ICBC (London) plc

Report and Financial Statements

31 December 2017

Company Registration No : 4552753

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Chairman's Statement

I am delighted to present this 2017 Report and Financial Statements for ICBC (London) plc (the Bank) – my first as the Bank's Chairman. We saw a number of positive economic signs during 2017 with growth in Western economies picking up and, indeed, UK growth was higher than forecast in the latter part of the year despite the continuing uncertainty over the medium-term effects of Brexit. Political and economic relations between the UK and China are strong even though in general, the geopolitical situation remains challenging. The Bank and the Industrial and Commercial Bank of China Limited, London Branch (the Branch) have continued to follow a model focusing on undertaking business in the United Kingdom with a particular emphasis on China/UK trade.

As stated in the Strategic Report, we have kept the balance sheet of the Bank between $2.5 billion and $3 billion for most of the year whilst maintaining a strong capital and liquidity position and it remains the Bank's strategy to continue to develop in this way alongside the Branch. The Bank's total assets reduced slightly during the year to $2.43 billion on 31 December 2017 (2016: $2.72 billion). Both our assets and funding sources remain well diversified and the reduction in total assets is due in part to the significant asset growth in the Branch.

In 2017 our profit before tax was $26.89 million compared with $26.92 million in 2016, a slight decrease of 0.12%. The decrease was due to a reduction in the net interest income, which was offset by a reduction in impairment losses of financial assets and an increase in reimbursement of expenses attributable to the Branch. The impairment losses reduced to $1.27 million from $2.94 million in 2016. Our total operating income in 2017 was down, largely due to the decrease in assets, to $39.59 million (2016: $46.11 million) and our resultant profit for the year after tax and provisions was $21.70 million (2016: $20.81 million). We will continue to maintain a prudent approach to the management of our portfolio.

Our operating expenses in 2017 (excluding impairment losses) decreased by 29.65% to $11.43 million (2016: $16.24 million). Much of this decrease was due to the rebalancing of costs with the Branch: this is explained in more detail in the Strategic Report. At the end of 2017 our staff numbers had increased to 164 (from 132 at the end of 2016) – a rise of 24.24%. I would like to welcome the new staff to the ICBC "family" and thank the management team and all staff for their important contribution during the year.

I took over the role of Chairman from Dr Shu Gu who had built upon the work of the Bank's first Chairperson, Lili Wang, by overseeing further enhancements to the governance structure of the Bank and the successful development of the Bank and the Branch in tandem. I would like to express my appreciation to Dr Gu for ensuring that both the Bank and the Branch are in excellent shape. I would also like to thank Mr Han for managing the Bank and the Branch in a positive manner and my fellow directors for the support and guidance they have provided during the year.

Hao Hu

Chairman

Strategic Report

Introduction

The focus of the Bank during 2017 was on maintaining financial stability and strength whilst enhancing our risk management, technical support and corporate governance capabilities, ensuring that we are well-placed to manage the impacts of the continued uncertainty brought about by the external economic and political environment.

In the coming year our objectives will remain unchanged. We aim to have stable, modest and organic growth of the balance sheet, continuous enhancement of our risk and control framework, maintaining a robust capital and liquidity position, providing a positive and engaging workplace for our employees to grow and develop and embracing the benefits of a culturally diverse workforce. In the rest of this report we will set out the highlights of our performance against these objectives in 2017 and the strategies we will employ to achieve these objectives going forward.

Achieving our objectives in a challenging macro-economic environment

Although 2017 brought little clarity to the macroeconomic and political uncertainties outlined in our report at the end of last year, the strategic outlook for the Bank remains positive and we are well placed to benefit from opportunities in a challenging environment.

There is no greater certainty on the longer-term relationship between the UK and the EU post 2019 and election results in both the UK and Germany have created additional challenges to both the timing and outcome of a future trading relationship. In light of this, the Bank continues to assess its strategies for a range of possible Brexit outcomes, which is covered in more detail later in this report. The Autumn Budget saw the UK growth rate forecast significantly reduced whilst productivity levels continue to be sluggish. Following the Bank of England's first interest rate rise in a decade, the Bank expects a continuation of modest rises in the next two years, but does not expect this to have a material impact on our business plans or strategy. On the plus side, the latest results of the Bank of England stress tests have confirmed the resilience of the UK banking sector, an important factor for investor confidence. In addition to this the relatively weak pound continues to create attractive commercial and infrastructure investment opportunities in the UK, both areas of focus for the Bank.

Economic growth in China is expected to be slightly down from the 6.8% achieved in 2017 mainly due to slower, but still robust, export projections. It is expected that infrastructure investment will remain strong on the back of several regional development targets. Overall, the outlook for the Chinese economy remains stable and we are well-positioned to take advantage of local and regional investment and trade finance opportunities, leveraging our close relationship with Industrial and Commercial Bank of China Limited (Parent Bank), the Branch and other ICBC subsidiaries globally.

Financial performance, objectives and strategy

In line with the Bank's three-year strategy we have kept the balance sheet size within our target range, with well diversified assets and funding sources and a strong capital and liquidity position. Whilst total assets reduced slightly during the year (in a large part due to the very strong asset growth in the Branch) we are confident that we have established a robust framework to allow for organic asset growth over the course of the next two years and at the same time continue to strengthen our operational capabilities, with significant additional investment in our IT, credit management, operations and finance areas planned for 2018. We anticipate that the liquidity and capital ratios will reduce slightly during the next year as the Bank increases its asset base and uses these resources more efficiently.

Specific changes to prior year

During the year we reviewed the service agreement we have with the Branch and specifically the allocation of overhead costs. The previous arrangement dates back to 2014 and since then the Branch has seen significant growth. The new allocation better reflects the current balance of activities and share of fixed costs and has led to a material one-off reduction in the net operating expenses of the Bank. The detail is in the Profit and Loss Account. The Bank does not expect similar large adjustments to be replicated going forward given that the new allocation policy will take future growth (of both the Bank and the Branch) into consideration.

Strategic Report

Key performance summary

The Bank employs several key financial performance indicators to assess financial performance and considers these together in order to obtain a holistic view of our performance. The Executive Committee and the Board use these indicators not only to assist in providing useful financial insight, but also in telling a wider story on how the Bank is managed and the risks and challenges it faces. Amongst the most important indicators are Return on Equity (RoE), Return on Assets (RoA), the Net Interest Margin (NIM), Non-performing loans to Assets (NPA) and our Cost to Income ratio (CTI).

Total assets have decreased by 10.69% compared to 2016, mainly due to maturing assets across a range of asset classes and replacement assets booked in the Branch as we actively managed concentration risk and large exposures. The main contributors to the reduction were trade finance and syndication loans, partially offset by increases in bi-lateral loans and liquid bond holdings. Whilst assets remain within our target range for the Bank, we do expect a modest increase in balance sheet size for 2018 to take advantage of our strong capital and liquidity position.

Net interest income is down by 23.62% compared to 2016 due to the reduction in the balance sheet and a reduced net interest margin as asset yields remained stable but the cost of funding increased. The Bank expects margins in the coming year to remain tight but to see an improvement in absolute terms as the balance sheet grows.

Profit after tax has increased by 4.28% to $21.70 million, mostly due to the reduction in operating expenses mentioned above and a reduction in impairment losses. Looking forward, we would expect income to grow in proportion to asset growth taking into account changes in the cost of funding.

RoE - This ratio is calculated by dividing our net profit after tax by total average shareholder funds. The Bank uses this as an indication of how efficiently we use these funds. For 2017 this ratio remained stable at 5.59%.

RoA- The RoA provides the Bank with a measure of the ability to generate income from our assets. It is calculated by dividing profit after tax by total average assets. The RoA for 2017 was 0.87% compared to 0.73% the previous year. The main driver for this is the reduction of operating expenses following the reallocation between the Bank and the Branch. If this impact were to be excluded, the RoA would have been slightly down from the 2016 level reflecting the lower Net Interest Margin (NIM) as funding costs increased.

NIM shows the difference between the interest income generated by the Bank and the amount of interest paid out to our lenders, relative to the amount of our average interest-earning assets. NIM was down from 1.3% in 2016 to 1.17% this year, mostly due to higher funding costs without a comparable increase in asset yields.

The Bank had no additional NPA during the year with total gross NPA reducing from $30 million in 2016 to $5 million this year following the successful sale of one of our two non-performing positions in the secondary market.

The CTI provides a measurement of the cost of running the Bank in relation to our operating income and is an important indicator of the productivity of the Bank. This ratio is calculated expressing the Bank's operating cost as a percentage of its operating income and has reduced to 28.86% for 2017 (from 35.23% in the previous year), mostly on the back of reduced operating expenses. Had the Bank followed the updated allocation method to the Branch in 2016, CTI for the previous year would have been 27.46%, below 2017 due to the lower net interest income and a rise in staff cost as the Bank strengthened its capabilities (especially in the areas of compliance, due diligence and risk management) in order to ensure that future growth only takes place with a robust support framework in place.

Principal risks and our approach to risk management

The Bank is exposed to a number of different risks, either directly attributable to the business we undertake or due to general market-wide industry factors and macro-economic conditions. The Board oversees, reviews and approves a clearly defined risk appetite in order to ensure that the Bank takes on levels and types of risk within its risk capacity and commensurate to that required to support our business strategy. Whilst we cannot completely eliminate all risk, any risks beyond those deemed acceptable within our risk appetite are actively mitigated where possible through a number of risk management techniques and actions. These are defined, monitored and reviewed in accordance with our Enterprise Wide Risk Management Framework and managed through well established "three lines of defence" and "four eyes" models.

Strategic Report

At the Bank, risk management is everyone's business. At a departmental level policy and procedure manuals are written in accordance with the Bank's approach to the management of our principal risks. Employees are required to operate within the guidelines set out in bank-wide policies and their own departmental procedures. Effective risk management forms an important part of our annual performance assessment for all bank employees.

The Risk and ALM, Credit Management, and Compliance and Legal Departments periodically carry out reviews to assess compliance with relevant regulations and the effectiveness of risk mitigation, while the Internal Audit Department, as the third line of defence, will undertake independent, risk-based reviews of the risks in the various business areas and the related controls in place to mitigate them. The scope of Internal Audit work is agreed by the Audit Committee, which also oversees the results of the reviews undertaken. The Head of the Internal Audit Department has a primary reporting line direct to the Chairman of the Audit Committee (although there is also a secondary (dotted) reporting line to the CEO). From a Senior Management perspective, risk is further managed through the Executive Committee, the Asset and Liability Committee, the Financial Crime Risk Committee and the Credit Committee. The Bank is also in the process of establishing an IT Management Committee to oversee and monitor technology and data risk, which will include cyber risk management.

In addition to the Audit Committee mentioned above, two other sub-committees of the Board, the Risk Committee and the Governance and Compliance committee, monitor and review the management of risk and compliance and report their findings back to the Board.

The Bank categorises its principal risks into a number of different types, including credit risk, liquidity and funding risk, market risk, operational risk, conduct risk, regulatory risk and geopolitical risk.

In particular, the risks faced by the Bank include the following:

• Credit risk arises from exposures to a range of counterparties, industries and countries. These are managed through a number of different concentration and credit limits, strict lending criteria, pre-approval by the Credit Committee and the CEO and ongoing asset quality monitoring by the Credit Management Department to ensure that our existing governance and risk controls are effective, asset quality is satisfactory and capital adequacy is sufficient to absorb potential credit losses. There is concentration risk across several dimensions including the Chinese and UK economies – reflecting the Bank's business mandate – and sector concentration in banks and non-bank financial institutions (29.1% of total credit exposures), the largest component being intra-group exposures to other ICBC entities mitigated by the longstanding Netting Agreement between the Bank and acceding parties. Regarding industry concentration, the Bank has a commodity and structured trade finance lending portfolio of 3.72% of total credit exposures. Global commodity markets have continued to strengthen during the year following the mixed recovery seen in 2016. Whilst this recovery is good news for commodity-oriented emerging-market economies, the Bank continues to have stringent controls in place to manage and de-risk its portfolio, including minimal direct exposure to troubled regions, countries and industries. There is also the UK commercial real estate portfolio (9.9% of total credit exposures), conservatively managed and regularly stress tested. Across the whole portfolio, non-performing loans have decreased as a percentage of total assets following the sale of a non-performing asset (see note 32 to the financial accounts).

• Liquidity and funding risk remains a key focus of the Bank. We have a very limited retail deposit base compared to our local competitors. However, the Bank's funding sources are well-diversified and we have established long-term funding measures and can collaborate with the Branch to strengthen our funding capacity. Appropriate risk measurement, monitoring and reporting systems and internal limits are in place, liquidity stress testing is undertaken against a range of scenarios, and we have a well-developed Liquidity Contingency Plan. At the end of the year the Bank had a Liquidity Coverage Ratio (LCR) of 418%, which is significantly above the minimum regulatory requirement. In the year ahead we expect this to decrease slightly on the back of more efficient use of excess liquidity.

• Market risk includes interest rate risk in the banking book (IRRBB), foreign exchange rate risk, and position risk. The Bank has strict limits in place for foreign exchange risk exposure and interest rate risk in the banking book, which mainly arises due to duration/re-pricing mismatches between assets and liabilities, as well as off-balance sheet items. Where appropriate, hedging contracts are taken out to ensure these risks are managed within our risk appetite. The trend of tighter margins reported in 2016 has continued during this year and we expect this to also be the case in 2018. The Bank continues to carefully consider the risk-adjusted return on assets, while managing our generally low market risk profile (interest rate and FX risk).

Strategic Report

• Operational risk losses within the Bank are very low (2017: $2k; 2016: Nil), but inherent risk is increasing, driven by external factors such as greater regulatory complexity and reporting requirements. However, there is a strong governance and risk control framework in place and the overall residual risk profile is low.

• Regulatory risk, the risk of changes in regulations that might affect the business, the industry or the markets in which the Bank operates, is increasing because of the growing complexity of the Bank's operations as well as the regulatory environment in the UK, EU and China. The Bank's Compliance and Legal Department effectively manages regulatory change projects as well as business-as-usual reviews and financial crime risk management including anti-money laundering and sanctions monitoring. During the year the Bank has invested significantly in risk and compliance resourcing and programs (both internally and through the use of specialist external advisors where appropriate) and will continue to do so in 2018.

• Geopolitical risk has not abated during the year and it is our expectation that this trend will be continued in the year to come. There is still significant uncertainty on the future outcome of the Brexit negotiations, the terror threat in the UK is still at severe on the back of a number of domestic attacks during 2017 and elections both in the UK and Europe have delivered unexpected results. In addition, the fight against Islamic terrorism in the Middle East continues, there are on-going tensions in the Korean peninsula and the relationship between Russia and the West continues to be strained. The Bank continues to monitor both domestic and international risks and their possible impact on our strategy and business plans. Geopolitical risk can have an impact on a variety of financial and non-financial factors and therefore the Bank's geographical limits, interest rate risk limits and foreign currency limits all play a part in mitigating this risk. The Bank also has in place a Business Continuity Plan and other measures to safeguard our staff, customers and business.

Further information on these risks is included in Notes 31-35 and 37 to the financial statements.

The United Kingdom leaving the European Union (Brexit)

As mentioned earlier in this report, significant uncertainty remains regarding the on-going trade relationship between the United Kingdom and the European Union post-2019. Since the last Strategic Report, negotiations have moved onto phase two, it is widely anticipated that a transition period will be in place and significant progress on the EU Withdrawal Bill has been made in the House of Commons. Whilst the Bank welcomes any progress that provides for more certainty, the next steps are anticipated to be more challenging - especially agreeing a trade deal that may or may not include Financial Services.

The impact of Brexit is being carefully monitored and integrated into the Bank's strategic plans, notably the impact on market volatility, a weaker sterling and negative macroeconomic forecasts. We also continuously monitor our direct exposure to the European Union and the possible impact of a "hard Brexit" on our European assets, including the worst-case scenario of exiting those positions. Senior Management receives a full market update on a weekly basis, identifying emerging trends and updates on any material legislative changes.

As it stands the Bank is of the opinion that Brexit will not have a material negative impact on our business in the foreseeable future given our increased focus on the UK market and the fact that the ICBC group already has banking operations in a number of other EU countries, reducing the dependency on the Bank to increase its exposure to the European Union in times of uncertainty. Shorter-term economic and market risk impacts are managed as described in the risk management section of this report and in more detail in the financial statements.

In addition to monitoring and managing the risks brought about by the uncertainty, the Bank also continues to look for possible new opportunities that may emerge where the positioning of the Bank may present a competitive advantage over other financial institutions as they prepare for the impact of Brexit.

Non-financial performance indicators

The Bank does not evaluate success purely on the basis of financial and quantitative indicators. In addition to these, the Bank also closely monitors non-financial indicators and trends to measure our performance. These include staff retention rates, the diversity of our employees, work/life balance, development opportunities available and taken up (available both in the Bank and throughout the wider ICBC group) and our corporate social responsibility.

Strategic Report

Our remuneration policy is designed to ensure that we reward performance not purely based on financial results but also taking into account sound conduct and the employees' contribution to the organisation's non-financial objectives. Amongst the non-financial key indicators included in our competency framework and therefore directly impacting remuneration of employees are (i) compliance with internal and regulatory policies and procedures; (ii) continuous professional development; and (iii) the application of best practice in what we do. These indicators are used in the assessment of all employees, including the senior management of the Bank. We competitively benchmark to the market and strongly promote career development and progression.

In 2017 we introduced our second bank-wide staff survey and as a result of this the Executive Committee approved an action plan to ensure that the Bank remains a safe and welcoming place to work and attract and retain the best talent available. Amongst a range of initiatives included in the plan is the launch of our new Employee Recognition Scheme. The survey will be undertaken again in 2018 to monitor our progress.

Staff from across the Bank participated in a number of events as part of our corporate social responsibility campaign and this will continue in 2018.

At the end of the year we had 164 full time employees (2016: 132) and we expect this number to increase by the end of 2018.

Future developments

The Bank will continue to work alongside the Branch in increasing the scale and breadth of its lending capability. The Bank is expected to grow its balance sheet in 2018 in a cautious and gradual manner, focussing on high-quality assets in line with its longer-term strategic plan set out earlier in this report. The Bank is continuously looking to expand its ancillary business offerings for both new and existing clients and where appropriate will leverage its relationship with the Branch to do so.

For the coming year our objectives will include amongst others:

- Growing corporate deposit taking and further strengthening the Bank's diverse funding position with enhanced product offerings;
- Continuing with the diversification of our Commercial Real Estate portfolio;
- Increasing and diversifying our Non-Bank Financial Institutions asset base;
- Enhancing our profile as a centre of excellence for Project Finance initiatives;
- Increasing cross-selling opportunities and investing in new product and service initiatives through our Global Loan Syndications Department;
- Continuing to improve the structured finance portfolio in both quality and geographical scope;
- Expanding our China Corporates client base and geographical spread and;
- Furthering the gradual expansion of our Debt Capital Markets business.

In the past we have ensured that we have built up the appropriate competencies and controls before embarking on new ventures and will continue to do so going forward. Our main focus will remain on wholesale banking whilst retaining a modest and bespoke retail offering. The Bank enjoys strong channels into China through our Parent Bank which allows us to offer a high degree of customer service to large corporate customers banking in both China and the UK.

2018 will be another year of material regulatory and legislative changes and the Bank has invested significantly to prepare for this. Amongst others these include the implementation of MIFID 2, Automatic Exchange of Information (AEOI), new FinRep reporting requirements and the General Data Protection Regulation (GDPR). In addition the Bank has published its new tax strategy which is publicly available on our website.

Finally, cyber risk and IT resilience will be a focus for the Bank, particularly risk appetite articulation and governance at local level, while we continue to derive comfort from the technical support and protective measures of our Parent Bank.

Strategic Report

Governance

The Governance structure of the Bank is set up in accordance with the principles of good corporate governance consistent with the status of our Parent Bank.

The Bank is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

The Board oversees the Bank by collectively directing the Bank's affairs in the interests of its shareholders and relevant stakeholders It is responsible for establishing the vision and values of the Bank, setting strategy and ensuring that the relevant structures and appropriate delegation to management is in place.

The Board delegates certain responsibilities to its relevant sub-committees (Audit Committee, Risk Committee and Governance and Compliance Committee) as well as to the CEO who in turn delegates responsibilities to the Executive Committee and its individual members, the Credit Committee, the Asset and Liability Committee and the Financial Crime Risk Committee.

The Bank employs two independent UK-based Non-Executive Directors, one of whom is the Chair of the Bank's Audit Committee and one of whom is the Chair of the Risk Committee; there is also one UK-based Non-Executive Director who chairs the Governance and Compliance Committee; and two China-based Non-Executive Directors from our Parent Bank.

At an executive level, the Bank's management-level committees mentioned above ensure effective implementation of all major policies and operating processes and decisions; establishing clear policies and decision-making procedures; and ensuring appropriate risk management through the three lines of defence and four-eyes models. Independent, risk-based internal audit reviews are also undertaken on a regular basis and the Bank is externally audited by KPMG LLP.

We ensure that we fully comply with the conduct risk framework and fully subscribe to the principle of "treating customers fairly" in order that the trust put in us as bankers is well-founded. It is important for the Bank not to be seen to only comply with the letter of the law, but also embrace the spirit of the law and we embed this principle throughout the Bank.

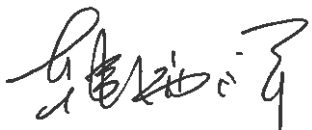
IFRS 9

There has been much press comment on the potentially significant impact of the introduction of IFRS 9 on bank's balance sheets from 1 January 2018. After detailed analysis we have concluded that, for us, the impact will not be material and further detail is given in Note 29 to the accounts.

Conclusion

The Bank recognises that 2018 will bring a number of new challenges, but it is well prepared and will continue to invest in our capability to withstand and manage uncertainty. We are positive about our prospects and our ability to build on the strong foundations we have established.

The Strategic Report was approved by the Board on 29 March 2018 and signed on its behalf by:



Ruixiang Han

Chief Executive Officer

Board of Directors and other information

Directors

Hao Hu (Chairman – appointed to the Board 18 May 2017 and elected Chairman 17 August 2017)
Shu Gu (Chairman – resigned 17 August 2017)
Ruixiang Han (Director –and Chief Executive Officer)
Shuyi Yuan (Director and Deputy Chief Executive Officer)
Li Lan (Non-Executive Director – resigned 7 November 2017)
Qingsheng Lin (Non-Executive Director – appointed 8 November 2017)
David Newton (Independent Non-Executive Director)
Peter Goshawk (Independent Non-Executive Director)
John Kerr (Non-Executive Director)

Company Secretary

John Kerr

Auditor

KPMG LLP
15 Canada Square
Canary Wharf
London
E14 5GL

Registered Office

81 King William Street
London
EC4N 7BG

Management Team

Ruixiang Han (Chief Executive Officer)
Shuyi Yuan (Deputy Chief Executive Officer)
Graeme Tosen (Deputy General Manager and Chief Financial Officer)
Xiao Lu (Deputy General Manager)
Robert Clark (Deputy General Manager and Chief Risk Officer)
Ying Shi (Deputy General Manager)

Directors' Report

The Directors present their report and the financial statements of the Bank for the year ended 31 December 2017.

Financial statements

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

Matters included within the Strategic Report

Details of the business, future developments, an indication of financial risk management objectives and policies and the Bank's exposure to market risk, credit risk and liquidity risk have been included in the Strategic Report.

Results and dividends

The trading results for the year, and the Bank'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 Bank for the year, after taxation, amounted to US$21.70 million (2016: US$20.81 million). The credit balance on the Profit and Loss Account is to be carried forward.

Principal activities

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

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:

Hao Hu (Chairman – appointed to the Board 18 May 2017 and elected Chairman 17 August 2017)
Shu Gu (Chairman – resigned 17 August 2017)
Ruixiang Han (Director and Chief Executive Officer)
Shuyi Yuan (Director and Deputy Chief Executive Officer)
Li Lan (Non-Executive Director – resigned 7 November 2017)
Qingsheng Lin (Non-Executive Director – appointed 8 November 2017)
David Newton (Independent Non-Executive Director)
Peter Goshawk (Independent Non-Executive Director)
John Kerr (Non-Executive Director)

No contracts of significance in relation to the Bank's business in which a Director of the Bank 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.

Donations

During the financial year the Bank made no political donations (2016: Nil).

Going Concern

The Bank's Directors have made an assessment of the Bank's ability to continue as a going concern.

In assessing going concern, the Directors take account of all information which they are aware of about the future, which is at least, but not limited to, 12 months from the date that the balance sheet is signed. This information includes the Bank's forecast results and projections, estimated capital, funding and liquidity requirements, contingent liabilities, and possible economic, market and product developments. They are satisfied that the Bank has the resources to continue in business for the foreseeable future. Further, the Directors are unaware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern.

Directors' Report

Disclosure of information to auditor

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each Director has taken all the steps that he/ she ought to have taken as a Director to make himself/ herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Auditor

In accordance with section 489 of the Companies Act 2006, a resolution for the reappointment of KPMG LLP as the external auditor is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

John Kerr
Company Secretary
29 March 2018

Statement of Directors' Responsibilities in respect of the Strategic Report, the Director's report and the financial statements

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland.*

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 its profit or loss for that period. In preparing the financial statements, the Directors are required to:

select suitable accounting policies and then apply them consistently;

make judgements and estimates that are reasonable and prudent;

state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;

assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and

use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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

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

KPMG LLP

15 Canada Square
London
E14 5GL
United Kingdom

Independent auditor's report

to the members of ICBC (London) Plc

1 Our opinion is unmodified

We have audited the financial statements of ICBC (London) Plc ("the Company") for the year ended 31 December 2017 which comprise the Profit and Loss account, Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity, Statement of Cash Flows and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the Directors on 18 May 2017. The period of total uninterrupted engagement is for the 3 financial years ended 31 December 2017. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

2 Key audit matter: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matter (unchanged from 2016), in arriving at our audit opinion above, together with our key audit procedures to address that matter and, as required for public interest entities, our results from those procedures. This matter was addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on that matter.

KPMG LLP

15 Canada Square
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E14 5GL
United Kingdom

Independent auditor's report

to the members of ICBC (London) Plc (continued)

Key audit matter	The risk	Our response
Impairment of loans and advances to customers Charge: $1m (2016: $2.9m) Provision: $7m (2016: $17m) Refer to page 26 (accounting policy) and page 41 (financial disclosures)	**Subjective estimate** The carrying value of loans and advances to customers held at amortised cost may be materially misstated if individual or collective impairments are not appropriately identified and estimated. The identification of impaired assets and the estimation of impairment including estimates of future cash flows and valuation of collateral involve significant management judgement.	Our procedures included: **Control design, observation and operation:** We tested the design and operation of manual and automated controls over the individual and collective impairment provision including: — the accuracy of data input into the system used for credit grading and the approval of credit facilities — the ongoing monitoring and identification of loans displaying indicators of impairment and whether they are migrating, on a timely basis to the watchlist or impaired assets reports. **Assessing individual exposures:** We obtained management's assessment of the recoverability of individual exposures (including individual provisions calculations) and challenged whether individual impairment provisions, or lack of, were appropriate. This included the following procedures: — challenging the recoverability of the forecast cash flows; and — assessing collateral valuations used in management's impairment assessments For loans not identified as displaying indicators of impairment by management, we challenged this assessment by reviewing the historical performance of the customer and formed our own view of whether any impairment indicators were present. **Assessing the collective provision:** We evaluated the appropriateness of third party data used as inputs to the collective provision model. We also tested the completeness and accuracy of key inputs into the model and performed a recalculation of the collective provision. We also assessed the adequacy of any overlay added by management to the model. **Our results:** We considered the credit impairment charge and provision recognised and the related disclosures to be acceptable (2016: acceptable).

KPMG LLP

15 Canada Square
London
E14 5GL
United Kingdom

Independent auditor's report

to the members of ICBC (London) Plc (continued)

3 Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at $1.36m (2016: $1.53m), determined with reference to a benchmark of profit before tax, of which it represents 5% (2016: 5%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding $68k (2016: $76k), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality level specified above and was performed at the Bank's registered office in London. However, we engaged KPMG China to perform testing on certain IT controls on our behalf where the applications were hosted at ICBC Limited in China.

4 We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

5 We have nothing to report on the Strategic Report and the Directors' Report

The Directors are responsible for the Strategic Report and the Directors' Report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the Strategic Report and the Directors' Report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in those reports;
- in our opinion the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6 We have nothing to report on the other matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

We have nothing to report in these respects.

KPMG LLP

15 Canada Square
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Independent auditor's report

to the members of ICBC (London) Plc (continued)

7 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 11, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified relevant areas of laws and regulations that could have a material effect on the financial statements from our sector experience, through discussion with the Directors and other management (as required by auditing standards), and from inspection of the Company's regulatory correspondence.

In addition we considered the impact of laws and regulations in the specific areas of regulatory capital and liquidity, conduct and financial crime including money laundering, sanctions list and market abuse regulations recognising the financial and regulated nature of the Company's activities. With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of the Directors and other management and inspection of regulatory correspondence. We considered the effect of any known or possible non-compliance in these areas as part of our procedures on the related annual accounts items.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

As with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

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Independent auditor's report

to the members of ICBC (London) Plc (continued)

8 The purpose of our audit work and to whom we owe our responsibilities

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.

Paul Furneaux (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square

London

E14 5GL

3 April 2018

Profit and Loss Account

for the year ended 31 December 2017

	Notes	2017 *$ '000*	2016 *$ '000*
Interest receivable from financial investments	2	6,678	5,666
Other interest receivable	2	51,298	63,818
Interest payable	2	(29,349)	(32,005)
Net interest income		**28,627**	**37,479**
Fees and commissions receivable	2	7,074	6,777
Fees and commissions payable	2	(2,339)	(1,451)
Net fees and commission		**4,735**	**5,326**
Revaluation gain/ (loss) on financial derivatives	11	522	(792)
Foreign exchange gain & realised gain/(loss) on financial derivatives		529	1,146
Other operating income	3	5,174	2,952
Gain on sale of tangible assets		-	1
Loss on sale of AFS financial instruments		-	(7)
Other income		**6,225**	**3,300**
Total operating income		**39,587**	**46,105**
Personnel expenses	4	(25,684)	(19,533)
Depreciation of tangible fixed assets	14	(1,668)	(1,879)
Amortisation of intangible assets	15	(73)	(3)
Impairment losses	10	(1,269)	(2,941)
Other operating expenses	6	(10,623)	(7,806)
Reimbursement of expenses attributable to ICBC London Branch		26,621	12,979
Operating expenses		**(12,696)**	**(19,183)**
Profit on ordinary activities before tax		**26,891**	**26,922**
Tax on profit on ordinary activities	7	(5,193)	(6,114)
Profit for the financial year		**21,698**	**20,808**

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

Certain numbers presented above for 2016 have been reclassified – see Note 28.

Notes 1 to 40 form part of these financial statements.

Statement of Comprehensive Income

for the year ended 31 December 2017

	Note	2017 *$ '000*	2016 *$ '000*
Profit for the financial year		**21,698**	**20,808**
Other comprehensive income:			
Change in fair value of available-for-sale (AFS) financial investments	22	(2,033)	(86)
Fair value of AFS financial investments recycled through Profit and Loss Account at disposal	22	-	62
Tax income (expenses) relating to components of other comprehensive income	22	688	(12)
Other comprehensive loss for the year, net of income tax		**(1,345)**	**(36)**
Total comprehensive income for the year		**20,353**	**20,772**

Notes 1 to 40 form part of these financial statements.

Balance Sheet

As at 31 December 2017

	Notes	2017 *$ '000*	2016 *$ '000*
Assets			
Cash and balances at central banks		162	145
Loans and advances to banks	8	840,064	1,171,593
Loans and advances to customers	9	953,232	1,024,525
Derivative financial instruments	11	52,120	86,329
Available-for-sale financial investments	12	448,210	388,541
Held-to-maturity financial investments	13	69,522	-
Tangible fixed assets	14	37,994	39,488
Intangible assets	15	178	28
Prepayments, accrued income and other assets	16	29,757	11,616
Total Assets		**2,431,239**	**2,722,265**
Liabilities			
Deposits by banks	18	1,475,894	1,754,538
Customer accounts	19	375,734	391,012
Derivative financial instruments	11	50,936	85,667
Other liabilities		18,913	4,691
Provision for liabilities	24	3,220	1,135
Accruals and deferred income	20	3,433	3,658
Subordinated loan	23	100,000	100,000
Corporation tax		4,091	2,357
Deferred tax liabilities	17	618	1,160
Total Liabilities		**2,032,839**	**2,344,218**
Share Capital and Reserves			
Authorised and called up share capital	21	200,000	200,000
Retained earnings	22	199,057	177,359
Available-for-sale reserve	22	(657)	688
Total Share Capital and Reserves		**398,400**	**378,047**
Total Liabilities and Share Capital and Reserves		**2,431,239**	**2,722,265**
Memorandum items			
Contingencies and commitments	25	566,787	390,257

These financial statements were approved by the Directors on 29 March 2018 and are signed on their behalf by:

Ruixiang Han
Director

Graeme Tosen
Chief Financial Officer

Company Registration No: 4552753

Notes 1 to 40 form part of these financial statements.

Statement of Changes in Equity

for the year ended 31 December 2017

	Ordinary Share Capital *$ '000*	Retained Earnings *$ '000*	Available for Sale Reserve *$ '000*	Total Equity *$ '000*
Balance at 01/01/2016	**200,000**	**156,551**	**724**	**357,275**
Profit for the year	-	20,808	-	**20,808**
Other comprehensive income	-	-	(36)	**(36)**
Balance at 31/12/2016	**200,000**	**177,359**	**688**	**378,047**
Balance at 01/01/2017	**200,000**	**177,359**	**688**	**378,047**
Profit for the year	-	21,698	-	**21,698**
Other comprehensive income	-	-	(1,345)	**(1,345)**
Balance at 31/12/2017	**200,000**	**199,057**	**(657)**	**398,400**

Notes 1 to 40 form part of these financial statements.

Statement of Cash flows

for the year ended 31 December 2017

	Notes	2017 *$ '000*	2016 *$ '000*
Cash flows from operating activities			
Profit before tax		**26,891**	**26,922**
Adjustments for non-cash items			
Depreciation of tangible fixed assets	14	1,668	1,879
Amortisation of intangible assets	15	73	3
Net impairment on loans and advances	10	1,269	2,941
Interest income	2	(57,976)	(69,484)
Interest expense	2	29,349	32,005
Gain on disposal of tangible fixed assets		-	(1)
Loss on sale of AFS financial investments		-	7
Exchange gain and accretion of discounts and amortisation of premiums on AFS financial investments		1,767	8,834
Revaluation gain/(loss) on financial derivatives	11	(522)	792
		(24,372)	**(23,024)**
(Increase)/ decrease in operating assets			
Loans to banks	8	276,532	203,049
Loans and advances to customers	9	70,269	319,708
Other assets	16	(16,268)	(538)
		330,533	**522,219**
(Decrease)/increase in operating liabilities			
Deposits by banks	18	(278,644)	(293,653)
Deposits from customers	19	(15,278)	(270,071)
Other liabilities		16,506	1,149
		(277,416)	**(562,575)**
Adjustment for cash items			
Interest received		56,073	69,101
Interest paid		(29,773)	(32,035)
Income tax paid		(3,313)	(8,075)
		22,987	**28,991**
Net cash from /(used in) operating activities		**78,623**	**(7,467)**
Cash flow from investing activities			
Acquisition of AFS financial investments	12	(226,102)	-
Maturity /Disposal of AFS financial investments	12	166,059	94,644
Acquisition of held-to-maturity financial investments	13	(69,678)	-
Acquisition of tangible fixed assets	14	(174)	(53)
Disposal of tangible fixed assets	14	-	1
Acquisition of intangible assets	15	(223)	(31)
Net cash from /(used in) investing activities		**(130,118)**	**94,561**
Net cash from financing activities		-	-
Net (decrease)/ increase in cash and cash equivalents		**(51,495)**	**87,094**
Cash and cash equivalents at 1 January	30	**126,704**	**41,812**
Effects of exchange rates on cash and cash equivalents		(3,270)	(2,202)
Cash and cash equivalents at 31 December	30	**71,939**	**126,704**

The notes 1 to 40 form part of these financial statements.

Notes to the financial statements

for the year ended 31 December 2017

1. Accounting policies

I. Corporate information

ICBC (London) plc (the Bank), a wholly-owned subsidiary of Industrial and Commercial Bank of China Limited, is incorporated and domiciled in England and Wales with its registered office at 81 King William Street, London EC4N 7BG. The Bank is licensed to carry on banking business in the United Kingdom under the regulatory supervision of the Prudential Regulatory Authority (PRA) and Financial Conduct Authority (FCA).

II. Basis of preparation

- *Statement of Compliance*

The financial statements have been prepared in accordance with FRS 102, the Companies Act 2006 and the special provisions of Schedule 2 of Large and Medium-sized Companies and Group (Accounts and Reports) Regulation 2008.

At the time of approval of these financial statements, the Board of Directors of the Bank was satisfied that the capital and liquidity position of the Bank remained satisfactory. Further, the Bank has sufficient capital and liquidity to enable it to meet its obligations for the foreseeable future, including its prospective flow of new business.

The financial statements are prepared on a going concern basis considering the factors mentioned above. More detail on going concern is provided in the Directors' Report and Statement of Directors' Responsibilities.

The financial statements were authorised for issue by the Board of Directors of the Bank on 29 March 2018.

III. Review of accounting policies

The Bank adopted FRS 102 from 1 January 2015, departing from the old UK GAAP. Further, the Bank has chosen to adopt the recognition and measurement provisions of IAS 39 Financial Instruments: Recognition and Measurement (as adopted for use in the EU), the disclosure requirements of Section 11 and 12 and the presentation requirements of paragraph 11.38A or 12.25B of FRS 102 in respect of Financial Instruments.

The Bank made no changes to its accounting policies for the year ended 31 December 2017 nor was it required to adopt any new accounting policies during this period.

The Bank will adopt the recognition and measurement provisions of IFRS 9 Financial Instruments with effect from 1 January 2018, replacing IAS 39. The estimated impact of IFRS 9 is disclosed in Note 29.

IV. Functional and presentational currency

The financial statements are prepared in US Dollars, which is the functional currency of the Bank. Unless otherwise indicated, all the figures are rounded to the nearest thousand.

V. Foreign currencies transactions and balances

Transactions in currencies other than US Dollars are translated into US Dollars using the spot exchange rate ruling at the date of the transaction. At the end of each reporting period, monetary assets and liabilities denominated in currencies other than US Dollars are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non- monetary items measured at fair value are measured using the exchange rate when fair value was determined. When FRS 102 requires a gain or loss on non-monetary items to be recognised in other comprehensive income, the Bank recognises any component of that gain or loss in other comprehensive income.

Notes to the financial statements

for the year ended 31 December 2017

1. Accounting policies (continued)

VI. Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with FRS 102 requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures. Actual results may differ from these estimates.

The key assumptions concerning the future, management judgements and estimations that have a significant risk of causing a material adjustment to the carrying amount of assets or liabilities within the next financial year are set out below:

- *Impairment losses on loans and advances*

The Bank determines periodically whether there is any objective evidence that impairment losses have occurred on loans and advances. If such evidence exists, the Bank assesses the amount of impairment losses. Management's judgement is required to identify whether objective evidence for impairment exists. It also requires significant estimation when determining the present value of the expected future cash flows.

- *Impairment of financial investments*

The Bank reviews its financial investments at each balance sheet date to assess whether they are impaired. This requires similar judgement as applied to the individual assessment of loans and advances.

- *Fair value of financial instruments*

The fair values of financial assets and liabilities recorded on the Balance Sheet are primarily derived from active markets. In the absence of an active market, the fair value is determined using a variety of valuation techniques that include the use of mathematical models. To the extent possible, valuation techniques make maximum use of market inputs. However, when market inputs are not available, the Bank employs internal financial modelling based on professional judgement and best practice.

VII. Exemption under FRS 102

The Bank has taken advantage of the following exemptions under FRS 102:

- **Related Party Disclosure**

The Bank has taken advantage of the exemption, under FRS 102.1.12 (e), to disclose key management personnel compensation in total.

VIII. Significant Accounting Policies

a. 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 (EIR), which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the carrying amount of the financial asset or financial liability. The effective interest rate is determined on the basis of the carrying amount of the financial asset or liability at initial recognition. 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 and known credit losses that have been incurred, but not future credit losses not yet incurred. The carrying amount of the financial asset or financial liability is adjusted if the

Notes to the financial statements

for the year ended 31 December 2017

1. Accounting policies (continued)

Bank 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 by an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

b. Fee and commission income

The Bank earns fee and commission income from the services it provides to its customers over a certain period of time. Fee income is accounted for as follows:

- income earned on the execution of a significant act is recognised as revenue when the act is completed;
- income earned from the provision of services is recognised as revenue as the services are provided; and
- income which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate.

c. Financial instruments

The Bank has chosen to adopt the recognition and measurement provisions of IAS 39 Financial Instruments: Recognition and Measurement (as adopted for use in the EU), the disclosure requirements of Section 11 and 12 and the presentation requirements of paragraph 11.38A or 12.25B of FRS 102 in respect of Financial Instruments.

Financial Assets

The Bank classifies its financial assets in the following categories:

- Financial assets at fair value through profit or loss
- Loans and receivables
- Held-to-maturity financial investments.
- Available-for-sale financial investments.

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

i. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are categorised as:

Financial assets held for trading

A financial asset is classified as held for trading if:

- It is acquired principally for the purposes of selling or repurchasing it in the near term;
- On initial recognition it is part of a portfolio of identified financial assets that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;
- It is a derivative that is not designated into a qualifying hedge relationship.

Notes to the financial statements

for the year ended 31 December 2017

1. Accounting policies (continued)

Financial assets designated at fair value through profit or loss

Financial assets may be designated at fair value through profit or loss only if such a designation

- eliminates or significantly reduces a measurement or recognition inconsistency
- applies to a group of financial assets, financial liabilities, or both that the Bank manages and evaluates on a fair value basis; or
- relates to an instrument that contains an embedded derivative which is not evidently closely related to the host contract.

Financial assets at fair value through the profit or loss are recognised initially at fair value, with transaction costs recognised in the Profit and Loss Account. Subsequent to initial recognition, any gain or loss arising from changes in fair value are recognised in the Profit and Loss Account.

ii. Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market and which are not classified upon initial recognition as available-for-sale or at fair value through profit or loss. After initial measurement, loans and advances to banks and customers are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortisation is included in "interest receivable" in the Profit and Loss Account. The losses arising from the impairment are recognised in the Profit and Loss Account

The Bank classifies loans and advances to banks and customers, which include bilateral and syndicated loans, under this category.

iii. Held-to-maturity financial investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments that the Bank intends and is able to hold to maturity and that do not meet the definition of loans and receivables and are not designated on initial recognition as assets at fair value through profit or loss or as available-for-sale. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortisation is included in "interest receivable" in the Profit and Loss Account. The losses arising from the impairment are recognised in the Profit and Loss Account

If the Bank sells a held-to-maturity investment other than in insignificant amounts or as a consequence of a non-recurring, isolated event beyond its control that could not be reasonably anticipated, the remaining held-to-maturity investments will be reclassified as available-for-sale financial investments for the current and next two accounting years.

The investment in bonds, issued by corporates and multinational organisations, are classified under this category.

Notes to the financial statements

for the year ended 31 December 2017

1. Accounting policies (continued)

iv. Available-for-sale financial investments

Available-for-sale assets are non-derivative financial assets including debt securities that are designated as available for sale on initial recognition or are not classified into any of the other categories described above.

At the initial recognition of financial instruments as available for sale, all financial instruments are to be carried at fair value. After initial measurement, available-for-sale financial investments are subsequently measured at fair value. Unrealised gains and losses are recognised directly in equity in other comprehensive income – 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.

Interest income is recognised on available-for-sale debt securities using the effective interest rate, calculated over the asset's expected life. Premiums and/or discounts arising on the purchase of investment securities are included in the calculation of their effective interest rates.

If the available-for-sale financial investment is impaired, the difference between the financial asset's acquisition cost (net of any principal repayments and amortisation) and the current fair value, less any previous impairment loss recognised in the Profit and Loss Account, is removed from other comprehensive income and recognised in the Profit and Loss Account.

The investment in bonds, issued by corporates and multinational organisations, is classified under this category.

Impairment of financial assets

- *Loans and advances to banks and customers*

For loans and advances to banks and customers carried at amortised cost, the Bank assesses individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant, whether there is objective evidence of impairment. For the purpose of collective evaluation of impairment, which is intended to reflect incurred losses that have not yet been specifically identified, financial assets may be grouped on the basis of similar credit risk characteristics (e.g. asset type, industry, geographical risk etc.) and should reflect global risk factors that are difficult to quantify.

Objective evidence of impairment may include loss events and other changes such as:

- Significant financial difficulty of the issuer or obligor;
- Breach of contract such as clear evidence of event of default;
- Payments of either principal or interest exceeding 90 days or more have not been received.
- The issuer or obligor will enter bankruptcy proceedings;
- The primary sources of repayment are insufficient to service the remaining contractual principal and interest amounts, and the Bank has to rely on secondary sources for repayment;
- The asset is no longer traded publicly or there is no market to trade the assets;
- Clear evidence of measurable data indicating that actual and future cash flow will be insufficient to service interest and principal.

Notes to the financial statements

for the year ended 31 December 2017

1. Accounting policies (continued)

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Profit and Loss Account.

Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written down when there is no realistic prospect of future recovery and all collateral has been realised or transferred to the Bank.

All impaired loans are reviewed for changes to the recoverable amount. 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.

- *Financial instruments held-to-maturity*

The Bank 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.

- *Financial instruments available-for-sale*

For financial instruments available-for-sale, the Bank 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".

When a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised in other comprehensive income shall be reclassified from Equity to the Profit and Loss Account as a reclassification adjustment even though the financial asset has not been derecognised.

The amount of the cumulative loss that is reclassified from Equity to the Profit and Loss Account shall be the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in the Profit and Loss Account.

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.

Notes to the financial statements

for the year ended 31 December 2017

1. Accounting policies (continued)

Financial Liabilities

The Bank classifies its financial liabilities in the following categories:

i. ***Financial Liabilities designated at fair value through profit or loss***

Financial assets may be designated at fair value through profit or loss only if such a designation:

- eliminates or significantly reduces a measurement or recognition inconsistency;
- applies to a group of financial assets, financial liabilities, or both which is managed and its performance is evaluated on a fair value basis; or
- the financial instrument contains an embedded derivative which is not evidently closely related to the host contract.

Financial Liabilities at fair value through profit or loss are recognised initially at fair value, with transaction costs recognised in the Profit and Loss Account. Subsequent to initial recognition, any gain or loss arising from changes in fair value are recognised in the Profit and Loss Account.

ii. Other Financial Liabilities

All other financial liabilities are measured initially at fair value including transaction costs that are directly attributable to the acquisition or issue of the financial liabilities. Subsequently, they are carried at amortised cost. The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment

Derecognition of Financial Assets and Liabilities

Financial assets are derecognised when:

i. the right to receive cash flows from the assets has expired; or when the Bank has transferred its contractual right to receive the cash flows of the financial assets, and substantially all the risks and rewards of ownership; or where control is not retained.

Financial liabilities are derecognised when the obligation under the liability is discharged, cancelled or expired.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is presented in the financial statements when the Bank has a current legally enforceable right to set-off the recognised amount and the Bank intends either to settle on a net basis, or to realise the financial asset and settle the financial liability simultaneously.

Derivatives and credit valuation adjustment/ debit valuation adjustment

Derivatives are recorded at fair value at trade date and are subsequently recognised at fair value. Derivatives are 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.

Notes to the financial statements

for the year ended 31 December 2017

1. Accounting policies (continued)

Credit valuation adjustment (CVA) and Debit valuation adjustment (DVA) are adjustments for financial derivatives in order to reflect the credit risk of the counterparty and the Bank's own risk respectively. CVA and DVA are calculated using estimates of exposure at default, probability of default and recovery rates, at a counterparty level.

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 an interest expense and accrued over the life of the agreements using the effective interest rate method. Securities lent to counterparties are not derecognised in the financial statements.

Conversely, securities purchased under agreements to resell (reverse repos) at a specified future date are not recognised in the Balance Sheet. The consideration paid, including accrued interest, is recorded in the Balance Sheet, reflecting the transaction's economic substance as a loan by the Bank. 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 method. 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.

d. Taxation

Income Tax comprises current and deferred income tax. Tax is recognised in the Profit and Loss Account, except that it relates to items recognised in other comprehensive income or directly in Equity, in which case tax is recognised in other comprehensive income.

Current Tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period-end.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred Tax

Deferred tax shall be recognised in respect of all timing differences at the reporting date. Timing differences are differences between taxable profits and total comprehensive income as stated in the financial statements that arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Unrelieved tax losses and other deferred tax assets shall be recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using the tax rates and legislation enacted, or substantively enacted, by the balance sheet date that are expected to apply when the deferred tax asset is realised or the deferred tax liability is settled.

Notes to the financial statements

for the year ended 31 December 2017

1. Accounting policies (continued)

e. Tangible fixed assets and depreciation

Fixed assets are recorded at cost less accumulated depreciation and any accumulated impairment.

Depreciation is calculated on a straight-line basis over the period of their estimated useful economic lives as follows:

Building	-	50 years
Refurbishment on building	-	10 years
Leasehold improvements, office furniture and equipment	-	5 years
Motor vehicles	-	5 years
Computer hardware and software	-	3 years

Land is not depreciated

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

f. Intangible Assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives of the assets. The estimated useful life and amortisation method are reviewed at the end of each reporting period.

Software with an indefinite useful life is amortised on a straight-line basis over 3 years.

g. Employee Benefits

Short-term employee benefits

Short-term employee benefits such as salaries, paid holiday, sick leave and other similar benefits are measured on an undiscounted basis and recognised as expenses in the period of service rendered. Bonuses are recognised as provision to the extent that the Bank has a present obligation to its employees that can be measured reliably. All expenses related to employee benefits are recognised in Profit and Loss Account in Personal Expenses.

Defined Contribution Pension Plan

The Bank has a defined contribution pension plan for its eligible employees through a personal pension scheme provider. Contributions are charged to the Profit and Loss Account as incurred. The amount recognised in the Profit and Loss Account is disclosed in Note 4.

Notes to the financial statements

for the year ended 31 December 2017

1. Accounting policies (continued)

h. Leases

The Bank pays rent under operating leases and these rents are charged to the Profit and Loss Account over the lease term on a straight-line basis.

i. Provision

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a current legal or constructive obligation as a result of past events, and a reliable estimate can be made of the amount of the obligation.

The Bank has made provision for onerous lease contracts as set out at Note 24.

j. Contingent liabilities

A contingent liability is a possible obligation that arises from past events and which existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably. Contingent liabilities are disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable and can be reliably estimated, it will then be recognised as a provision.

k. Cash and cash equivalents

Cash and cash equivalents comprise cash and balances due from other banks with a maturity period of less than three months.

Notes to the financial statements

for the year ended 31 December 2017

2. Interest and similar income

2017

	Loans & receivables	Available for sale	HTM*	Derivative instruments FVTPL **	Deposits by bank	Customer accounts	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Interest and similar income							
arising from financial investments	-	6,414	264	-	-	-	6,678
Other interest and similar income	51,165	-	-	133	-	-	51,298
Total Interest and similar income	**51,165**	**6,414**	**264**	**133**		**-**	**57,976**
Interest expense	-	-	-	-	(27,162)	(2,187)	(29,349)
Net interest income	**51,165**	**6,414**	**264**	**133**	**(27,162)**	**(2,187)**	**28,627**
Fees and commissions income							7,074
Fees and commissions expense							(2,339)
Net fees income							**4,735**

** HTM – Held to Maturity*

*** FVTPL – Fair Value through profit or loss*

Interest and other similar income on financial assets include interest income of $2.06 million on impaired loans (2016: $1.99 million).

Notes to the financial statements

for the year ended 31 December 2017

2016

	Loans & receivables	Available for-sale	HTM	Derivative instruments FVTPL	Deposits by bank	Customer accounts	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Interest and similar income							
arising from financial investments	-	5,666	-	-	-	-	5,666
Other interest and similar income	63,646	-		172	-	-	63,818
Total Interest and similar income	**63,646**	**5,666**	**-**	**172**		**-**	**69,484**
Interest expense	-	-		-	(28,797)	(3,208)	(32,005)
Net interest income	**63,646**	**5,666**	**-**	**172**	**(28,797)**	**(3,208)**	**37,479**
Fees and commissions income							6,777
Fees and commissions expense							(1,451)
Net fees income							**5,326**

3. Other operating income

	2017	2016
	$'000	*$'000*
Fees earned for services provided under a service level agreement with related parties	5,174	2,952
	5,174	**2,952**

The Bank earns fee income for the following services provided to related parties:

i. Industrial and Commercial Bank of China Ltd – for providing Foreign Exchange, Precious Metal services, fixed income and derivative services, CNY financing services and CNY exchange trading services.

ii. Industrial and Commercial Bank of China Financial Services LLC – for providing human resources and regulatory compliance services to its London office (PDS).

The Bank has made the following changes in presentation in 2017:

- The Bank provides human resources, administrative and support functions to Industrial and Commercial Bank of China Ltd, London Branch (the Branch) in order to conduct the commercial banking, treasury and global markets business of the Branch. The expenses incurred by the Bank for such services are

Notes to the financial statements

for the year ended 31 December 2017

reimbursed by the Branch. The Bank has reclassified the reimbursement of such expenses as operating expenses in 2017. This was presented as part of other operating income in 2016.

- The fee income earned from Industrial and Commercial Bank of China Financial Services LLC for providing human resources and regulatory compliance services was presented in other operating income, whereas the associated expense for providing such services was presented in other operating expenses (Note 6) in 2016. The fee income has been presented net of related expenses in 2017 as this reflects the actual amount of income.

The previous year's figures have been reclassified for consistency in presentation.

Details of the reclassification of the 2016 figures are presented in Note 28.

4. Personnel expenses

Personnel expenses (including Directors') comprise the following:

	2017 *$'000*	2016 *$'000*
Wages and salaries	22,016	16,833
Social security costs	2,197	1,626
Pension costs	650	538
Other costs	821	536
	25,684	**19,533**

Of the total personnel expenses, the cost attributable to the Branch was $18.94 million (2016: $9.1 million).This has been included in the "Reimbursement of expenses attributable to ICBC London Branch" line in the Profit and Loss Account. Had the same expenses allocation method used in 2017 been applied for 2016, the personnel expenses attributable to the Branch for 2016 would have been $11.69 million.

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

	2017 *No*	2016 *No*
- Senior Management	6	6
- Corporate Banking	24	17
- Institutional Banking	10	5
- Treasury	12	10
- Global Loan Syndications	2	2
- Retail Banking and Account Services	8	8
- PDS	12	12
- Risk control (Credit Management and Risk and ALM)	21	17
- Support functions	45	41
- Compliance and Legal and Internal Audit	10	8
- Company Secretary	1	1
	151	**127**

Notes to the financial statements

for the year ended 31 December 2017

5. Directors' emoluments

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

	2017 *$'000*	2016 *$'000*
Salary	1,185	1,100
Bonus	263	188
	1,448	**1,288**

The emoluments of the highest-paid Director were as below:

	2017 *$'000*	2016 *$'000*
Salary, benefits and performance-related bonus	665	522
	665	**522**

6. Other operating expenses

	2017 *$'000*	2016 *$'000*
Administrative expenses	7,730	6,328
Operating leases:		
- Operating lease charges	722	384
- Provision for onerous leases	1,977	884
Auditor's remuneration:		
- Audit of the financial statements		
Current year	165	113
Previous year	-	25
- Audit-related assurance services		
Current year	29	29
Previous year	-	23
- Other services related to taxation	-	20
	10,623	**7,806**

Notes to the financial statements

for the year ended 31 December 2017

The Bank has a service level agreement in place with Industrial and Commercial Bank of China Financial Services LLC for providing human resources and regulatory compliance services for which the Bank receives a margin in addition to the actual cost for providing such services.

The expenses incurred on providing such services have been reclassified to other operating income (Note 3) in 2017. These costs were included in other operating expenses in 2016. The previous year's figures have been reclassified for consistency of presentation.

Details of the reclassification of 2016 figures are presented in Note 28.

Of the total other operating expenses, expenses attributable to the Branch were $6.45 million in 2017 (2016: USD 2.93 million). This has been included in the "Reimbursement of expenses attributable to ICBC London Branch" line in the Profit and Loss Account. Had the same expenses allocation method used in 2017 been applied for 2016, the other operating expenses attributable to the Branch for 2016 would have been $3.74 million.

7. Tax on profit on ordinary activities

The tax charge is made up as follows:

	2017	2016
	$'000	*$'000*
Current tax:		
UK corporation tax	(6,265)	(6,367)
Adjustments in respect of prior years	1,174	283
Total current tax	**(5,091)**	**(6,084)**
Deferred tax:		
Origination and reversal of timing differences	(105)	(69)
Adjustment for prior years	3	(1)
Effect of tax rate change on opening balance	-	40
Total deferred tax (charge)/credit for the year	**(102)**	**(30)**
Total charge for the year	**(5,193)**	**(6,114)**

Notes to the financial statements

for the year ended 31 December 2017

The tax assessed on the profit on ordinary activities for the year is the blended standard rate of Corporation Tax in the UK of 19.25 % (2016: 20 %) and the Bank Corporation Tax Surcharge of 8% on profit above $16.11 million (i.e. GBP 12.5 million). The differences are reconciled below:

	2017 *$'000*	2016 *$'000*
Profit on ordinary activities before tax	**26,891**	**26,922**
Profit on ordinary activities multiplied by standard rate of UK Corporation Tax of 19.25 % (2016: 20 %)	(5,177)	(5,384)
Bank Surcharge (8% on taxable profit above $16.11 million (GBP 12.5 million))	(916)	(831)
Effects of:		
Expenses not deductible for tax purposes	(22)	(16)
Capital allowances in excess of depreciation of qualifying assets	(130)	(164)
Other adjustments	(20)	27
Adjustments in respect of prior years	1,174	284
Current tax charge	**(5,091)**	**(6,084)**
Deferred tax charge in Profit and Loss Account	**(102)**	**(30)**
Total tax charge for the year	**(5,193)**	**(6,114)**

Reductions in the UK Corporation Tax rate from 20% to 19% (effective from 1 April 2017) and to 17% (effective from 1 April 2020) were substantively enacted in October 2015 and September 2016 respectively. Further, the Bank Corporation Tax Surcharge of 8 % came into effect from 1 January 2016. Since the Bank is a part of a banking group in the UK for Bank Surcharge purposes, the annual surcharge allowance of GBP 25 million is divided equally between the Bank and the Branch.

The deferred tax at 31 December 2017 has been calculated at 25% (17% Corporation Tax + 8% Bank Surcharge).

Consortium relief

In December 2017, the Bank claimed consortium relief for 2015 and 2016 taxation. The consortium relief enabled the Bank to claim the tax losses suffered by ICBC Standard Bank Plc (ICBCS), a consortium company, against the taxable profit of the Bank in 2015 and 2016. Consequently, the Bank will receive a repayment of tax previously paid to HMRC for 2015 and 2016. The total tax repayment receivable from HMRC including interest on tax was $13.71 million, which is included in Note 16 "Prepayments, accrued income and other assets".

In accordance with the agreement between the Bank and ICBCS, the Bank has to pay the tax equivalent amount of the tax losses (tax losses multiplied by effective tax rate of the relevant year) to ICBCS as consideration for its tax losses surrendered to the Bank. The consideration for tax losses payable to ICBCS was $12.48 million, which is included in "Other liabilities" in the Balance Sheet.

Notes to the financial statements

for the year ended 31 December 2017

8. Loans and advances to banks

	2017	2016 Revised	2016 Original
	$'000	*$'000*	*$'000*
Loans and advances to banks	840,309	1,171,623	1,173,940
Loan fees received in advance	-	-	(2,317)
Less: Allowance for impairment losses (Note 10)	(245)	(30)	(30)
Net loans and advances to banks	**840,064**	**1,171,593**	**1,171,593**

Loans and advances are presented net of loan fees received in advance in all disclosures in 2017. The previous year's figures have been reclassified for consistency of presentation.

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

	2017	2016 Revised	2016 Original
	$'000	*$'000*	*$'000*
- On demand	71,777	126,559	126,559
- Three months or less	539,918	726,926	727,390
- Above three months to one year	47,464	177,188	178,916
- Above one year to five years	181,150	140,950	141,075
	840,309	**1,171,623**	**1,173,940**

Notes to the financial statements

for the year ended 31 December 2017

Loans and advances to banks by geographical area:

	2017	2016 Revised	2016 Original
	$'000	*$'000*	*$'000*
Area:			
China	479,127	552,992	300,945
United Kingdom	67,842	136,006	376,006
United States	21,489	9,958	122,019
Turkey	-	48,883	48,883
Germany	-	80,000	61,209
South Africa	169,174	185,189	186,075
Hong Kong	2,089	2,740	2,740
Australia	40,000	1,841	-
India	30,000	50,000	-
Japan	-	-	45
Others	30,588	104,014	76,018
	840,309	**1,171,623**	**1,173,940**

The above table shows the breakdown of loans and advances to banks based on the country of ultimate risk (for e.g. the exposure to a branch of the bank is classified as per the location of its head office instead of the location of the branch). The previous year's figures have been reclassified for consistency of presentation.

	2017	2016
	$'000	*$'000*
Amounts include:		
Due from ICBC group entities	38,948	243,633

9. Loans and advances to customers

	2017	2016 Revised	2016 Original
	$'000	*$'000*	*$'000*
Loans and advances to customers	960,267	1,041,515	1,047,492
Loan fees received in advance	-	-	(5,977)
Less: Allowance for impairment losses (Note 10)	(7,035)	(16,990)	(16,990)
Net loans and advances to customers	**953,232**	**1,024,525**	**1,024,525**

Notes to the financial statements

for the year ended 31 December 2017

Loans and advances are presented net of loan fees received in advance in all disclosures in 2017. The previous year's figures have been reclassified for consistency of presentation.

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

	2017	2016 Revised	2016 Original
	$'000	*$'000*	*$'000*
- Overdue	5,000	30,000	30,000
- Three months or less	88,834	42,533	42,533
- Above three months to one year	156,749	182,048	182,464
- Above one year to five years	551,409	601,483	606,792
- Above five years	158,275	185,451	185,703
	960,267	**1,041,515**	**1,047,492**

Loans and advances to customers by geographical area:

	2017	2016 Revised	2016 Original
	$'000	*$'000*	*$'000*
Area:			
United Kingdom	447,416	392,251	395,350
Netherlands	64,589	105,489	105,888
Russia	19,841	97,868	98,655
Hong Kong	20,788	28,438	-
United States	5,000	10,386	10,519
Zambia	135,000	150,000	-
France	21,286	43,703	11,068
Switzerland	57,301	-	-
China	25,074	34,724	259,586
Angola	45,498	59,695	60,343
Australia	38,268	-	-
Others	80,206	118,961	106,083
	960,267	**1,041,515**	**1,047,492**

The Bank classified exposures based on the location of a guarantor instead of the location of a borrower in the previous year. In 2017 the Bank has reassessed the criteria for the geographical allocation of the exposure and

Notes to the financial statements

for the year ended 31 December 2017

reclassified the exposure based on the location of the borrower instead of any guarantors. The previous year's figures have been reclassified for consistency of presentation.

10. Impairment allowance

	Loan & advances to banks (Collective impairment)	Loan & advances to customers (Collective impairment)	Loan & advances to customers (Specific impairment)	Total
	$'000	*$'000*	*$'000*	*$'000*
Balance at 1 January 2016	-	**2,079**	**12,000**	**14,079**
Charge for the year	30	-	3,000	3,030
Reversal during the year	-	(89)	-	(89)
Balance at 31 December 2016	**30**	**1,990**	**15,000**	**17,020**
Balance at 1 January 2017	**30**	**1,990**	**15,000**	**17,020**
Charge for the year	215	45	979	1,239
Amount written off	-	-	(10,979)	(10,979)
Balance at 31 December 2017	**245**	**2,035**	**5,000**	**7,280**

In 2017 the Bank disposed of a loan balance amounting to $18.27 million (Gross loan of $29.24 million, comprising of $ 25 million of principal and $4.24 million of capitalised interest, less impairment allowance of $10.97 million). The Bank also wrote off $30k of the accrued interest receivable at the time of disposal of the loan. The total impairment loss charged for 2017 is as below:

	2017	2016
	$'000	*$'000*
Impairment losses on loans and advances to banks and customers (net)	1,239	2,941
Interest receivable on loans written off	30	-
Total impairment loss charged for the year	**1,269**	**2,941**

Notes to the financial statements

for the year ended 31 December 2017

11. Derivative financial instruments

In the following table, 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 Bank in an orderly market transaction at the balance sheet date. The replacement cost is considered to be the same as the positive or negative fair value.

Derivatives are measured at their fair value, which is calculated as the present value of future expected net contracted cash flows at market related rates at the balance sheet date.

	2017			2016		
	Positive fair value *$000*	**Negative fair value** *$000*	**Revaluation gain/(loss)** *$000*	**Positive fair value** *$000*	**Negative fair value** *$000*	**Revaluation gain/(loss)** *$000*
Forward Exchange Contracts	50,123	(49,070)	623	82,652	(82,222)	(106)
Foreign Exchange Swaps	-	-	-	5	(5)	(475)
Interest Rate Swaps	1,997	(1,866)	(101)	3,672	(3,440)	(211)
	52,120	**(50,936)**	**522**	**86,329**	**(85,667)**	**(792)**

The above derivatives were not designated as hedging instruments for hedge accounting purposes. Hence, the fair value gains/losses on these derivatives have been charged to the Profit and Loss Account.

12. Available-for-sale financial investments

Available-for-sale financial investments include investment in quoted bonds. The Bank values bonds using the quoted market price at the balance sheet date.

	2017 *$''000*	**2016** *$'000*
Balance at 1 January	388,541	489,848
Additions	226,102	-
Disposals/ Matured	(166,059)	(94,651)
Fair value adjustment*	(2,033)	(24)
Premium/ Discount amortisation	467	(108)
Foreign exchange difference	1,192	(6,524)
	448,210	**388,541**

Notes to the financial statements

for the year ended 31 December 2017

* Fair value adjustment is net of fair value adjustment recycled though the Profit and Loss Account at disposal of available-for-sale bonds. The fair value adjustment recycled through the Profit and Loss Account in 2017 is nil (2016: (62k)).

	2017 *$'000*	2016 *$'000*
Analysed by maturity:		
- Due within one year	246,235	166,083
- Due after one year	201,975	222,458
Analysed by sector:		
- Government	360,239	279,963
- Other sectors	87,971	108,578

13. Held-to-maturity financial investments

	2017 *$'000*	2016 *$'000*
Balance at 1 January	-	-
Additions	69,678	-
Premium/ Discount Amortisation	(156)	-
	69,522	-

Notes to the financial statements

for the year ended 31 December 2017

14. Tangible fixed assets

	Land	Building	Office furniture and equipment	Computers	Construction in progress	Leasehold improvement	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Original cost:							
At 1 January 2017	2,785	44,686	2,044	978	-	1,184	51,677
Additions	-	32	30	95	17	-	174
At 31 December 2017	**2,785**	**44,718**	**2,074**	**1,073**	**17**	**1,184**	**51,851**
Accumulated depreciation:							
At 1 January 2017	-	8,125	1,979	901	-	1,184	12,189
Depreciation for the year	-	1,545	59	64	-	-	1,668
At 31 December 2017	**-**	**9,670**	**2,038**	**965**	**-**	**1,184**	**13,857**
Net book value:							
At 31 December 2017	**2,785**	**35,048**	**36**	**108**	**17**	**-**	**37,994**
At 31 December 2016	**2,785**	**36,561**	**65**	**77**	**-**	**-**	**39,488**

Of the total depreciation expense for the year, the depreciation charge attributable to the Branch was $1.23 million in 2017 (2016: USD 0.88 million). This has been included in the "Reimbursement of expenses attributable to ICBC London Branch" line in the Profit and Loss Account. Had the same expenses allocation method used in 2017 been applied for 2016, the depreciation attributable to the Branch for 2016 would have been $1.13 million.

Notes to the financial statements

for the year ended 31 December 2017

2016

	Land	Building	Office furniture and equipment	Computers	Motor vehicles	Leasehold improvement	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Original cost:							
At 1 January 2016	2,785	44,673	2,035	947	49	1,184	51,673
Additions	-	13	9	31	-	-	53
Disposals	-	-	-	-	(49)	-	(49)
							-
At 31 December 2016	**2,785**	**44,686**	**2,044**	**978**	**-**	**1,184**	**51,677**
Accumulated depreciation:							
At 1 January 2016	-	6,576	1,709	841	49	1,184	10,359
Depreciation for the year	-	1,549	270	60	-	-	1,879
Reversal of Depreciation on disposal	-	-	-	-	(49)	-	(49)
At 31 December 2016	**-**	**8,125**	**1,979**	**901**	**-**	**1,184**	**12,189**
Net book value:							
At 31 December 2016	**2,785**	**36,561**	**65**	**77**	**-**	**-**	**39,488**
At 31 December 2015	**2,785**	**38,097**	**326**	**106**	**-**	**-**	**41,314**

15. Intangible assets

	2017	2016
	$'000	*$'000*
Original Cost:		
At 1 January	31	-
Additions	223	31
At 31 December	**254**	**31**
Amortisation		
At 1 January	3	-
Amortisation for the year	73	3
At 31 December	**76**	**3**
Net book value:		
At 31 December	**178**	**28**

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for the year ended 31 December 2017

16. Prepayments, accrued income and other assets

	2017	2016
	$'000	*$'000*
Accrued interest receivable	9,244	7,371
Prepayments	804	655
Other assets	464	372
Receivable from HMRC	13,707	-
Amount owed by ICBC group undertakings	5,538	3,218
	29,757	**11,616**

17. Deferred tax assets/ (liabilities)

	2017	2016
	$'000	*$'000*
Deferred tax liabilities included in the Balance Sheet comprise the following:		
Accelerated capital allowances	(1,177)	(1,075)
Other timing differences	559	(85)
	(618)	**(1,160)**
Movements in deferred tax liabilities during the year were as follows:		
Balance at 1 January	**(1,160)**	**(1,045)**
Deferred tax (charged)/credited to the Profit and Loss Account	(102)	(30)
Deferred tax credited /(charged) directly to Other Comprehensive Income	644	(85)
Balance at 31 December	**(618)**	**(1,160)**

18. Deposits by banks

	2017	2016
	$'000	*$'000*
Repayable:		
- On demand	172,161	275,083
- Three months or less	307,423	371,400
- Above three months to one year	499,563	645,272
- Above one year to five years	496,747	462,783
	1,475,894	**1,754,538**

Notes to the financial statements

for the year ended 31 December 2017

	2017	2016
	$'000	*$'000*
Amounts include:		
Deposits by Parent Bank undertakings	321,024	754,218

19. Customer accounts

	2017	2016
	$'000	*$'000*
Repayable:		
- On demand	182,785	168,138
- Three months or less	89,902	113,575
- Above three months to one year	102,887	109,299
- Above one year	160	-
	375,734	**391,012**

20. Accruals and deferred Income

	2017	2016
	$'000	*$'000*
Accrued interest payable	2,955	3,379
Deferred income	478	279
	3,433	**3,658**

21. Share capital

	2017	2016
	$'000	*$'000*
Authorised share capital, ordinary shares of $1 each		
Balance at 31 December	**250,000**	**250,000**
Allotted, called-up and fully-paid, 200,000,000 ordinary shares of $1 each:		
Balance at 31 December	**200,000**	**200,000**

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for the year ended 31 December 2017

22. Reconciliation of shareholder's funds and movements on reserves

	Share capital *$'000*	Retained earning *$'000*	Available for sale reserve *$'000*	Total shareholder's funds *$'000*
At 1 January 2016	**200,000**	**156,551**	**724**	**357,275**
Profit for the year	-	20,808	-	20,808
Change in fair value of Available-for-sale (AFS) financial investments	-	-	(86)	(86)
Fair value of AFS financial investments recycled through Profit and Loss Account at disposal	-	-	62	62
Tax charge on change in fair value of AFS financial investments	-	-	73	73
Deferred tax asset recognised through Equity	-	-	(85)	(85)
At 31 December 2016	**200,000**	**177,359**	**688**	**378,047**
At 1 January 2017	**200,000**	**177,359**	**688**	**378,047**
Profit for the year	-	21,698	-	21,698
Change in fair value of Available-for-sale (AFS) financial investments	-	-	(2,033)	(2,033)
Tax charge on change in fair value of AFS financial investments	-	-	44	44
Deferred tax liability recognised through Equity	-	-	644	644
At 31 December 2017	**200,000**	**199,057**	**(657)**	**398,400**

23. Subordinated loan

	2017 *$'000*	2016 *$'000*
USD Floating rate note (Libor plus 1.3 %)	100,000	100,000
	100,000	**100,000**

On 28 October 2013, a 10-year Subordinated loan was raised from Industrial and Commercial Bank of China Limited, the ultimate parent. The interest charged is 3 months Libor plus 1.3%.

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for the year ended 31 December 2017

24. Provision for Liabilities

i. Onerous lease

	2017			2016		
	$'000			*$'000*		
	36 King Street	***81-85 Shaftesbury Avenue***	***Total***	***36 King Street***	***81-85 Shaftesbury Avenue***	***Total***
Balance at 1 January	**226**	**909**	**1,135**	**241**	**-**	**241**
Addition/(Reversal) during the year	22	2,063	**2,085**	(15)	909	**894**
Balance at 31 December	**248**	**2,972**	**3,220**	**226**	**909**	**1,135**

a. 36 King Street

The Bank moved into a new office at King William Street in March 2012. This resulted in the lease contract on the two floors of the former premises becoming an onerous lease. The lease will expire in April 2018. The onerous lease provision represents the estimated expected shortfall between the rental cost and the rental income from the sublease. Following an annual assessment, the provision for onerous lease increased to $248k at 31 December 2017.

b. 81-85 Shaftesbury Avenue

The Bank leased premises at 81-85 Shaftesbury Avenue in April 2016 in order to open a branch. However, in November 2016 the Bank decided not to open the branch leading to the premises becoming an onerous lease. The lease will expire in April 2033 with an option to terminate early in April 2026. The Bank is planning to terminate the lease in April 2026 and to sublet the vacant premises until then. However, there was no reasonable prospect of subletting the vacant premises as at the balance sheet date. Therefore, the onerous lease provision is computed on the total rent payable until April 2026, discounted by the 9-year UK Government bond yield. Consequently, the provision for the onerous lease contract increased to $2.97 million at 31 December 2017.

25. Memorandum items – contingencies and commitments

	2017	**2016**
	$'000	*$'000*
Undrawn documentary credits and short-term trade related transactions	63,863	42,646
Undrawn loans and advances	502,924	347,611
Balance at 31 December	**566,787**	**390,257**

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for the year ended 31 December 2017

The table above shows 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 extend credit. Nominal principal amounts represent the amount at risk should the contract be fully drawn.

Operating lease commitments

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

	2017	2016
	$'000	*$'000*
Not later than 1 year	413	846
Above 1 year but less than 5 years	1,489	1,484
5 years and above	1,210	1,697

26. Related Parties

Ultimate Controlling Company

The Bank is a wholly-owned subsidiary of Industrial and Commercial Bank of China Limited, into which the financial statements of the Bank are consolidated. Copies of the group financial statements are available from 55, Fuxingmennei Dajie, Beijing, 100140, China (http://www.icbc-ltd.com/ICBCLtd/en).

Outstanding balance of related party transactions

As per section 33.1A of FRS 102, the outstanding balance of transactions with related parties not wholly-owned by ICBC group is disclosed below:

	2017	2016
	$'000	*$'000*
Balance sheet		
Derivative financial Instruments (Assets)	-	896
Loans and advances to banks	56,154	136,475
Prepayments, accrued income and other assets	189	198
Derivative financial Instruments (Liabilities)	(24,214)	(41,705)
Deposits by banks	589	103
Other liabilities	12,476	100
Notional amount of FX derivatives outstanding	217,399	331,809

Notes to the financial statements

for the year ended 31 December 2017

Profit and loss account		
Interest receivable from financial investments	2,525	1,843
Revaluation loss on financial derivatives	16,595	(40,809)
Fees and commission receivable	4	144

The above transactions were with the following group entities:

i. ICBC Standard Bank Plc, 68%-owned subsidiary of Industrial and Commercial Bank of China Limited.

ii. Industrial and Commercial Bank of China (Argentina) Limited, 80%-owned subsidiary of Industrial and Commercial Bank of China Limited.

iii. Industrial and Commercial Bank of China (Turkey) Limited, 92.84%-owned subsidiary of Industrial and Commercial Bank of China Limited.

iv. Industrial and Commercial Bank of China (Canada) Limited, 80%-owned subsidiary of Industrial and Commercial Bank of China Limited.

v. Standard Bank Group Limited SA, 20%-owned associate of Industrial and Commercial Bank of China Limited.

27. Fair values of financial instruments

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

Derivatives

Derivatives 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 Bank 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.

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for the year ended 31 December 2017

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

2017	Level 1	Level 2	Level 3	Total
	$'000	*$'000*	*$'000*	*$'000*
Assets				
Derivative financial instruments:				
Foreign Exchange Forwards	-	50,123	-	**50,123**
Interest Rate Swaps	-	1,997	-	**1,997**
Available-for-sale financial investments:				
Government debt securities	360,239	-	-	**360,239**
Other debt securities	64,969	23,002	-	**87,971**
	425,208	**75,122**	**-**	**500,330**
Liabilities				
Derivative financial instruments:				
Foreign Exchange Forwards	-	49,070	-	**49,070**
Interest Rate Swaps	-	1,866	-	**1,866**
		50,936		**50,936**

Notes to the financial statements

for the year ended 31 December 2017

2016	Level 1	Level 2	Level 3	Total
	$'000	*$'000*	*$'000*	*$'000*
Assets				
Derivative financial instruments:				
Foreign Exchange Forwards	-	82,652	-	**82,652**
Foreign Exchange Swaps	-	5	-	**5**
Interest Rate Swaps	-	3,672	-	**3,672**
Available-for-sale financial investments:				
Government debt securities	279,963	-	-	**279,963**
Other debt securities	94,131	14,447	-	**108,578**
	374,094	**100,776**	**-**	**474,870**
Liabilities				
Derivative financial instruments:				
Foreign Exchange Forwards	-	82,222	-	**82,222**
Foreign Exchange Swaps	-	5	-	**5**
Interest Rate Swaps	-	3,440	-	**3,440**
	-	**85,667**	**-**	**85,667**

Analysis of financial assets and liabilities by measurement basis

Financial assets and financial liabilities are measured on an on-going basis either at fair value or at amortised cost.

The following table analyses the carrying amounts of the financial assets and liabilities by category as defined in the Bank's accounting policies and by balance sheet heading.

2017

	Fair value through profit and loss	Fair value through other comprehensive income	Financial assets and liabilities at amortised cost	Total
	$'000	*$'000*	*$'000*	*$'000*
Assets				
Cash and balances at central banks	-	-	162	**162**
Loans and advances to banks	-	-	840,064	**840,064**

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Loans and advances to customers	-	-	953,232	**953,232**
Derivative financial instruments	52,120	-	-	**52,120**
Available-for-sale financial Investments	-	448,210	-	**448,210**
Held-to-maturity financial investments	-	-	69,522	**69,522**
Total assets	**52,120**	**448,210**	**1,862,980**	**2,363,310**

Liabilities				
Deposits by banks	-	-	1,475,894	**1,475,894**
Customer accounts	-	-	375,734	**375,734**
Derivative financial instruments	50,936	-	-	**50,936**
Subordinated loan	-	-	100,000	**100,000**
Total liabilities	**50,936**	**-**	**1,951,628**	**2,002,564**

2016

	Fair Value through profit and loss	**Fair value through other comprehensive income**	**Financial assets and liabilities at amortised cost**	**Total**
	$'000	*$'000*	*$'000*	*$'000*
Assets				
Cash and balances at central banks	-	-	145	**145**
Loans and advances to banks	-	-	1,171,593	**1,171,593**
Loans and advances to customers	-	-	1,024,525	**1,024,525**
Derivative financial instruments	86,329	-	-	**86,329**
Available-for-sale financial Investments	-	388,541	-	**388,541**
Total assets	**86,329**	**388,541**	**2,196,263**	**2,671,133**
Liabilities				
Deposits by banks	-	-	1,754,538	**1,754,538**
Customer accounts	-	-	391,012	**391,012**

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Derivative financial instruments	85,667	-	-	**85,667**
Subordinated loan	-	-	100,000	**100,000**
Total liabilities	**85,667**	-	**2,245,550**	**2,331,217**

28. Reclassification

The Bank has reclassified the following items of income and expense in the profit and loss account:

1. Fee income from Industrial and Commercial Bank of China Financial Services LLC

The Bank has a service level agreement in place with Industrial and Commercial Bank of China Financial Services LLC (ICBCFS LLC) for providing human resources and regulatory compliance services for which the Bank receives a profit margin in addition to the actual cost of providing such services.

In the previous year the income received for providing such services was included in "Other operating income" (Note 3), whilst associated expenses relating to these services were included in "Other operating expenses" (Note 6) in the Profit and Loss Account.

The Bank has reassessed this presentation and has concluded that the expenses incurred for providing such services should be included in "Other operating income" as it provides a more accurate and useful reflection of the actual income from the service line agreement.

2. Reimbursement of expenses attributable to ICBC London Branch

The Bank has a service level agreement in place with Industrial and Commercial Bank of China, London Branch for the provision of a wide range of operating services for which the Bank receives an annual fee from the Branch. This includes, amongst others, payment for staff costs, facilities provision and management fees, expenses related to information technology and professional services fees.

In the past the income received for providing operational support to the London Branch has been included in "Other operating income" in the Profit and Loss Account of the Bank, whilst all operating expenses gross of those incurred for the benefit of the Branch were included in the Operating expenses line of the Profit and Loss Account.

The Bank has reassessed this presentation and concluded that the income received for expenses incurred on behalf of the Branch should be included in the Operating expense line of the Profit and Loss account as it provides a more accurate and useful reflection of the nature of this income and the actual operational cost involved in running the Bank.

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The impact of the reclassification on the Profit and Loss Account for 2016 is detailed below:

	Notes	Balance after Reclassification US$ '000	Original Balance US$ '000	Difference US$ '000	Reason
Interest receivable from financial investments	2	5,666	5,666	-	
Other interest receivable	2	63,818	63,818	-	
Interest payable	2	(32,005)	(32,005)	-	
Net interest income		**37,479**	**37,479**	**-**	
Fees and commissions receivable	2	6,777	6,777	-	
Fees and commissions payable	2	(1,451)	(1,451)	-	
Net Fee and commission		**5,326**	**5,326**	**-**	
Revaluation gain/ (loss) on financial Derivatives	11	(792)	(792)	-	
Realised gain/(loss) on financial Derivatives		-	-	-	
Foreign exchange gain/(loss) and realised gain/(loss) on financial derivatives		1,146	1,146	-	
Other operating income	**3**	**2,952**	**18,010**	**(15,058)**	Expense related to services provided to ICBCFS LLC is reclassified from other operating expenses to other operating income and reimbursement of operating expenses received from ICBC Ltd London Branch is reclassified from Other operating income to Operating expenses.
Gain/(loss) on sale of fixed assets		1	1	-	
(loss)/gain on sale of bonds		(7)	(7)	-	
Non-interest income		**3,300**	**18,358**	**(15,058)**	
Total income		**46,105**	**61,163**	**(15,058)**	
Personnel expenses	4	(19,533)	(19,533)	-	
Depreciation of tangible assets	14	(1,879)	(1,879)	-	
Amortisation of intangible assets	15	(3)	(3)	-	
Impairment losses	10	(2,941)	(2,941)	-	
Other operating expenses	**6**	**(7,806)**	**(9,885)**	**2,079**	Expense related to services provided to ICBCFS LLC is reclassified from other operating expenses to other operating income. Reimbursement of operating expenses received from ICBC Ltd London Branch is reclassified from Other operating income to Operating expenses.
Reimbursement of expenses attributable to ICBC Ltd London Branch		**12,979**	**-**	**12,979**	
Operating expenses		**(19,183)**	**(34,241)**	**15,058**	
Profit on ordinary activities before tax		**26,922**	**26,922**	**-**	
Tax on profit on ordinary activities	7	(6,114)	(6,114)	-	
Profit for the financial year		**20,808**	**20,808**	**-**	

The Statement of Other Comprehensive Income, Balance Sheet, Statement of Changes in Equity and Statement of Changes in Cash Flows are not impacted by this change.

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Where specific notes to the accounts have been impacted, both the original and revised numbers are provided in the specific note together with a reference to this note.

29. Estimated impact of IFRS 9

The Bank has chosen to adopt IFRS 9 *Financial Instruments* issued in July 2014 for the recognition and measurement of financial instruments from 1 January 2018. IFRS 9 impacts the accounting for financial instruments in three main ways: classification and measurement, impairment, and hedge accounting. The impact of IFRS 9 on the opening shareholders' equity is estimated to be $ 0.2 million after tax as at 1 January 2018.

A. Classification and Measurement

IFRS 9 requires financial assets to be classified on the basis of two criteria:

i. The business model within which financial assets are managed; and

ii. Contractual cash flow characteristics (whether the cash flow represents solely payment of principal and interest).

Financial assets will be measured at amortised cost if they are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and their contractual cash flows represent solely payments of principal and interest.

Financial assets will be measured at fair value through Other Comprehensive Income if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and their contractual cash flows represent solely payments of principal and interest.

Other financial assets are measured at fair value through the Profit and Loss Account.

No reclassification of financial assets is expected as at 1 January 2018.

B. Impairment

The IFRS 9 impairment model is applicable to financial assets recorded at amortised cost or at fair value through Other Comprehensive Income, loan commitments and financial guarantee contracts that are not measured at fair value through profit or loss.

IFRS 9 replaces the "incurred loss" model in IAS 39 with a forward-looking "expected credit loss" (ECL) model. Expected credit losses are the difference between contractual and expected cashflows over the life of the instrument discounted at the asset's original effective interest rate. In estimating this, the bank has to consider all relevant historical information as well as expectations of the future.

The measurement of expected loss will involve increased complexity and judgement including estimation of Probability of Default (PD), Loss Given Default (LGD), a range of unbiased future economic scenarios, estimation of expected lives, estimation of exposures at default and assessing increases in credit risk. The modelling techniques section below provides further information on this.

Financial assets migrate through the following three stages based on the change in credit risk since the initial recognition:

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Stage 1: 12-months Expected Credit Losses (ECL)

The 12-months ECL is the discounted sum over the next 12months of the monthly ECL. For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired upon origination, the portion of the lifetime ECL associated with default events occurring within the next 12 months is recognised and interest revenue is calculated on the gross carrying amount of the asset.

Stage 2: Lifetime ECL – not credit impaired

Lifetime ECL is the discounted sum of monthly ECL over the full remaining life of the instrument. For exposures where there has been a significant increase in credit risk since initial recognition but there is no objective evidence of impairment, a lifetime ECL associated with the probability of default events occurring over the maximum contractual period during which the Bank is exposed to credit risk is recognised. Interest revenue is calculated on the gross carrying amount of the asset.

Stage 3: Lifetime ECL – credit impaired

Exposures are assessed as credit-impaired when there is objective evidence of impairment at the reporting date. For exposures that have become credit-impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the effective interest rate to the amortised cost (net of credit allowance) of the asset.

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

Significant increase in credit risk (SICR)

When determining whether the risk of default has increased significantly since the initial recognition, the Bank considers both quantitative and qualitative information and analysis based on the Bank's historical experience and expert credit assessment, including forward-looking information. The criteria used to identify significant increases in credit risk are monitored and reviewed periodically by the Bank.

Default and credit-impaired assets

The Bank defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

Quantitative default criteria

The borrower is more than 90 days past due on its contractual payments.

Qualitative default criteria

The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:

- The issuer or obligor is in significant financial difficulty.
- There is a breach of contract, such as a default or delinquency in interest or principal payments.
- It is probable that the borrower will enter bankruptcy or other financial reorganisation.
- The borrower is insolvent or facing liquidity, business and financial risk exposures.

The above criteria are applied to all financial instruments held by the Bank and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied

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consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD) throughout the Bank's ECL calculations.

An instrument is considered to no longer be in default (i.e. to have been cured) when it no longer meets any of the default criteria for a consecutive period of typically 6 months. The period has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after curing using different possible cure definitions.

Forward-looking information

The assessment of significant increases in credit risk and the calculation of ECLs both incorporate forward-looking information. The Bank has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio.

This analysis considered a range of relevant forward-looking macroeconomic assumptions for the determination of unbiased general industry adjustments and any related specific industry adjustments that support the calculation of ECLs. Macroeconomic factors taken into consideration include, but are not limited to, unemployment levels, interest rates, gross domestic product, inflation and commercial property prices, and require evaluation of both the current and forecast direction of the macroeconomic cycle. Incorporating forward-looking information increases the degree of judgement required as to how changes in these macroeconomic factors will affect ECLs.

In addition to the base case economic scenario, other possible scenarios along with scenario weightings are sourced externally. The number of other scenarios used is set based on the analysis of each major product type to ensure non-linearities are captured. The scenario weightings are determined by a combination of external sources and expert credit judgement, taking account of the range of possible outcomes represented by each chosen scenario.

The assessment of significant increases in credit risk is performed using lifetime PD under each of the base case and other scenarios, multiplied by the associated scenario weighting, along with qualitative and backstop indicators. This determines whether the whole financial instrument is in Stage 1, Stage 2 or Stage 3 and hence whether 12-month or lifetime ECLs should be recorded. Following this assessment, the Bank measured expected credit losses as either a probability weighted 12-month ECL (Stage 1), or a probability weighted lifetime ECL (Stages 2 and 3). These probability-weighted ECLs are determined by running each scenario through the relevant ECL model and multiplying by the appropriate scenario weighting (as opposed to weighting the inputs).

Modelling techniques

Expected credit losses are calculated using three main components, i.e. PD, EAD and LGD. These parameters are generally derived from internally-developed statistical models combined with historical, current and forward-looking customer and macroeconomic data. For accounting purposes, the 12-months and lifetime PD represent the expected point-in-time probability of a default over the next 12 months and the remaining lifetime of the financial instrument respectively, based on conditions existing at the balance sheet date and future economic conditions that affect credit risk.

The LGD represents expected loss conditional on default, taking into account the mitigating effect of collateral, its expected value when realised and the time value of money.

The EAD represents the expected exposure at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdown of a facility.

The 12-months ECL is equal to the discounted sum over the next 12months of the monthly ECL. Where the monthly ECL is the specific monthly PD multiplied by the respective monthly LGD and EAD. Lifetime ECL is calculated using the discounted sum of monthly ECL over the full remaining life of the instrument.

The Bank uses contractual rate as a reasonably proxy for effective interest rate, given that the difference between using contractual rate and effective interest rate is immaterial.

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The impact of impairment as per IFRS 9 on the opening shareholders' equity is estimated to be $ 0.2 million after tax as at 1 January 2018.

C. Hedge Accounting

IFRS 9 contains revised requirements on hedge accounting, which are more closely aligned with an entity's risk management strategies and risk management objectives. The new rules would replace the current quantitative effectiveness test with a simpler version, and requires that an economic relationship exists between the hedged item and the hedging instrument. Under the new rules, voluntary hedge de-designations would not be allowed.

Adopting the IFRS 9 hedge accounting requirements is optional, and certain aspects of IAS 39, being the portfolio fair value hedge for interest rate risk, would continue to be available for entities (while applying IFRS 9 to the remainder of the entity's hedge accounting relationships) until the IASB completes its accounting for dynamic risk management project.

The Bank did not apply hedge accounting during 2017. If the Bank chooses to do so in the foreseeable future, the Bank will continue to apply the IAS 39 hedge accounting methodology.

30. Cash and cash equivalents

	2017 *$'000*	2016 *$'000*
Cash balance	162	145
Balance with other banks	71,777	126,559
	71,939	**126,704**

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31. Risk management

The Board has ultimate responsibility for setting the Bank's strategy, risk appetite and control framework; and measures performance against targets. To assist it in discharging these responsibilities, the Board has instituted a number of high-level committees governed by clear terms of reference. The principal Board-level committees are Audit Committee, Governance and Compliance Committee and Risk Committee. At the Executive-level there are four major committees concerned with risk management issues: Executive Committee, Asset and Liability Committee, Credit Committee and Financial Crime Risk Committee. In 2018, the Bank will establish another Executive-level committee for IT Management.

The Bank has established an Enterprise-Wide Risk Management framework to strengthen its risk management practices, to ensure that the risks undertaken are managed within the Bank's risk appetite. 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 a combination of quantitative and qualitative analysis..

Risk mitigation

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

Departmental policy and procedure manuals are written in accordance with the Bank's approach to the management of these risks. Employees are instructed to operate within the guidelines set out in Bank-wide policies and their own departmental procedures. The Compliance and Legal, Credit Management, and Risk and ALM Departments periodically carry out reviews to assess compliance. The Internal Audit Department, as the third line of defence, will also undertake independent, risk-based reviews of the risks in the various business areas and the related controls in place to mitigate them.

As part of its Enterprise-Wide Risk Management, the Bank sets limits to control risk exposures. In setting a risk appetite and risk tolerance level, the Bank takes all material risks into account, including those arising from off-balance sheet transactions, as well as being consistent with the Bank's obligation to maintain the risks within the constraints, both explicit and implied by capital and liquidity regulations.

32. Credit risk

Credit risk exposes the Bank to losses caused by financial or other problems experienced by its clients. Credit risk is defined as the risk arising from an obligor's (typically a company, financial institution or issuer of financial instrument) failure to meet the terms of any agreement and obligations. Credit risk arises when funds are extended, committed, invested or otherwise exposed through contractual agreements, whether reflected on-or off-balance sheet. Credit and counterparty risk arises primarily from three types of transactions:

- Lending transactions through loans and advances to banks and customers creates the risk that an obligor will be unable or unwilling to repay capital and/or interest on loans and advances granted to them.
- Issuer risk on financial instruments where payments due from the issuer of a financial instrument will not be received.
- Trading transactions, giving rise to settlement risk; this refers mainly to short term trade finance transactions.

Credit risks can be impacted by country risk where cross-border transactions are undertaken. This can include geopolitical risks, transfer and convertibility risks, sanctions imposed on sovereigns and the impact on the borrower's credit profile due to local economic and political conditions.

Fundamental principles used by the Bank in the management and measurement of credit risk are:

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- A clear view of the target market.
- Use of quantitative and qualitative methods to assess counterparty credit worthiness.
- Analysis and monitoring of risks, including concentration risk by asset class, industry, and geography.
- Post-lending management involving monitoring and review of exposures once facilities have been disbursed.

The Bank places great emphasis on credit risk management and recognises it as a key risk, therefore the objective is to avoid and minimise losses. Credit analysis is performed on all new and existing counterparties and related exposures in order to assess each counterparty's risk profile and their ability to repay. Counterparty credit risk is assessed using quantitative and qualitative analysis, as articulated in the Bank's Credit Policy, Credit Management Manual and other documents. Assessment of the clients includes consideration of their character and integrity, core competencies, track record and financial strength. A strong emphasis is placed on the historic and on-going stability of income and cash flow streams generated by the clients. The primary assessment method is therefore the ability of the client to meet their payment obligations.

It is the Bank's policy that credit limits for counterparties, with accompanying credit analysis, are reviewed at least annually. Exposures are monitored and controlled against limits set and approved for individual counterparties. The Bank's credit risk policy includes establishing industry sector limits, country limits and regulatory limits in addition to counterparty limits.

Credit risk mitigation

Collateral provides additional security and assists recovery of loans in the event of default and the Bank takes collateral whenever it is required. It is a requirement that the valuation of collateral is updated on a regular basis and more so when credit risk deteriorates significantly and the customer is monitored more closely.

The Bank considers credit risk mitigation techniques as part of the credit assessment of a potential client or business proposal. Credit risk mitigants include any collateral item over which the Bank has a pledge of security, first charge on property, netting agreements, cash, or terms and conditions imposed on a borrower with the aim of reducing the credit risk inherent to that transaction.

The Bank has an on-balance sheet netting agreement (Netting Agreement) with its Parent Bank, Industrial and Commercial Bank of China Limited. The on-balance sheet Netting Agreement is an eligible form of credit risk mitigation according to the Capital Requirements Regulation (CRR). The Netting Agreement restricts the netting to the mutual claims between an institution and its counterparty for the same currency on balance sheet loans and deposits, meaning that the Bank is entitled to set-off loans and deposits denominated in the same currencies of the same counterparties. The gross credit exposure to Industrial and Commercial Bank of China Limited as at 31 December 2017 was $117.37 million, which was netted against the eligible deposits of $16.64 million leaving a net credit exposure of $100.72 million.

Commercial real estate lending activities in the UK are collateralised by mortgages or charges over property. The following characteristics of the property are considered: the type of property, its location, tenant mix, sponsor and the ease with which the property could be re-let and/or re-sold. Commercial real estate lending generally takes the form of good quality property underpinned by strong third party leases. Commercial property valuations will continue to form part of the Bank's on-going focus on collateral assessment. It is the Bank's policy to obtain a formal valuation before advancing funds.

Exposure to the property market is well-diversified with a strong bias towards prime locations and a focus on quality of tenants for commercial assets. Quality of collateral is important but the primary consideration in all commercial real estate deals is debt serviceability, which is stress-tested across various dimensions. Loan-to-value (LTV) ratio, interest cover ratio (ICR) and debt service coverage ratio (DSCR) are the main parameters set to assess risks in commercial real estate lending. All commercial real estate transactions are located in the UK, particularly in London.

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In addition, the Bank has taken collateral in the form of standby letters of credit and guarantees issued by insurance companies and financial institutions. As at 31 December 2017, the Bank held guarantees worth $70.2 million as an eligible credit risk mitigation as per CRR (2016: $86.9 million). The Bank does not rely on credit derivatives as a credit risk mitigation technique.

In the Commodity and Structured Finance portfolio, some of the loan transactions are collateralised by assignment of inventory and receivables and by cash paid into a collection account by the borrowers.

The majority of the Bank's credit exposures are unsecured, including syndicated lending facilities, trade finance and interbank lending. Consequently the Bank has put in place a stringent credit assessment process to consider counterparties' creditworthiness.

The Bank does not undertake lending to retail customers.

Requests for waivers and amendments of existing credit facilities are submitted to Credit Committee and Authorised Approvers.

Maximum exposure to credit risk

The table below shows maximum exposure to credit risk for the relevant components of the Bank's balance sheet. The difference between the gross and net exposure is the eligible credit risk mitigation and impairment provision.

	2017		2016 Revised		2016 Original	
	Gross maximum exposure *$'000*	Net maximum exposure *$'000*	Gross maximum exposure *$'000*	Net maximum exposure *$'000*	Gross maximum exposure *$'000*	Net maximum exposure *$'000*
Loans and advances to banks	840,309	823,450	1,171,623	951,130	1,173,940	953,448
Loans and advances to customers	960,267	883,038	1,041,515	1,024,526	1,047,492	1,030,502
Available-for-sale financial investments	448,210	448,210	388,541	388,541	388,541	388,541
Held-to-maturity financial investments	69,522	69,522	-	-	-	-
	2,318,308	**2,224,220**	**2,601,679**	**2,364,197**	**2,609,973**	**2,372,491**
Undrawn commitments	566,787	566,787	390,257	390,257	390,257	390,257
Total credit risk exposure	**2,885,095**	**2,791,007**	**2,991,936**	**2,754,454**	**3,000,230**	**2,762,748**

Loans and advances are presented net of loan fees received in advance in all disclosures in 2017. The previous year's figures have been reclassified for consistency of presentation.

Past Due but not impaired loans

Contractual payments of either principal or interest being past due up to 89 days are defined as past due but not impaired. As at 31 December 2017 the total of past due but not impaired loans was nil (2016: Nil).

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Specific impairment and collective impairment

Past due and impaired loans

According to the Bank's Impairments Policy, a financial asset or group of assets is impaired and impairment losses are recognised only if there is objective evidence as a result of one or more events that occurred after the initial recognition of the assets. At each balance sheet date an assessment is made of whether there is objective evidence of impairment in the book. If evidence exists, a detailed impairment calculation is performed to determine if an impairment loss should be recognised. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated cash flows discounted at the financial asset's original effective interest rate.

Objective evidence of impairment includes (amongst others) the following:

- Significant financial difficulty of the issuer or obligor;
- Breach of contract such as clear evidence of event of default;
- Payments of either principal or interest exceeding 90 days or more have not been received;
- The issuer or obligor will enter bankruptcy proceedings;
- The primary sources of repayment are insufficient to service the remaining contractual principal and interest amounts, and the Bank has to rely on secondary sources for repayment;
- The asset is no longer traded publicly or there is no market to trade the assets;
- Clear evidence of measurable data indicating that actual and future cash flow will be insufficient to service interest and principal.

At 31 December 2017, the gross principal amount of specific impaired loans and advances to customers was $5 million (2016: $30 million) and the value of identifiable collateral held against those loans was nil (2016: Nil)). As at 31 December 2016, the Bank held specific provision of $15 million against two gross impaired loans totalling $30 million. In 2017, the Bank sold one impaired loan of $25 million, and the specific impairment provision reduced to $5m.

The test for impairment is based either on specific financial assets or collectively on a portfolio of similar, homogeneous assets. Over and above specific impairments raised, the Bank recognises a collective impairment allowance at portfolio level. Third party measures of Probability of Default (PD) are applied to the Bank's credit exposures. Where there are collateral and credit risk mitigants, an appropriate adjustment is made to arrive at net exposure. In the absence of a third party PD, ICBC Group's internal Global Credit Risk Management (GCMS) rating is sourced and converted to a PD corresponding to the PD table of Standard & Poor's.

Using the above methodology, a collective impairment of $2.28 million was recognised as at 31 December 2017 (2016: $2.020 million).

	2017		2016	
	Specific impairment allowance	Collective impairment allowance	Specific impairment allowance	Collective impairment allowance
	$'000	*$'000*	*$'000*	*$'000*
Impairment allowance	**5,000**	**2,280**	**15,000**	**2,020**

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The Bank uses external credit ratings and reports of two major credit rating agencies, namely Standard & Poor's (S &P) and Fitch, to evaluate counterparty credit risk. Internal (ICBC Group) rating models, based on the Global Credit Management System, are used for counterparties that are unrated by the major credit agencies. The criteria and long-term credit ratings of the rating agencies are used to differentiate and distinguish the credit quality of loans from investment-grade (AAA to BBB- by S&P/Fitch) and sub-investment grade (BB+ downwards to B-).

Although some of the counterparties in the book have no external credit rating, the internal ICBC Group rating model is used to assess the counterparties and their creditworthiness. Unrated counterparties include credit exposures to commercial real estate in the UK, which are collateralised and underpinned by the property assets in prime locations.

Credit quality per class of financial assets

	2017	2016
	Available-For-sale	Available-For-sale
	$'000	*$'000*
Investment-grade		
AAA to AA-	344,894	361,155
A+ to A-	73,650	27,386
BBB+ to BBB-	29,666	-
Total	**448,210**	**388,541**

	2017	2016
	Held-to-maturity	Held-to-maturity
	$'000	*$'000*
Investment-grade		
AAA to AA-	21,844	-
A+ to A-	47,678	-
Total	**69,522**	-

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	2017		2016 Revised		2016 Original	
	Loans and advances Current	Loans and advances Past due and impaired	Loans and advances Current	Loans and advances Past due and impaired	Loans and advances Current	Loans and advances Past due and impaired
	$'000		*$'000*	*$'000*	*$'000*	*$'000*
Loans and advances to banks						
Investment-grade	607,623	-	1,151,569	-	1,153,886	-
Sub-investment-grade	212,686	-	20,000	-	20,000	-
Unrated	20,000	-	54	-	54	-
Total	**840,309**	**-**	**1,171,623**	**-**	**1,173,940**	**-**
Loans and advances to customers						
Investment-grade	288,765	-	259,380	-	259,586	-
Sub-investment-grade	84,837	-	177,630	-	179,178	-
Unrated	581,665	5,000	574,505	30,000	578,728	30,000
Total	**955,267**	**5,000**	**1,011,515**	**30,000**	**1,017,492**	**30,000**

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Regional Exposure

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

	2017		2016 Revised		2016 Original	
	$'000	%	*$'000*	%	*$'000*	%
Asia and Pacific (including China)	901,743	31.26	839,398	28.06	664,123	22.14
Europe:						
UK	870,692	30.18	818,515	27.36	1,061,614	35.38
Other EU	140,903	4.88	276,627	9.25	265,570	8.85
Non-EU	227,992	7.9	280,655	9.38	281,659	9.39
North America	206,123	7.14	274,904	9.19	387,099	12.9
Africa	364,185	12.62	408,091	13.64	246,418	8.21
International Organisations*	173,457	6.02	93,746	3.12	93,747	3.13
Total regional exposure	**2,885,095**	**100**	**2,991,936**	**100**	**3,000,230**	**100**

* International Organisations comprises multilateral organisations such as Multilateral Development Banks.

In 2016 the Bank classified exposure based on the location of a guarantor of the exposure instead of the location of a borrower. In 2017 the Bank has reassessed the criteria for the geographical allocation of the exposure and reclassified the exposure based on the location of the borrower instead of any guarantors. Further, the exposure to a branch of the bank is classified based on the location of its head office instead of the location of the branch. The previous year's figures have been reclassified for consistency of presentation.

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33. Liquidity and Funding risk

Liquidity risk means the risk that the Bank, although solvent, does not have available sufficient financial resources to enable it to meet its obligations as they fall due. Funding risk means the risk that the Bank does not have stable sources of funding in the medium and long-term to meet its financial obligations, such as payments or collateral calls, as they fall due, either at all or only at excessive cost.

The Bank identifies, measures, manages and monitors liquidity and funding risks across different time horizons; conducts liquidity stress testing through documented policies and procedures; clearly allocates responsibilities; and maintains sound systems to ensure that both the liquidity and funding profile are at all times consistent with the Risk Appetite Policy approved by the Board.

The table below summarises the maturity profile of the Bank's financial liabilities with respect to its undiscounted cash flows.

2017

$ '000	1 month and less	Over 1 month to 3 Months	Over 3 months to 6 months	Over 6 months to 1 Year	Above 1 year to 5 years	Over 5 Years	Contractual cash flow	Carrying amount
Non derivatives liabilities								
Deposits by banks	201,615	278,362	34,399	471,596	502,056	-	**1,488,028**	**1,475,894**
Customer accounts	218,208	54,677	102,578	1,399	165	-	**377,027**	**375,734**
Subordinated loan	-	-	-	-		100,673	**100,673**	**100,000**
Derivative financial liabilities							-	**50,936**
Cash inflows	(218,702)	(95,394)	(96,578)	(116,585)	(85,701)	-	**(612,960)**	-
Cash outflows	223,421	109,458	110,975	132,848	93,000	-	**669,702**	-
	424,542	**347,103**	**151,374**	**489,258**	**509,520**	**100,673**	**2,022,470**	**2,002,564**
Undrawn documentary credits	13,774	33,726	2,764	-	13,599	-	**63,863**	**63,863**
Undrawn loan commitments	-	687	104,248	-	397,989	-	**502,924**	**502,924**
	438,316	**381,516**	**258,386**	**489,258**	**921,108**	**100,673**	**2,589,257**	**2,569,351**

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2016

$ '000	1 month and less	Over 1 month to 3 Months	Over 3 months to 6 months	Over 6 months to 1 Year	Above 1 year to 5 years	Over 5 Years	Contractual cash flow	Carrying amount
Non-derivatives liabilities								
Deposits by banks	535,348	111,918	625,989	22,942	472,575	-	**1,768,772**	**1,754,538**
Customer accounts	194,262	87,710	102,985	7,077	-	-	**392,034**	**391,012**
Subordinated loan	-	-	-	-	-	100,395	**100,395**	**100,000**
Derivative financial liabilities							-	**85,667**
Cash inflows	(144,676)	(43,667)	(52,353)	(137,647)	(392,389)	-	**(770,732)**	-
Cash outflows	146,579	49,899	62,078	165,405	465,287	-	**889,248**	-
	731,513	**205,860**	**738,699**	**57,777**	**545,473**	**100,395**	**2,379,717**	**2,331,217**
Undrawn documentary credits	-	8,054	5,812	13,623	15,157	-	**42,646**	**42,646**
Undrawn loan commitments	-	2,222	258	69,743	260,825	14,563	**347,611**	**347,611**
	731,513	**216,136**	**744,769**	**141,143**	**821,455**	**114,958**	**2,769,974**	**2,721,474**

At 31 December 2017, the Bank held highly liquid assets, comprising both available-for-sale and held-to - maturity bonds, of $418 million. These can be used in the event of any liquidity stress event. At the end of 2017, the Liquidity Coverage Ratio (LCR) was 418%.

Encumbered assets

The Bank may pledge its assets as collateral to secure liabilities under repurchase agreements or credit-enhance any on-balance-sheet or off-balance-sheet transactions. The Bank pledged $617k as collateral for derivative clearing as at 31 December 2017 (2016: $ 173k).

34. Market risk

Market risk is defined as the risk of losses arising from movements in market prices. The Bank is exposed to few market risks. The principal risk is Foreign Exchange (FX) risk arising both from the banking book and trading book. As the Bank does not undertake proprietary trading and market making, trading book exposure only arises from client servicing. In the banking book, there are positions arising from interest income, financial and tax expenses, and impairment provisions. Another potential market risk is position risk arising from trading products: FX forwards, FX swaps and Interest Rate Swaps (IRS). Due to the Bank's back-to-back trading strategy, there is no material market risk arising from these trading products.

Foreign exchange risk

Throughout 2017, the foreign currency exposure was within limits at all times. As at 31 December 2017, FX overnight exposure was $47k (long) (2016: $909k (short)).

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FX Sensitivity Analysis

The table below shows the impact on the profit of the Bank of a shift in the USD exchange rate equally against all other currencies by various basis points as below.

Movement in USD Exchange Rate	2017 ($)	2016 ($)
USD appreciates 200 basis points	(4,827)	12,573
USD appreciates 400 basis points	(9,529)	25,143
USD appreciates 800 basis points	(18,585)	50,275
USD depreciates 200 basis points	4,960	(12,575)
USD depreciates 400 basis points	10,060	(25,153)
USD depreciates 800 basis points	20,719	(50,317)

Monitoring and management of risk

The Bank sets market risk limits to control market risk. These limits are monitored by the Risk and Asset and Liability Management (Risk and ALM) Department, which is independent from the Treasury Department. The Risk and ALM Department submits regular reports to the Bank's Asset and Liability Committee and Risk Committee. These committees review major market risk indicators and take any necessary decisions. The Risk and ALM Department also submits weekly and monthly reports on foreign currency exposures and trading products to the Parent Bank, which in turn provides the Bank with regular guidance on market risk management.

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35. Interest rate risk in the banking book

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 primary form of interest rate risk is re-pricing risk which arises from timing differences in the maturity (for fixed-rate instruments) and re-pricing (for floating-rate instruments) of the Bank's assets, liabilities and off-balance-sheet positions.

The interest rate re-pricing gap of the Bank at 31 December 2017 is set out below. Items are allocated to time bands by reference to the earlier of the next contractual interest rate re-pricing date and the maturity date.

Interest rate sensitivity table
2017

$ '000	Not more than 3 months	Over 3 months to 6 months	Over 6 months to 1 Year	Above 1 year to 5 years	Non-Interest bearing	Total
Assets						
Liquid assets	-	-	-	-	162	**162**
Loans and advances to banks	826,552	13,512	-	-	-	**840,064**
Loans and advances to customers	925,240	27,992	-	-	-	**953,232**
AFS financial investments	203,863	92,431	24,896	127,020	-	**448,210**
HTM financial investments	40,000	7,678	12,010	9,834	-	**69,522**
Fixed and other assets	-	-	-	-	120,049	**120,049**
Total assets	**1,995,655**	**141,613**	**36,906**	**136,854**	**120,211**	**2,431,239**
Liabilities						
Deposits by banks	1,441,747	34,147	-	-	-	**1,475,894**
Customer accounts	272,687	101,506	1,381	160	-	**375,734**
Other liabilities	-	-	-	-	81,211	**81,211**
Subordinated loan	100,000	-	-	-	-	**100,000**
Shareholder's funds	-	-	-	-	398,400	**398,400**
Total liabilities and Shareholder's funds	**1,814,434**	**135,653**	**1,381**	**160**	**479,611**	**2,431,239**
Interest rate sensitivity gap	**181,221**	**5,960**	**35,525**	**136,694**	**(359,400)**	
Cumulative gap	**181,221**	**187,181**	**222,706**	**359,400**	**-**	**-**

The following table shows the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Bank's net interest income (NII). The effect on the NII (and hence on the Profit and Loss Account) is the effect of the assumed changes in interest rates arising from the financial assets and liabilities held at the year-end that are subject to re-pricing within the coming year.

Movement in interest rate	**$'000**
Interest rate increases by 100 basis points	1,712
Interest rate increases by 200 basis points	3,423
Interest rate decreases by 100 basis points	(1,712)
Interest rate decreases by 200 basis points	(3,423)

The interest rate sensitivities set out in the table above are based on simplified scenarios. The projections assume that interest rates of all maturities move by the same amount and, therefore, do not reflect the potential impact on net interest income in the case where some rates change while others remain unchanged.

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2016

$ '000	Not more than 3 months	Over 3 months to 6 months	Over 6 months to 1 Year	Above 1 year to 5 years	Non-Interest bearing	Total
Assets						
Liquid assets	-	-	-	-	145	**145**
Loans and advances to banks	1,046,676	102,213	22,704	-	-	**1,171,593**
Loans and advances to customers	989,339	33,797	1,389	-	-	**1,024,525**
AFS financial investments	57,360	40,019	68,703	222,459	-	**388,541**
Fixed and other assets	-	-	-	-	137,461	**137,461**
Total assets	**2,093,375**	**176,029**	**92,796**	**222,459**	**137,606**	**2,722,265**
Liabilities						
Deposits by banks	1,658,506	73,330	22,702	-	-	**1,754,538**
Customer accounts	281,713	102,308	6,991	-	-	**391,012**
Other liabilities	-	-	-	-	98,668	**98,668**
Subordinated loan	100,000	-	-	-	-	**100,000**
Shareholder's funds	-	-	-	-	378,047	**378,047**
Total liabilities and Shareholder's funds	**2,040,219**	**175,638**	**29,693**	**-**	**476,715**	**2,722,265**
Interest rate sensitivity gap	**53,156**	**391**	**63,103**	**222,459**	**(339,109)**	
Cumulative gap	**53,156**	**53,547**	**116,650**	**339,109**	**-**	**-**

The table below shows projected changes in the 2016 Profit and Loss Account of the Bank arising from a shift in yield curves:

Movement in interest rate	**$'000**
Interest rate increases by 100 basis points	625
Interest rate increases by 200 basis points	1,251
Interest rate decreases by 100 basis points	(625)
Interest rate decreases by 200 basis points	(1,251)

For each shift in the basis points on its funding rate, the Bank can expect the change in the amount of its Profit and Loss Account as illustrated above. The impact on the re-pricing periods within one year shows a net profit and a net loss respectively to a positive and negative shift in the basis points.

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36. Country by country reporting

The following Country by country reporting disclosure is made according **to Capital Requirements Regulation 2013 (CRR):**

2017

United Kingdom	Business	Turnover *$ '000*	Average employees	Profit before tax *$ '000*	Tax on profit *$ '000*	Public subsidies received
ICBC (London) plc	Banking	39,587	151	26,891	(5,193)	-

2016

United Kingdom	Business	Turnover *$ '000*	Average employees	Profit before tax *$ '000*	Tax on profit *$ '000*	Public subsidies received
ICBC (London) plc	Banking	46,105	127	26,922	(6,114)	-

Due to a reclassification of the reimbursement of expenses attributable to the Branch from Other Operating Income to Operating expenses and expenses related to services provided to ICBCFS LLC from Other operating expenses to Other operating income, the turnover for 2016 has been restated in order to ensure consistency of presentation. Details of the reclassification of 2016 figure are given in Note 28.

37. Operational risk (Unaudited)

The Bank defines operational risk as the risk 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 entities with whom the Bank deals. The nature of the Bank's operational risk exposures is more likely to involve 'high-frequency/low-impact' events. The main drivers of operational risk are processes, people and systems.

The objective of operational risk management is not to remove operational risk altogether but to manage and control operational risk in a cost-effective manner consistent with the Bank's risk appetite. The Bank has control systems and procedures in place to ensure that operational losses are minimised. As part of the Bank's risk appetite, an Operational Loss ratio is set, monitored and reported to the Executive Committee and the Board. In 2017, the operational loss was $2k (2016: nil).

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38. Capital (Unaudited)

The Bank's policy is to maintain an actively-managed capital base to cover risks inherent in the business. The adequacy of the Bank'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 Prudential Regulation Authority in supervising and regulating the Bank.

There were no breaches in capital requirements reported in the year.

The primary objective of the Bank's capital management activities is to ensure compliance with internal and external capital requirements. The Bank maintains sufficient capital ratios in order to support its business and to maximise shareholder's value.

The Bank manages and adjusts its capital structure in the light of changes in economic conditions and the risk characteristics of its activities.

Regulatory capital

	2017	2016
	$ '000	*$ '000*
Share capital	200,000	200,000
Retained earnings	199,057	177,359
Available-for-sale reserves	(657)	688
Less: Regulatory adjustments	(552)	(563)
Tier 1 capital	**397,848**	**377,484**
Subordinated Loan	100,000	100,000
Collective impairment provision	2,280	2,020
Tier 2 capital	**102,280**	**102,020**
Total capital	**500,128**	**479,504**

On 28 October 2013, a 10-year Subordinated loan was granted by the Parent Bank to the Bank to replace the previous loan with the same notional value of $100 million. The Subordinated loan is classified as lower Tier 2 capital and is subject to amortisation on a straight-line basis from October 2018. The interest charged is 3 months Libor plus 1.3%.

39. UK Regulatory Pillar 3 disclosures (Unaudited)

The UK regulatory Pillar 3 disclosures can be found at the following web address:

www.icbclondon.com.

40. Events after the balance sheet date

There has been no adjusting or non-adjusting event after the balance sheet date.