, as well as Loan Agency mandates led to an increase in low-risk fee income for the business. Our fee and commission income in 2012 was $7.62 million, up by 28% compared with the previous year (2011: $5.97 million). ICBC (London) plc also became the first part of the ICBC Group to issue credit instruments in a 'fronting' role, against syndicated bank guarantee lines for a leading commodity trader. Our real estate exposure also grew over the year and has been identified as a potential area for growth in the future.

"A main strategic focus remains UK business, but ICBC (London) plc is also well positioned to capture trade flows from other emerging markets to China.

Cross selling continued to be an important theme for developing ancillary revenues across trade finance, treasury, cash management and other banking products. Also, whilst we were not able to offer certain investment products ourselves, many other parts of the ICBC group provide these services and we are able to continue to assist UK clients in accessing China via our parent Group's extensive network. Our Trade Services products remain an important pillar of our success, leveraging our good commodity sector and financial institutions relationships to provide the whole range of trade finance services including documentary credits, confirmation and discounting services. This business is supported by our parent bank's 24 hour, seven days a week processing centre in Beijing, as well as the extensive network across China and the world.

A main strategic focus remains UK business, but ICBC (London) plc is also well positioned to capture trade flows from other emerging markets to China. This has largely been achieved through collaboration with other Group companies in Russia/Commonwealth of Independent States, Central Asia, Africa and Latin America. We are also partnering with the Group's newly acquired operations in Argentina with respect to offshore USD trade related secured financings.

Of the $2,885 million assets on 31 December 2012, loans and advances to customers were $1,136 million, an increase of 55% over the year (2011: $732 million). Loans and advances to banks dropped by 13% to $1,181 million (2011: $1,359 million) whilst our investment in bonds increased by 38% to $509 million (2011: $368 million). This increase was principally to comply with the need for substantial buffer assets for liquidity purposes which comply with the FSA's qualifying criteria. Our bond portfolio at the end of 2012 comprised 100% eligible bonds under the new liquidity rules.

On the liability side we are continuing to diversify our funding base with less reliance on the parent bank for funding and liquidity. Deposits from banks increased by 39% to $1,829 million (2011: $1,317 million) however a high proportion of these deposits (61%) are for tenors exceeding 3 months. Our bank syndicated club loan was renewed at $400m for a further 12 months to August 2013, with an enlarged group of non Chinese relationship banks. Seven major world banks now participate in the loan. With further extension options available, this facility is expected to be a regular renewing diversification of ICBC London's funding profile. Customer deposits at $671 million have reduced by 19% from the very high level we achieved at the end of 2011 (2011: $831 million) however a high proportion of these deposits are term deposits with only 12% being repayable on demand (2011: 33% repayable on demand). The majority of these deposits are from large corporate clients.

A further diversification of funding was achieved following an extension of our Certificate of Deposit (CD) programme. This successful programme, guaranteed by our parent bank, was extended to allow for issuance of Renminbi CDs and in 2012 ICBC (London) plc became the first Chinese bank to issue a Renminbi denominated CD in the London market. We have increased the product scope of our treasury function, thanks in part to the increased scope of permissions we have obtained to deal in investment products in the non-Retail sector. The increased scale and expertise in the function has enabled us also to enhance our offering particularly in the foreign exchange market, serving both retail and corporate customers. We have also continued to be active in the Repo market.

Our average yield on loans increased slightly during the year. However this was largely offset by the decrease in the average yield on our bond portfolio as we moved from higher yielding corporate bonds to lower yielding Government bonds. Further pressure was put on our margins by increased cost of funds: the cost of interest bearing funds in 2012 was 97 basis points p.a. compared with 83 basis points p.a. in 2011. Our trade finance dropped sharply during the year as a result of a significant reduction in CNY reimbursements but we did see some recovery in quarter 4 2012. At 31 December 2012 the figure was $345million (2011: $673 million).

"A further diversification of funding was achieved following an extension of our Certificate of Deposit (CD) programme.

EXPENSES

Total operating expenses for 2012 were US$14.01 million, a decrease compared with 2011 (31 December 2011: $19.09 million). This is partially due to a different accounting treatment in respect of extant leases and VAT and partially due to a reversal of impairment provisions. Our staff costs increased by 15% to $10.68 million (2011: $9.26 million) reflecting staff increases for new business growth and our enhanced focus on risk management. Depreciation and amortisation also increased due to our move into the new building. The number of staff in the Bank rose by 17 during the year to 79, an increase of 27% (2011 – 62). Our cost income ratio at 30.72% is however, lower than the previous year (2011 – 43.55%) and it remains at a low level compared with local competitors.

FUTURE DEVELOPMENTS

In 2012 a number of developments were completed which will provide us with a springboard from which to increase our offerings to customers in the coming years. We obtained an increase to our scope of permissions from the FSA to enable us to arrange deals in investments and deal in investments as an agent for non-Retail customers. This will enable us to expand the services we offer to professional clients and eligible counterparties. The other major development was the enhancement of our internet banking platform and the introduction of new trading systems for our personal customers to trade in precious metals and foreign exchange. These latter products are unregulated products but we will manage them in a prudent way and ensure that any customers using these products are fully aware of the risks involved. Regarding our established products and services, we anticipate a continuation of the growth strategy of recent years but balanced within a framework of prudent risk management. Given the increased Chinese investment into the UK commercial property sector, as well as other domestic property lending opportunities, we are considering an increase in property lending within the portfolio. Any expansion into this sector, however, will be developed in a considered and prudent way, focussing on quality assets with modest loan-to-value ratios and strong debt serviceability.

"We will also look to improve our syndication capabilities, and our ability to distribute loan assets in both the primary and secondary loan markets. This is important in terms of managing our portfolio, as well as optimising opportunities in the marketplace.

Our ability to originate and distribute assets is another focus in 2013, and we will continue to seek mandates where we can take a leading role as an arranger. This will create increased fee revenue and enable better cross-sales into multi-currency deposits, collections, foreign exchange, hedging and trade services. We will also look to improve our syndication capabilities, and our ability to distribute loan assets in both the primary and secondary loan markets. This is important in terms of managing our portfolio, as well as optimising opportunities in the marketplace. Being in the important City of London financial centre where the inter-bank loan market has the most liquidity, places us in a key position to achieve this objective.

Our collaboration with other ICBC entities around the world will continue to increase as the Group expands and becomes more coordinated in servicing our multi-national clients on a global basis. In particular we will continue our collaboration with our parent bank's subsidiary in Argentina. This has been assisted by the implementation of a global limits approach across the group, but has also been driven by successful collaboration on various transactions. ICBC is also well placed to provide our local clients with access to our extensive Chinese network, and to provide our Chinese clients with access to the UK market. We anticipate that following the announcement that London will become the second offshore Renminbi trading centre (after Hong Kong), we will be ideally placed and equipped to capture this flow and develop suitable treasury products around it. The Renminbi's influence in the world foreign exchange markets continues to grow, with several central banks allocating a portion of reserves to this important currency. Although on a fairly limited scale, there has been an increase in the number of commodity related trade transactions denominated in Renminbi, providing some indication of the future importance of the currency in global markets.

LIABILITY MANAGEMENT

We will continue to work actively towards further diversification of our sources of funding by seeking to enter into a new syndicated 'club' loan, extending our CD issuance and in particular, seeking to expand further our corporate term deposits. Other sources for new liabilities will include: agency accounts holding export receivables for loans jointly arranged with our parent bank.

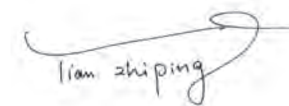
REPUTATION

The bank is authorized 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 three independent non-executive Directors, one of whom is the Chair of the Bank's Audit Committee, one of whom is the Chair of our Risk Committee; operating management level committees to ensure "four eyes" are involved in all major policy and operating decisions; establishing clear policies and decision making processes and ensuring robust effectiveness of operating procedures through regular internal audit reviews. We also fully subscribe to the principle of 'treating customers fairly' to ensure that the trust put in us as bankers is well founded.

EMPLOYEES

We aim to maintain a highly skilled work force 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.
- Value diversity and promote a sensible work/life balance.
- Assign responsibility 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.



Zhiping Tian
Managing Director.

DIRECTORS

- **Lili Wang** (Chairman)
- **Jinlei Xu** (Resigned on 28 February 2013)
- **Zhiping Tian** (Appointed on 28 February 2013)
- **Bo Jiang**
- **Graham Penny** (Non-executive)
- **Edwin Lacy** (Non-executive)
- **Li Lan** – (Non-executive, elected to the Board on 24 April 2012)

SECRETARY

- **John Kerr**

AUDITORS

- **Mazars LLP**
  Tower Bridge House
  Saint Katharine's Way
  London
  E1W 1DD

REGISTERED OFFICE

- 81 King William Street
  London
  EC4N 7BG

MANAGEMENT TEAM

- **Jinlei Xu** (Managing Director, resigned on 28 February 2013)
- **Zhiping Tian** (Managing Director, appointed on 28 February 2013)
- **Bo Jiang** (Deputy Managing Director & Head of Marketing)
- **John Kerr** (Deputy General Manager)
- **Yanming Sun** (Deputy General Manager)
- **Lingyan Kong** (Deputy General Manager)
- **Qiang Xiao** (Head of Financial Control)
- **Robert Clark** (Head of Credit)
- **Qinghui Zeng** (Head of Banking)
- **Peng Guo** (Head of IT)
- **GuiQin Li** (Head of Risk and ALM)
- **Ke Zhang** (Head of Treasury)

The directors present their report and the financial statements of the Company for the year ended 31 December 2012.

FINANCIAL STATEMENTS

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

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.

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

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

The financial statements of the Company for the year to 31 December 2012 incorporate the requirements of FRS 29 in disclosing its financial instruments.

PRINCIPAL RISKS AND UNCERTAINTIES

The Company is subject to various operational, market and credit risks in its day-to-day operations. The principal risks and uncertainties facing the company are addressed in the Managing Director's review as well as in more detail in Note 27.

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$24.03m (2011: US$17.94m). The credit balance on the profit and loss account is to be carried forward.

KEY PERFORMANCE INDICATORS

The key performance indicators for the Company are discussed in the Managing Director's review.

FINANCIAL INSTRUMENTS

The Company's principal business risks, financial risk management objectives and policies are discussed in the Notes 27 to 31 to the financial statements.

EVENTS SINCE THE BALANCE SHEET DATE

There have been no 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 (Resigned on 28 February 2013)
- Bo Jiang
- Graham Penny (Non-executive)
- Edwin Lacy (Non-executive)
- Li Lan (Non-executive, elected to the board 24 April 2012)

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. Furthermore, the directors do not have any interest in the shares of the parent company.

DONATIONS

During the financial year the Company made no charitable or political donations (in 2011 – Nil.)

POLICY AND PRACTICE ON THE PAYMENT OF CREDITORS

It is the Company's policy to pay invoices by the due date and, normally, not more than 30 days after the date of the invoice unless alternative arrangements have been agreed with the creditor. On 31 December 2012 the ratio of outstanding amounts owed to creditors, to total purchases during the year was 1:22.8. All outstanding creditors on 31 December 2012 were paid within 30 days.

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. The assessment included review of current capital and liquidity resources, profitability measures, and budget for the next year, business plans and forecasts. Further, 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.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for the Directors' Report and 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. 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.

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

Financial statements are published on the Company's website in accordance with legislation in the UK governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

DIRECTORS' INDEMNITY

All of the directors benefited from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

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 set out on page 7. 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

Audit committee has assessed the effectiveness of the external audit process by maintaining contact with the external auditors during the process and consulting the Head of Financial Control regarding the efficacy of the audit arrangements. As a result, Audit Committee is satisfied that the external audit process has been diligently and effectively undertaken.

The contract for undertaking our statutory audit was put out to tender last year and Mazars was awarded the contract for a 12 month period. There are no contractual obligations to restrict Audit Committee's choice of external auditor. Mazars LLP have indicated their willingness to continue in office for another year and a resolution to reappoint Mazars LLP for the ensuing year will be proposed at the Annual General Meeting.

By order of the board

John Kerr
Company Secretary
26 March 2013

INDEPENDENT AUDITORS REPORT TO THE MEMBERS OF ICBC (LONDON) PLC

We have audited the financial statements of ICBC (London) Plc for the year ended 31 December 2012 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 33. 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).

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND THE AUDITORS

As explained more fully on page 8 in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. 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 Ethical Standards for Auditors. 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.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

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 2012 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.

Ruediger Lang (Senior Statutory Auditor)
For and on behalf of Mazars LLP, Statutory Auditor
Tower Bridge House
St Katharine's Way
London E1W 1DD
Date: 26th March 2013

Financial Statements

UNLESS OTHERWISE SPECIFIED, ALL FIGURES IN THESE FINANCIAL STATEMENTS AND THEIR NOTES ARE IN US$000.

	Notes	2012	2011
Interest and similar income on other financial assets	2	9,797	11,406
Interest and similar income on loans and advances	2	57,427	46,991
Interest and similar expense	2	(28,334)	(20,890)
Net interest income		**38,890**	**37,507**
Fees and commission income	2	7,619	5,968
Fees and commission expense	2	(450)	(400)
Derivative financial instruments at fair value through Profit and Loss	10	(8,657)	993
Foreign exchange gain		1,534	(398)
Other operating income		2,189	1,337
Other operating expenditure		(1,424)	(1,130)
Gain on disposal of bonds		5,896	(34)
Non-interest income		**6,707**	**6,336**
Total income		**45,597**	**43,843**
Personnel expenses	3	10,684	9,261
Depreciation and amortisation	12	1,960	842
Impairment (reversal)/losses	9	(2,481)	297
Other operating expenses	5	3,843	8,694
Operating expenses		**14,006**	**19,094**
Profit on extraordinary activities before tax		31,591	24,749
Tax charge on profit on ordinary activities	6	(7,560)	(6,810)
Profit for the financial year		**24,031**	**17,939**

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

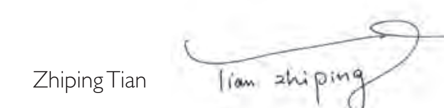
The notes on pages 23 to 58 form part of these financial statements.

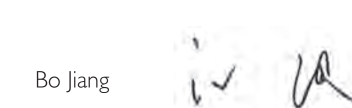
	2012	2011
Profit for the financial year	24,031	17,939
Change in fair value of financial instruments available-for-sale	2,458	1,135
Financial instruments available-for-sale reserve recycled through profit and loss upon disposal of the instruments	(6,441)	(351)
Fair value gain upon reclassification of financial assets	4,686	-
Change in fair value of cash flow hedge during period of hedging effectiveness	1,873	(1,046)
Cash flow hedge recycled through Profit and Loss upon disposal	6,518	-
Tax credit recognised through equity	(2,772)	584
Total recognised gains relating to the year	**30,353**	**18,261**

The notes on pages 23 to 58 form part of these financial statements.

	Notes	2012	2011
Assets			
Cash and balances at central banks		385	154
Loans and advances to banks	7	1,180,630	1,358,669
Loans and advances to customers	8	1,136,475	732,337
Derivative financial instruments	10	4	1,497
Financial instruments available-for-sale	11	508,864	72,450
Financial instruments held-to-maturity	11	-	295,119
Tangible fixed assets	12	47,018	37,378
Prepayments, accrued income and other assets	13	10,955	12,305
Deferred tax assets	14	357	2,727
Total assets		**2,884,688**	**2,512,636**
Liabilities			
Deposits by banks	15	1,828,536	1,316,880
Customer accounts	16	670,534	831,368
Derivative financial instruments	10	512	8,805
Other liabilities		3,271	2,578
Provisions for liabilities	25	2,456	2,101
Accruals	17	4,816	6,433
Subordinated liability	32	100,000	100,000
Corporation tax		3,360	3,621
Total liabilities		**2,613,485**	**2,271,786**
Share capital and reserves			
Allotted and called up share capital	18	200,000	200,000
Retained earnings	19	68,803	44,950
Available-for-sale reserve	19	2,400	1,697
Cash flow hedge reserve	19	-	(5,797)
Equity shareholder's funds		**271,203**	**240,850**
Total liabilities and share capital and reserves		**2,884,688**	**2,512,636**
Memorandum Items			
Contingent liabilities and commitments	20	1,723,787	1,266,421

These financial statements were approved by the directors on 26 March 2013 and are signed on their behalf by:

Zhiping Tian 

Bo Jiang 

The notes on pages 23 to 58 form part of these financial statements.

Notes to the Financial Statements

AT 31 DECEMBER 2012

1. ACCOUNTING POLICIES

Basis of preparation

The financial statements of ICBC (London) plc were approved for issue by the Board of Directors on 26 March 2013.

The financial statements have been prepared in accordance with UK GAAP, the Companies Act 2006 and 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. The financial statements continue to be prepared on a going concern basis.

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

The Company has taken advantage of the exemption 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 instruments, 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.

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.

At the closing of the accounts on 31 December 2012, the Company used the sterling exchange rate of 1.62465.

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
• Refurbishment on Building	10 years
• Leasehold improvements, furniture and office equipment	5 years
• Motor vehicles	5 years
• Computer hardware and software	3 years

Construction in progress is not depreciated until they are completed and brought into use.

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.

Onerous lease provision

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The Company used 5-year UK government bond yield as discounted factor.

The Company moved into the new office on King William Street in March 2012. The onerous contract provision represents the estimated expected shortfall in cash flows between the rental cost and the possible inflows resulting from a planned subleasing.

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.

Repurchase and reverse repurchase agreements

Securities sold subject to repurchase agreements (repos) continue to be recognised on the balance sheet where substantially all of the risks and rewards are retained. Funds received under these arrangements are included in deposits from banks, customer deposits, or trading liabilities. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are retained in the financial statements. Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the obligation to return them is recorded at fair value as a trading liability.

Conversely, securities purchased under agreements to resell (reverse repos) at a specified future date are not recognised in the statement of financial position. The consideration paid, including accrued interest, is recorded in the statement of financial position, reflecting the transaction's economic substance as a loan by the Company. The difference between the purchase and resale prices is recorded as net interest income and is accrued over the life of the agreement using the effective interest rate.

(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 instruments available-for-sale

Financial instruments 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 instruments available-for-sale, all financial instruments are to be carried at fair value. After initial measurement, financial instruments 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 instruments available-for-sale is reported as interest income using the effective interest rate. The losses arising from impairment of such instruments are recognised in the Profit and Loss Account and removed from the available-for-sale reserve.

(iii) Financial instruments held-to-maturity

Financial instruments 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 instruments (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 instruments are recognised in the Profit and Loss Account line 'Impairment losses'.

(iv) Reclassification of financial assets

The Company may reclassify, in certain circumstances, non-derivative financial assets out of the 'Held-to-maturity' category and into the 'available-for-sale' or 'loans and receivables' categories. Reclassifications are recorded at fair value at the date of reclassification.

If the Company were to sell or reclassify more than an insignificant amount of held-to-maturity instruments 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. Upon reclassification from the 'held-to-maturity' category to the 'available-for-sale' category, the financial assets are re-measured to fair value, with any differences between the carrying amount and the fair value being recognised in the Statement of Total Recognised Gains and Losses.

(v) 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.

(vi) 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 except those derivatives have been designated as cash flow hedges.

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 assets' 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 instruments available-for-sale

For financial instruments available-for-sale, the Company assesses at each balance sheet date whether there is objective evidence that an instrument or a group of instruments 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 instruments held-to-maturity

The Company assesses at each reporting date whether there is objective evidence that a held-to-maturity asset is impaired. A held-to-maturity asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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. Any 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.

2. ANALYSIS OF PROFIT AND LOSS ACCOUNT BY CLASSIFICATION BASIS

2012	Financial instruments Loans and advances	Financial instruments available-for-sale	Interest held-to maturity	Deposits by banks and Rate Swaps	customer accounts	**Total**
Interest and other similar income on other financial assets	-	6,487	3,310	-	-	9,797
Other interest receivable	57,427	-	-	-	-	57,427
Interest payable	-	-	-	(1,212)	(27,122)	(28,334)
Net interest income	**57,427**	**6,487**	**3,310**	**(1,212)**	**(27,122)**	**38,890**
Fees and commissions receivable						7,619
Fees and commissions expense						(450)
Net fee and commissions income						**7,169**

2011						
Interest receivable from financial instruments	-	1,497	9,909	-	-	11,406
Other interest receivable	46,991	-	-	-	-	46,991
Interest payable	-	-	-	(3,260)	(17,630)	(20,890)
Net interest income	**46,991**	**1,497**	**9,909**	**(3,260)**	**(17,630)**	**37,507**
Fees and commissions receivable						5,968
Fees and commissions expense						(400)
Net fee and commissions income						**5,568**

3. STAFF COSTS

Staff costs (including directors) comprise the following:

	2012	2011
Wages and salaries	8,326	5,695
Social security costs	946	810
Pensions costs	210	184
Other costs	1,202	2,572
	10,684	**9,261**

Employees

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

	2012 No.	2011 No.
Retail banking	19	17
Corporate banking	16	13
Investment banking	10	6
Accounts and IT	12	9
Administration	13	11
Other	9	6
	79	**62**

4. DIRECTORS' EMOLUMENTS

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

	2012	2011
Emoluments	**1,237**	**832**

The emoluments of the highest paid director were as follows:

	2012	2011
Salary and benefits and performance related bonuses	**667**	**425**

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:

	2012	2011
Operating lease charges – property	1,354	1,272
• Additional provision made to onerous lease	646	2,101
Auditors' remuneration:		
• Audit of the financial statements	102	135
• Taxation services	10	30

The current year audit fees are payable to Mazars LLP and prior year to Ernst and Young LLP.

6. TAX ON PROFIT ON ORDINARY ACTIVITIES

The tax charge is made up as follows:

	2012	2011
Current tax:		
UK corporation tax	(7,845)	(6,874)
Adjustments in respect of prior years	37	(35)
Total current tax charge for the year	**(7,808)**	**(6,909)**
Deferred tax:		
Origination and reversal of timing differences	333	(11)
Adjustments in respect of prior years	(85)	110
Total deferred tax credit for the year	**248**	**99**
Total charge for the year	**(7,560)**	**(6,810)**

The tax assessed on the profit on ordinary activities for the year is the standard rate of corporation tax in the UK of 24.5% (2011: 26.5%). The differences are reconciled below:

	2012	2011
Profit on ordinary activities before tax	31,591	24,749
Profit/(Loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 24.5% (2011: 26.5%)	7,739	6,558
Effects of:		
Expenses not deductible for tax purposes	58	327
Capital allowances in excess of depreciation of qualifying assets	(106)	(11)
Adjustments in respect of prior years	(37)	35
Other timing differences	154	-
Current tax charge for year	**7,808**	**6,909**

7. LOANS AND ADVANCES TO BANKS

	Notes	2012	2011
Gross loans and advances to banks		1,182,213	1,360,738
Loan fees received in advance		(1,540)	(1,773)
Less: Allowance for impairment losses	9	(43)	(296)
Net loans and advances to banks		**1,180,630**	**1,358,669**

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:

	2012	2011
Repayable:		
• on demand	87,056	360,628
• three months or less	909,920	775,588
• one year or less but over three months	105,237	159,522
• five years or less but over one year	80,000	65,000
	1,182,213	**1,360,738**

	2012	2011
Gross loans and advances to banks by geographical area:		
United Kingdom	454,239	131,750
China	311,685	656,684
Turkey	83,603	39,236
United States	76,341	350,458
Egypt	65,000	60,000
Denmark	60,000	-
Germany	36,507	-
South Africa	30,000	30,000
France	23,745	-
International Organisation	20,000	-
Others	21,093	92,610
	1,182,213	**1,360,738**

	2012	2011
Amounts include:		
Due from parent undertaking	**143,073**	**382,104**

CASH COLLATERAL ON SECURITIES BORROWED/LENT AND REVERSE REPURCHASE/REPURCHASE AGREEMENTS:

	2012	2011
Assets:		
Due from Banks	50,731	-
Fair value of securities under reverse repurchase agreements	51,752	-
Liabilities:		
Due to Banks	50,683	34,747
Fair value of securities under repurchase agreements	51,752	-

The securities lent or sold under agreements to repurchase are transferred to the counterparty and the Company receives cash in exchange, or other financial assets. These transactions are conducted under terms based on GMRA documentation. The Company has determined that it retains all the risks and rewards of these securities, which include credit risk and market risk, and therefore it has not derecognised them. In addition, it recognises a financial liability for cash received as collateral.

Similarly, the Company may sell or re-pledge any securities borrowed or purchase under agreements to resell, but has an obligation to return the securities and the counterparty retains substantially all the risks and rewards of ownership. Consequently, the securities are not recognised by the Company, which instead record a separate asset for any possible cash collateral provided.

The carrying amount of securities lent and of securities sold under agreements to repurchase at 31 December 2012 was $50.73 million (2011: nil) of which securities with a fair value of $51.75 million (2011: nil) was pledged as collateral. The counterparty is allowed to sell or repledge those securities in the absence of default by the Company. Those securities are presented in the statement of financial position as part of Loans and advances to banks.

As part of the securities borrowing agreements, the Company has received securities that it is allowed to sell or re-pledge in the absence of default by their owner. At 31 December 2012, the Company held securities with a carrying value of $50.68million (2011:$34.75 million) and are presented in the statement of financial position as part of Deposits by banks.

8. LOANS AND ADVANCES TO CUSTOMERS

	Notes	2012	2011
Gross loans and advances to customers		1,149,204	740,330
Loan fees received in advance		(12,729)	(5,766)
Less: Allowance for impairment losses	9	-	(2,227)
Net loans and advances to customers		**1,136,475**	**732,337**

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:

	2012	2011
Repayable:		
• on demand	-	-
• three months or less	107,330	409,174
• one year or less but over three months	341,062	34,937
• five years or less but over one year	614,823	200,861
• over five years	85,989	95,358
	1,149,204	**740,330**

Gross loans and advances to customers by geographical area:	2012	2011
United Kingdom	272,044	155,778
France	139,324	82,390
Ireland	95,000	70,000
Switzerland	80,000	104,818
Cayman Islands	74,770	-
Ghana	71,933	17,000
Hong Kong	68,000	20,000
Netherland	65,976	93,513
Russia	58,182	-
Angola	53,582	-
Spain	52,766	-
Singapore	29,695	29,720
Others	87,932	167,111
	1,149,204	**740,330**

9. IMPAIRMENT ALLOWANCE

	Financial instruments available-for-sale	Loan and advances – banks	Loan and advances – customers	Total
Balance at 1 January 2011	-	-	2,227	2,227
Charge for the year	-	296	-	296
Amounts reversed on disposal	-	-	-	-
Foreign currency translation difference	-	-	-	-
Balance at 31 December 2011	**-**	**296**	**2,227**	**2,523**
Balance at 01 January 2012	-	296	2,227	2,523
Charge/(Recovered) for the year	-	(253)	(2,227)	(2,480)
Amounts reversed on disposal	-	-	-	-
Foreign currency translation difference	-	-	-	-
Balance at 31 December 2012	-	**43**	-	**43**

During the year, the Company received early repayment of the individual impaired loan ($12.27million). Consequently, the impairment provision balances of $2.227 million made in previous years has been fully reversed. After its yearly assessment, the Company has dropped its provision level on the collective impaired asset to $43,000 after carefully considering its exposure to European banks.

10. DERIVATIVE FINANCIAL INSTRUMENTS

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.

	2012			2011		
	Notional principal amount	Positive fair value	Negative fair value	Notional principal amount	Positive fair value	Negative fair value
Foreign exchange derivatives						
• Forward foreign exchange contracts	7,499	4	(7)	6,596	52	-
• Swaps	55,978	-	(505)	70,327	1,445	(414)
At 31 December	**63,477**	**4**	**(512)**	**76,923**	**1,497**	**(414)**
Interest rate derivatives						
• Swaps	-	-	-	180,221	-	(8,391)
• Forward rate agreements	-	-	-	-	-	-
At 31 December	-	-	-	**180,221**	-	**(8,391)**

	2012
Movements of foreign exchange derivatives fair value through Profit & Loss:	1,592
IRS breakage costs through Profit and Loss:	7,065
Total Derivative financial instruments fair value through Profit & Loss:	8,657

The foreign exchange derivative financial instruments shown in the above table are not designated as cash flow hedges and the fair value gains/losses on these derivatives have been charged to the Profit and Loss account. The interest rate swaps were designated in hedging relationships until the disposal of the related hedged items (as described in note 11). Any associated interest rate swaps were also terminated at the date the hedged items were disposed. Consequently the cash flow hedge accounting has been discontinued from this date.

The fair value movements of the swaps have been shown in the cash flow hedge reserve (Note 19). The amount recognised in the STRGL during the year was $1.9 million, the amount that was reclassified from equity to profit or loss for the period was $6,518k and tax credit recognised through equity relating to the swaps amounted to $2,594k. The ineffective portion of the cash flow hedge was nil.

11. FINANCIAL INSTRUMENTS

Financial instruments: available-for-sale	2012	2011
Balance at 1 January	72,450	88,618
Additions	425,319	12,429
Reclassified from HTM	299,156	-
Disposals	(297,822)	(28,580)
Fair value and Pre/Disc adjustments	10,496	1,397
Foreign exchange differences	(735)	(1,414)
Balance at 31 December	**508,864**	**72,450**
Analysed by maturity:		
• due within one year	103,446	33,771
• due after one year	405,418	38,679
Analysed by listing status:		
• listed	508,864	72,450
Analysed by sector:		
• private sector-debt securities	180,817	56,537
• private sector-equity	-	31
• government sector	328,047	15,882

During the year, the Company has disposed of all bonds which are not eligible under the Financial Services Authority's liquidity rules as eligible for the liquid assets buffer. These bonds were held as available-for-sale at date of disposal and were valued at $297.82 million.

11. FINANCIAL INSTRUMENTS (CONTINUED)

Financial instruments: held-to-maturity	2012	2011
Balance at 1 January	295,119	320,204
Additions	58,693	44,783
Disposal	(63,321)	(70,896)
Reclassified to AFS	(294,470)	-
Premium and discount amortisation	2,200	880
Foreign exchange difference	1,779	148
Balance at 31 December	**0**	**295,119**
Analysed by maturity:		
• due within one year	-	35,774
• due after one year	-	259,345
Analysed by listing status:		
• listed	-	295,119
Analysed by sector:		
• private sector-debt securities	-	284,518
• government sector	-	10,601

From December 2011to March 2012, the Company sold held-to-maturity bonds with a total notional value of $47.5million, which is approximately 13% of total bonds portfolio at March 2012. Consequently, the Company has deemed the above activity represents the selling of more than an insignificant amount of such investments before maturity. The tainting provisions were triggered, and accordingly all remaining held-to-maturity investments were reclassified as available-for-sale. The carrying amount of $294.47 million of held-to-maturity bonds has been reclassified into available-for-sale. The differences between the carrying amount and fair value of these investments at date of reclassification to available-for-sale was $4.686 million, which has been recognised in STRGL.

12. TANGIBLE FIXED ASSETS

	Land and buildings	Construction In Progress	Office furniture and equipment	Computers	Motor Vehicles	Leasehold Improvement	**Total**
Cost:							
At 1 January 2012	27,855	9,414	437	536	49	1,159	39,450
Additions	-	9,937	1,306	342	-	-	11,585
Transfers	19,351	(19,351)	-	-	-	-	-
Disposals	-	-	-	-	-	(11)	(11)
At 31 December 2012	**47,206**	-	**1,743**	**878**	**49**	**1,148**	**51,024**
Depreciation:							
At 1 January 2012	699	-	273	473	49	563	2,057
Charge for the year	1,317	-	296	119	-	228	1,960
Disposal	-	-	-	-	-	(11)	(11)
At 31 December 2012	**2,016**	-	**569**	**592**	**49**	**780**	**4,006**
Net book value:							
At 31 December 2012	**45,190**	-	**1,174**	**286**	-	**368**	**47,018**
At 31 December 2011	**27,156**	**9,414**	**164**	**63**	-	**581**	**37,378**

The opening balance of cost & depreciation and charges for the year in 2012 of leasehold improvement was $1,127,000, $546,000 and $227,000; difference is due to spot rate being used throughout the year.

13. PREPAYMENTS, ACCRUED INCOME AND OTHER ASSETS

	2012	2011
Accrued income	8,059	11,170
Prepayments	424	652
Amount owing from group undertakings	121	87
Other assets	2,351	396
	10,955	**12,305**

14. DEFERRED TAX ASSETS

	Notes	2012	2011
Deferred tax assets included in the balance sheet comprise the following:			
Decelerated capital allowance		304	56
Other timing differences		53	2,671
		357	**2,727**
Movement in deferred tax assets during the year is as follows:			
Balance at 1 January		2,727	2,044
Deferred tax (charged)/credited to the profit and loss account	6	248	99
Deferred tax charged to equity		(2,618)	584
Balance at 31 December		**357**	**2,727**

During the year, the Company has offloaded all bonds which are not eligible under the Financial Services Authority's liquidity rules as eligible for the liquid assets buffer and associated interest rate swaps. The related deferred tax charged to equity has been reversed accordingly.

15. DEPOSITS BY BANKS

	2012	2011
Repayable:		
• on demand	116,124	71,550
• three months or less	573,324	406,017
• one year or less but over three months	1,139,088	808,313
• five years or less but over one year	-	31,000
	1,828,536	**1,316,880**
Amounts include:		
Deposits by parent undertaking	811,249	629,595

The above amounts include repurchase agreements and are reported on a gross basis (Note 7).

16. CUSTOMER ACCOUNTS

	2012	2011
Repayable:		
• on demand	81,341	277,282
• three months or less	376,397	352,146
• one year or less but over three months	200,296	201,940
• over one year	12,500	-
	670,534	**831,368**

17. ACCRUALS

	2012	2011
Accrued interest payable	4,816	6,433
	4,816	**6,433**

18. SHARE CAPITAL

	2012	2011
Authorised share capital, Ordinary shares of US$1 each:		
Balance at 31 December	**250,000**	**250,000**
Allotted, called up and fully paid, 200,000,000 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	Retained earnings	Available-for-sale reserve	Cash flow hedge reserve	Total share holder's funds
At 1 January 2011	200,000	27,038	913	(5,362)	222,589
Profit for the year	-	17,939	-	-	17,939
Change in fair value of financial instruments available-for-sale	-	-	1,135	-	1,135
Tax charge on change in fair value of financial instruments available-for-sale	-	-	-	-	-
Financial instruments available-for-sale reserve recycled through profit and loss upon disposal of the instruments	-	-	(351)	-	(351)
Change in FV cash flow hedge reserve	-	-	-	(1,046)	(1,046)
Deferred tax asset recognised through equity	-	(27)	-	611	584
At 31 December 2011	**200,000**	**44,950**	**1,697**	**(5,797)**	**240,850**
At 1 January 2012	200,000	44,950	1,697	(5,797)	240,850
Profit for the year	-	24,031	-	-	24,031
Change in fair value of financial instruments available-for-sale	-	-	2,458	-	2,458
Differences	-	-	4,686	-	4,686
Tax charge on change in fair value of financial instruments available-for-sale	-	(154)	-	-	(154)
Financial instruments available-for-sale reserve recycled through profit and loss upon disposal of the instruments	-	-	(6,441)	-	(6,441)
Change in FV cash flow hedge reserve	-	-	-	8,391	8,391
Deferred tax asset recognised through equity	-	(24)	-	(2,594)	(2,618)
At 31 December 2012	**200,000**	**68,803**	**2,400**	**-**	**271,203**

The tax movements on available-for-sale gains follow the fair value movements and the tax (charges)/credit are effected accordingly in current year.

20. MEMORANDUM ITEMS – CONTINGENT LIABILITIES AND COMMITMENTS

	2012	2011
Undrawn documentary credits and short-term trade related transactions	426,000	293,702
Undrawn loans and advances	1,297,787	972,719
	1,723,787	**1,266,421**

The table above discloses the nominal principal amounts of commitments, guarantees and other contingent liabilities. They are mainly credit-related instruments which include both financial and non-financial guarantees and commitments to extent credit. Nominal principal amounts represent the amounts at risk should contracts be fully drawn upon and clients default.

Operating lease commitments

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

	2012	2011
Within one year	-	272
More than one year and within 5 years	-	-
More than five years	667	628

The Company moved into a new office on the King William Street in March 2012. This resulted in the lease on the three floors of the former premises being an onerous lease. After yearly assessment, the onerous contract provision has been increased to $2.46million (Note 25).

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 in relation to business activities. Segmental information in relation to geographical exposures is given in the applicable notes in the financial statements.

22. RELATED PARTY TRANSACTIONS

The Company is 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 the parent and other wholly-owned 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

	2012	2011
Assets:		
Financial assets denominated in US Dollars	2,272,664	1,978,928
Non-financial assets denominated in US Dollars	46,938	39,671
Total assets denominated in US Dollars	2,319,602	2,018,599
Financial assets denominated in currencies other than US Dollars	562,207	492,788
Non-financial assets denominated in currencies other than US Dollars	2,879	1,249
Total assets denominated in currencies other than US Dollars	565,086	494,037
Total assets	**2,884,688**	**2,512,636**
Liabilities and shareholder's funds:		
Financial liabilities denominated in US Dollars	2,102,906	1,844,508
Non-financial liabilities denominated in US Dollars	-	-
Total liabilities denominated in US Dollars	2,102,906	1,844,508
Financial liabilities denominated in currencies other than US Dollars	510,579	427,278
Non-financial liabilities denominated in currencies other than US Dollars	-	-
Total liabilities denominated in currencies other than US Dollars	510,579	427,278
Total liabilities	**2,613,485**	**2,271,786**
Denominated in US Dollars	271,203	240,850
Total shareholder's funds	**271,203**	**240,850**

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 instruments – available-for-sale

Fair values of instruments listed in active markets are based on bid prices at the balance sheet date.

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

24. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

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

2012	Level 1	Level 2	Level 3	Total
Assets				
Derivative financial instruments:				
Foreign Exchange Forwards	-	4	-	4
Financial instruments available-for-sale:				
Government debt securities	328,047	-	-	328,047
Other debt securities	180,817	-	-	180,817
	508,864	4	-	508,868
Liabilities				
Derivative financial instruments:				
Foreign Exchange Forward	-	7	-	7
Foreign Exchange Swaps	-	505	-	505
	-	512	-	512
2011				
Assets				
Derivative financial instruments:				
Forwards	-	1,497	-	1,497
Financial instruments available-for-sale:				
Government debt securities	15,882	-	-	15,882
Other debt securities	56,568	-	-	56,568
	72,450	1,497	-	73,947
Liabilities				
Derivative financial instruments:				
Foreign Exchange Forward	-	414	-	414
Interest rate swaps	-	8,391	-	8,391
	-	8,805	-	8,805

24. FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

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 value approximates to the fair value.

25. ONEROUS LEASE PROVISION

	2012	2011
Balance at 1 January	2,101	-
Amounts used during the year	(291)	-
Additional provision made	646	2,101
Balance at 31 December	**2,456**	**2,101**

The Company moved into a new office on the King William Street in March 2012. This resulted in the lease on the three floors of the former premises being an onerous lease. The lease expires in April 2018. The onerous contract provision represents the estimated expected shortfall in cash flows between the rental cost and the possible inflows resulting from a planned subleasing. We expected the cash inflows for ground floor and second floor quarterly as per agreements and 5-year UK government bond yield was used as discounted factor. After yearly assessment, the onerous contract provision has been increased to $2.46million. There is no indication of significant uncertainties about the timing and amount.

26. ULTIMATE PARENT COMPANY

The ultimate, and intermediate, parent company and controlling party is The Industrial and Commercial Bank of China Limited, which is incorporated in China. The largest and smallest group in which the Company is consolidated is headed by The Industrial and Commercial Bank of China. Copies of the group financial statements are available from 55, Fuxingmennei Dajie, Beijing, 100140, China (http://www.icbc.com.cn/icbc/).

27. 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

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 the management of these risks. 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 risk exposures against interest rate 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.

28. 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 a risk profile of the counterparty.

The Company uses an internal scoring model to grade corporate 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 counterparties 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.

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.

28. CREDIT RISK (CONTINUED)

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.

	2012		2011	
	Gross maximum exposure	Net maximum exposure	Gross maximum exposure	Net maximum exposure
Loans and advances to banks	1,182,213	1,180,630	1,360,738	1,360,442
Loans and advances to customers	1,149,204	747,593	740,330	525,253
Financial instruments available-for-sale	508,864	508,864	72,450	72,450
Financial instruments held-to-maturity	-	-	295,119	295,119
	2,840,281	**2,437,087**	**2,468,637**	**2,253,264**
Commitments	1,723,787	1,723,787	1,266,421	1,266,421
	1,723,787	**1,723,787**	**1,266,421**	**1,266,421**
Total credit risk exposure	**4,564,068**	**4,160,874**	**3,735,058**	**3,519,685**
Impairment provisions	-	43	-	2,523
Deposits by parent undertaking	**388,883**	-	**212,850**	-

The Company has funded some of its syndicated loans portfolio by way of the master netting agreement with its parent undertaking effective in 2007. 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 will only be released when corresponding loans participations are fully repaid.

28. CREDIT RISK (CONTINUED)

Credit quality per class of financial assets

	2012		2011	
	Current	Overdue	Current	Overdue
At 31 December				
Loans and advances to banks				
Investment grade	1,030,159	-	1,249,174	-
Sub-investment grade	144,862	-	75,881	-
Unrated	7,192	-	35,683	-
	1,182,213	-	**1,360,738**	-
At 31 December				
Loans and advances to customers				
Investment grade	477,728	-	326,226	-
Sub-investment grade	109,327	-	97,998	-
Unrated	562,149	-	316,106	-
	1,149,204	-	**740,330**	-

	2012		2011	
	Available for sale	Held to-maturity	Available for sale	Held to-maturity
At 31 December				
Financial instruments				
Investment grade	508,864	-	72,419	295,119
Sub-investment grade	-	-	-	-
Unrated	-	-	31	-
	508,864	-	**72,450**	**295,119**

28. CREDIT RISK (CONTINUED)

Regional Exposure

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

	2012		2011	
	Exposure *US $million*	Exposure %	Exposure *US $million*	Exposure %
Asia and Pacific	689	15.1	1,077	28.8
Europe:				
• United Kingdom	1,559	34.2	721	20.4
• Other EU	1,053	23.1	831	21.8
• Non EU	353	7.7	255	6.7
Middle East	65	1.4	80	2.1
North America	255	5.6	570	15.0
South America	222	4.9	51	1.3
Africa	187	4.1	150	3.9
International Organisation	181	4.0	-	-
Total regional exposures	**4,564**	**100**	**3,735**	**100**

The Company believes that its main concentration of credit risk is by region rather than by industry sectors.

29. LIQUIDITY RISK

Liquidity risk is the inability to meet contractual payments and other financial obligations on their due date, or the inability to fund the asset book at a reasonable cost and business needs of the Bank.

The Company maintains 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 setting limits to control liquidity risk exposure and vulnerabilities. The Company's governance structure in respect of liquidity risk management embodies the Board and its Asset & Liability Management Committee (ALCO).

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.

29. LIQUIDITY RISK (CONTINUED)

	Not more than 1 month	More than 1 month but not more than 3 months	More than 3 months but not more than 6 months	More than 6 months but not more than 1 year	More than 1 year but not more than 5 years	More than 5 years	**Total**
2012							
Financial assets							
Cash and balances with central bank	385	-	-	-	-	-	385
	-	-	-	-	-	138	138
Loans and advances							
• to banks	767,145	230,999	92,645	13,712	80,393	-	1,184,894
• to customers	45,463	63,628	174,330	167,717	615,639	86,679	1,153,456
Net settled derivative assets	-	-	-	-	-	-	-
Financial instruments							
• available-for-sale	-	50,197	20,063	35,620	410,537	-	516,417
• held-to-maturity	-	-	-	-	-	-	-
Total undiscounted financial assets	**812,993**	**344,824**	**287,038**	**217,049**	**1,106,569**	**86,679**	**2,855,152**
Financial liabilities							
Deposits by banks	512,373	179,961	644,906	500,358	100,198	-	1,937,796
Customer accounts	361,377	96,646	199,259	1,803	12,550	-	671,635
Net settled derivative liabilities	-	-	-	-	-	-	-
Total undiscounted financial liabilities	**873,750**	**276,607**	**844,165**	**502,161**	**112,748**	-	**2,609,431**
Net undiscounted financial assets/(liabilities)	**(60,757)**	**68,217**	**(557,127)**	**(285,112)**	**993,821**	**86,679**	**245,721**

The liquidity maturity balances in the above table include interest to maturity in respect of cash flows of assets and liabilities maturity profile.

The Company has highly liquid assets of $508million as part of its liquidity assets buffer which can be used in case of any liquidity stress event.

29. LIQUIDITY RISK (CONTINUED)

	Not more than 1 month	More than 1 month but not more than 3 months	More than 3 months but not more than 6 months	More than 6 months but not more than 1 year	More than 1 year but not more than 5 years	More than 5 years	Total
2011							
Financial assets							
Cash and balances with central bank	154	-	-	-	-	-	154
	-	-	-	-	-	138	138
Loans and advances							
• to banks	585,592	555,381	71,944	88,863	65,359	-	1,367,139
• to customers	312,409	97,623	-	35,047	202,522	96,170	743,771
Net settled derivative assets	23,411	24,508	371	35,047	-	-	83,337
Financial instruments							
• available-for-sale	-	7,789	-	26,095	39,347	31	73,262
• held-to-maturity	7,784	23,403	5,076	-	264,062	-	300,325
Total undiscounted financial assets	**929,350**	**708,704**	**77,391**	**185,052**	**571,290**	**96,201**	**2,567,988**
Financial liabilities							
Deposits by banks	256,896	222,473	482,741	330,663	131,480	-	1,424,253
Customer accounts	510,114	120,086	195,925	7,842	-	-	833,967
Net settled derivative liabilities	22,005	25,266	2,938	34,560	-	-	84,769
Total undiscounted financial liabilities	**789,015**	**367,825**	**681,604**	**373,065**	**131,480**	-	**2,342,989**
Net undiscounted financial assets/(liabilities)	**140,335**	**340,879**	**(604,213)**	**(188,013)**	**439,810**	**96,201**	**224,999**

29. LIQUIDITY RISK (CONTINUED)

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

	0 - 1 month	2 - 3 months	4 - 6 months	7 - 15 months	1 - 5 years	6 - 10 years	Total
20112							
Commitments	70,917	199,748	152,227	196,920	1,102,058	1,917	1,723,787
Total	**70,917**	**199,748**	**152,227**	**196,920**	**1,102,058**	**1,917**	**1,723,787**
2011							
Commitments	199,042	37,967	124,590	228,357	676,465	-	1,266,421
Total	**199,042**	**37,967**	**124,590**	**228,357**	**676,465**	-	**1,266,421**

30. 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. As being disclosed in note 11, the reclassification of investments from held-to-maturity to available-for-sale would minimise the risk of the exposures to the adverse movements on equity market 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 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 2012 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 2012.

30. MARKET RISK (CONTINUED)

Interest rate sensitivity table

	Not more than 3 months	More than 3 months but not more than 6 months	More than 6 months but not more than 1 year	More than 1 year but not more than 5 years	More than 5 years	Non-interest bearing	Total
2012							
Assets							
Liquid assets	-	-	-	-	-	385	385
Loans and advances							
• to banks	1,148,870	33,300	-	-	-	(1,540)	1,180,630
• to customers	1,076,186	48,018	25,000	-	-	(12,729)	1,136,475
Financial instruments							
• available-for-sale	49,100	20,025	34,321	405,418	-	-	508,864
• held-to-maturity	-	-	-	-	-	-	-
Fixed and other assets	-	-	-	-	-	58,334	58,334
Total assets	**2,274,156**	**101,343**	**59,321**	**405,418**	-	**44,450**	**2,884,688**
Liabilities and shareholder's funds							
Deposits by banks	1,218,459	640,077	70,000	-	-	-	1,928,536
Customer accounts	457,738	198,516	1,780	12,500	-	-	670,534
Other liabilities	-	-	-	-	-	14,415	14,415
Shareholder's funds	-	-	-	-	-	271,203	271,203
Total liabilities and shareholder's funds	**1,676,197**	**838,593**	**71,780**	**12,500**	-	**285,618**	**2,884,688**
Off balance sheet	-	-	-	-	-	-	-
Interest rate sensitivity gap	**597,959**	**(737,250)**	**(12,459)**	**392,918**	-	**(241,168)**	-
Cumulative gap	**597,959**	**(139,291)**	**(151,750)**	**241,168**	**241,168**	-	-

The table below shows how interest rate movements affect profit and loss of the Company for 2012:

Basis points						
+100	747	(922)	(31)	7,858	-	7,652
+200	1,495	(1,843)	(62)	15,717	-	15,307
-100	(747)	922	31	(7,858)	-	(7,652)
-200	(1,495)	1,843	62	(15,717)	-	(15,307)

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.

30. MARKET RISK (CONTINUED)

Interest rate sensitivity table

	Not more than 3 months	More than 3 months but not more than 6 months	More than 6 months but not more than 1 year	More than 1 year but not more than 5 years	More than 5 years	Non-interest bearing	Total
2011							
Assets							
Liquid assets	-	-	-	-	-	154	154
Loans and advances							
• to banks	1,247,699	61,987	51,052	-	-	(2,069)	1,358,669
• to customers	686,208	51,895	-	-	-	(5,766)	732,337
Financial instruments							
• available-for-sale	33,771	-	-	38,648	-	31	72,450
• held-to-maturity	144,256	-	-	150,863	-	-	295,119
Fixed and other assets	-	-	-	-	-	53,907	53,907
Total assets	**2,111,934**	**113,882**	**51,052**	**189,511**	-	**46,257**	**2,512,636**
Liabilities and shareholder's funds							
Deposits by banks	987,315	429,565	-	-	-	-	1,416,880
Customer accounts	629,428	194,233	7,707	-	-	-	831,368
Other liabilities	-	-	-	-	-	23,538	23,538
Shareholder's funds	-	-	-	-	-	240,850	240,850
Total liabilities and shareholder's funds	**1,616,743**	**623,798**	**7,707**	-	-	**264,388**	**2,512,636**
Off balance sheet	140,221	40,000	-	(180,221)	-	-	-
Interest rate sensitivity gap	**635,412**	**(469,916)**	**43,345**	**9,290**	-	**(218,131)**	-
Cumulative gap	**635,412**	**165,496**	**208,841**	**218,131**	**218,131**	-	-

The table below shows how interest rate movements affect profit and loss of the Company for 2011:

Basis points						
+100	794	(587)	108	186	-	501
+200	1,589	(1,175)	217	372	-	1,003
-100	(794)	587	(108)	(186)	-	(501)
-200	(1,589)	1,175	(217)	(372)	-	(1,003)

31. 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.

32. 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.

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

	2012		2011	
	Actual	Required	Actual	Required
Tier 1 capital	271,203	227,832	240,850	192,532
Tier 2 capital	60,043	-	80,296	-
Total capital	**331,246**	**227,832**	**321,146**	**192,532**
Risk weighted assets	1,723,762		1,457,991	
Tier 1 capital ratio	15.73%		16.52%	
Tier 2 capital ratio	3.48 %		5.51 %	
Total capital ratio	**19.21**		**22.03**	

The average interest rate on the subordinated loan in 2012 was 0.93% (2011: 0.84%)

In 2009 the Company entered into an agreement with its parent in order to secure a subordinated loan for the purpose of strengthening its capital. The 5-year loan of US$100 million will mature on 20 February 2015. Interest is charged at a margin of 0.5% plus a Libor rate, which is to be fixed on a quarterly basis.

33. FSA PILLAR 3 DISCLOSURES

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