ICBC (London) plc

Report and Financial Statements

31 December 2018

Company Registration No : 4552753

Contents

Chairman's Statement

I am delighted to announce that ICBC (London) plc "the Bank" achieved an increase in profits in 2018 despite the fact that this proved to be a difficult year for both business and banking. During the last year we have witnessed growing geopolitical uncertainty with ongoing trade tensions between the United States and China and continuing difficulties in achieving a satisfactory Brexit agreement. At the time of preparing this statement, these uncertainties look set to continue for much of 2019. The possible implications of these factors and, in particular uncertainties regarding Brexit, are discussed in detail in the Strategic Report and the Bank has undertaken detailed planning and scenario analysis to ensure that our finances and regulatory ratios will remain strong in the face of any possible market disruption resulting from a disorderly Brexit. Notwithstanding these uncertainties, political and economic relations between the UK and China, a core factor in relation to the Bank's business strategy remain strong and this, together with our own prudent management, will ensure that the Bank continues its steady success during these uncertain times.

The Bank's strategy is very much linked to that of the Industrial and Commercial Bank of China's London Branch "the Branch" and following a strategic review last year it has been decided, for sound business reasons, to allow the Bank's assets to fall below the $2.5bn to $3bn figure I mentioned last year: more details on the business rationale for this are included in the strategic review. The Bank's total assets reduced slightly during the year to $2.37 billion on 31 December 2018 (2017: $2.43 billion). Both our assets and funding sources remain well-diversified and the reduction in total assets is due in part to moving some assets to the Branch to ensure that the Bank's regulatory ratios did not come under pressure.

In 2018 our profit before tax was $30.98 million compared with $26.89 million in 2017, an increase of 15.20%. The increase in profit was mainly due to higher operating income relating to trading desk services provided to the ICBC Head Office. The impairment losses reduced to $167k from $1.27 million in 2017. Our resultant profit for the year after tax and impairment was $25.37 million (2017: $21.70 million). We will continue to maintain a prudent approach to the management of our portfolio.

Our operating expenses in 2018 (excluding impairment losses) decreased slightly by 1.82% to $11.22 million (2017: $11.43 million). At the end of 2018 our staff numbers had increased to 180 (2017 - 164) – a rise of 9.76%. I would like to welcome the new staff to ICBC. During the year many initiatives were pursued to enhance communication and inclusion of our growing workforce and I am particularly pleased that a number of our employees have participated in events as part of our corporate social responsibility campaign. I would like to thank the management team and all staff for their important contribution to the Bank during the year.

One of our independent non-executive directors, Peter Goshawk, resigned during 2018 upon the expiry of his contract. I would like to thank Peter for his contribution over the past three and a half years and welcome Mr Alan Gemes as an independent non-executive director and Chair of our Board Risk Committee. Finally, I would also like to thank Mr Han for managing the Bank in a very positive manner during these challenging times and to thank my fellow directors for the support and guidance they have provided during the year.

Hao Hu

Chairman

Strategic Report

Introduction

In last year's Strategic Report the Bank stated that its objectives from the previous year remained unchanged. These included 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.

These objectives were met in all instances, although Balance Sheet growth was below the expectations set out in the 2018 report. This is partly due to the transfer of assets to the Branch on the back of a change in the growth strategy of the Bank, which will be set out in more detail later in this report.

Given the uncertainty in global markets, especially around ongoing trade tensions between China and the US and the UK's departure from the European Union (Brexit), the Bank's main objective for the coming year is to ensure that the Bank is in a very strong financial position (particularly from a liquidity, funding and capital perspective) to withstand any negative impacts from the external economic environment. In addition, the Bank no longer aims to maintain a Balance Sheet size of between $2.5bn and $3bn, but will allow for a reduction in the Balance Sheet through asset maturities.

In the rest of this report we will set out the highlights of our performance against these 2018 objectives and the strategies we will employ to achieve these objectives going forward.

Achieving our objectives in a challenging macro-economic environment

The next year will be challenging from a macro-economic perspective and although the Bank does not assess the direct impact of any one particular known development to be material on its existing business, the Bank is exposed to the indirect consequences of the current uncertainties. These include increased currency volatility, possible tightening of liquidity, more expensive funding, lower levels of GDP growth and a general decline in foreign investment.

Following the UK Parliament's initial rejection of the proposed Brexit Withdrawal Agreement in early January 2019, the uncertainty regarding the status of the UK in relation to the European Union post the end of March has increased significantly. The Bank continues to assess its strategies for a range of possible Brexit outcomes, with liquidity management being paramount in the short-term. The overall medium to long-term approach is covered in more detail later in this report. The UK is still expected to see moderate economic growth in 2019 with a slight slowdown in 2020, whilst inflation is forecasted to remain near or at 2% with both productivity and wages set to increase. This forecast however assumes a smooth exit from the EU and if this does not transpire the range of possible outcomes is vast, and generally more negative in outlook. UK exports have fallen sharply from 2017 levels and the Bank continues to monitor the impact of this on existing and potential future customers.

China's economy grew by 6.6% in 2018, which was the lowest rate in 28 years. The slowdown is expected to continue in 2019 with both local industrial production and foreign trade flows expected to decline. Corporate debt in the country is still at very high levels although it seems to have stabilised over the last year. Although trade tensions between the US and China persist, there are signs of easing as a longer-term rebalancing between the two major economies is contemplated. The Bank remains of the view that despite the factors mentioned above 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 our Parent Bank, the Branch and other ICBC entities globally.

Financial performance, objectives and strategy

As mentioned above, following a strategic review the Management of the Bank has decided to move away from the previous strategy of increasing the Bank's balance sheet size. Several factors have contributed to the change in strategy, which includes the relationship between the Bank and the Branch, target markets, efficient use of capital and liquidity resources and the current positioning of the ICBC Group in the UK. As ICBC's operations in the UK continue to expand the target customer base mostly consists of large national and multi-national enterprises. The demand from these entities are generally for larger borrowing facilities which, due to capital and large exposure constraints, can only be accommodated in the Branch which has access to the very significant capital base of the Parent Bank. The Bank will therefore only focus on smaller, mostly UK-based opportunities. Management do not foresee that the number of such opportunities will be sufficient to completely offset the scheduled maturities of assets within the next year and therefore expect to see the Balance Sheet contracting from an asset perspective. This will make it possible to repay the Subordinated Loan held by the Bank, resulting in reduced interest expense whilst still retaining a very strong capital adequacy ratio. The Bank will however remain the primary vehicle for ICBC's operational activities, decision making and corporate governance framework setting in the UK.

In line with the strategy set out above, assets of c$100m were moved to the Branch in late 2018 with an additional c$100m of assets planned to be transferred in 2019. This is being done to ensure that the Bank will comfortably remain within its Large Exposure limits after any repayment of the Subordinated debt. The transfer of assets meant that the asset growth target set out in the 2018 Strategic Report was not met.

The Bank's assets portfolio and funding sources remain well diversified and backed by a very strong capital and liquidity position. We continued to strengthen our operational capabilities, with an increase in head count of around 10%, mostly focussed on support areas covering both the Bank and the Branch.

Specific changes to prior year

Last year we mentioned the changes made to the service agreement we have with the Branch and specifically the allocation of overhead costs. The arrangement was successfully embedded during this year.

This was the first year that the Bank moved from an incurred loss to an expected loss credit impairment methodology, following implementation of IFRS 9: Financial Instruments. The impact of this change resulted in a one-off negative net adjustment of $164k to opening reserves and there has been no significant change to this assessment during 2019.

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. We 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 2.33% compared to 2017, mainly due to the transfer of assets from the Bank to the Branch in late 2018. If this was not taken into account the Bank would have seen modest growth during the year compared to the 11% reduction experienced in 2017. As stated, we expect a modest decrease in balance sheet size for 2019 as existing positions mature in excess of new business opportunities.

Net interest income increased by 2.88% compared to 2017 due to an increase in Net Interest Margin. The Bank expects margins in the coming year to remain at a similar level.

Profit after tax has increased by 16.91% to $25.37m, mainly due to higher operating income relating to trading desk services provided to the ICBC Head Office and a reduction in impairment losses. Looking forward, we would expect income to be slightly lower due to the forecasted asset balance reduction.

Return on Equity (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 2018 this ratio increased to 6.18% (2017: 5.59%).

The Return on Assets (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 2018 was 1.06% compared to 0.87% the previous year. The main driver for this was the increase in profits not directly related to asset growth combined with a slight reduction in the average asset balance for the year.

Net Interest Margin (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 up from 1.17% in 2017 to 1.22% this year.

The Bank had no additional non-performing assets (NPA) during the year with total gross remaining at $5m, which is fully provided. We expect to write this asset off during the year.

The Cost to Income ratio (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 26.49% for 2018 from 28.86% in the previous year as a result of an increase in profits and slightly lower operating costs.

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.

Every person at the Bank has a responsibility for risk management. 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 the 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 the compliance with and effectiveness of risk mitigation, while the Internal Audit department, as the third line of defence, undertakes 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 reports to the Chairman of the Audit Committee. 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. During the year the Bank established an Information Technology Steering Committee to oversee and monitor technology and data risk, including cyber risk management. In 2019 a new committee, the Finance Committee, will be launched to review and approve the operating expense budget for the Bank and monitor material expenses incurred throughout the year.

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 report their findings back to the Board.

The Bank categorises its principal risks into a number of different risk types, which include 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. During the year the Bank successfully completed the Credit Process Re-engineering Project which had the aim of better aligning the first and second lines of defence for credit risk management.

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 (42.9% of total credit exposures), a large component being intra-group exposures to other ICBC entities mitigated by the longstanding Netting Agreement between the Bank and acceding parties. Other than Financial Institutions, the Bank's largest sector exposure is to Commercial Real Estate which accounted for 11% of all exposures, most of which is secured. This has reduced from 16% at the end of 2017 mainly due to the asset transfer to the Branch mentioned earlier in the report. There were no additional non-performing loans.

• 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 250%, which is significantly above the minimum regulatory requirement. This is a reduction from the 418% at the end of 2017 as the Bank actively works on 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 Bank continues to carefully consider the risk-adjusted return on assets, while managing our generally low market risk profile (interest rate and FX risk).

• Operational risk losses within the Bank are very low (2018: $5,294 ;2017: $1,942) and well within the internal risk appetite. During the year the Bank made good progress in encouraging active and early disclosure of all risk incidents, regardless of whether actual financial loss was involved. Whilst we assess the risk arising from the internal environment to be stable year-on-year, the risk from external factors remains on an increasing trend. However, there is a strong governance and risk control framework in place and the overall residual risk profile is low. The Bank has also improved the way in which legal risk is managed through the establishment of our legal panel and has improved the second line of defence framework for cyber and IT risk.

• Regulatory risk, the risk of changes in regulations that might affect the business, the industry or the markets the Bank operates in, 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 in risk and compliance resourcing and continues to use specialist external advisors where appropriate.

• It has been another year of high geopolitical risk and it is our expectation that this will be a continued trend in 2019. More than anything else the uncertainty surrounding the Brexit Withdrawal Agreement and the trade tensions between the US and China dominated the geopolitical agenda from the Bank's perspective. Whilst tensions in the Korean peninsula have eased compared to a year ago, the relationship between Russia and the West has markedly deteriorated over the last twelve months. 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 30-34 and 36 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. Even if a formal withdrawal deal can be agreed, negotiations on the permanent future trading arrangements have not yet commenced. In the last Strategic Report the Bank noted that negotiations had moved onto phase two, after significant progress on the EU Withdrawal Bill had been made in the House of Commons. We also noted at the time that it was expected that the next steps, which included Parliament agreeing the final deal, would be more challenging. This remains the case and as of the time of signing the financial statements no withdrawal deal had yet been reached. The default situation under current UK law is that the country would leave the EU without a deal unless Parliament approves a deal or amends existing legislation and therefore, given the uncertainty inherent in those options, the Bank is prudently preparing on a no-deal basis.

The potential impact of Brexit is constantly monitored and integrated into the Bank's strategic plans, notably the impact on market volatility, a weaker sterling and negative macro-economic forecasts. Formal Brexit contingency planning is ongoing and will remain a focus of the Executive Committee, the ALCO and the Risk Committee. We also continuously monitor our direct exposure to the European Union and the possible impact of a "no-deal 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, proposals and political events.

As it stands the Bank is of the opinion that Brexit will not have a direct 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. However, the Bank could be negatively impacted by the second order market-wide impact on the UK economy, both from a currency and credit risk perspective as core customers may face financial challenges. In order to ensure stability due to shorter term economic and market risk impacts the Bank is ensuring that it remains highly capitalised with significant excess liquidity. Where feasible the Bank is working on early refinancing of existing medium term funding and if needed, funding and liquidity support from the Branch can be arranged within a relatively short period of time.

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.

Our remuneration policy is designed to ensure that we reward performance not purely based on financial results but also taking into account sound risk management and conduct practices 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.

The results of the 2018 staff survey have shown material improvement in scores for almost every category and across the Bank, with several indicators above the market average. This improvement is testimony to the numerous initiatives launched on the back of the previous year's survey results and Senior Management will continue to expand on these initiatives during the course of 2019 to ensure that the Bank remains a safe and welcoming place to work and attract the best talent available.

This year we also launched our new Employee Recognition Scheme and we will continue with the scheme in 2019.

Staff from across the Bank have participated in a number of events as part of our corporate social responsibility campaign including providing reading support to local primary school children. The Bank was also a main sponsor of the Royal Shakespeare Company's rendition of Romeo and Juliet in support of the local arts.

At the end of the year we had 180 full time employees (2017: 164). We do not expect this number to increase substantially within the next year.

Future developments

The Senior Management of the Bank is currently considering a possible consolidation of the Subsidiary and Branch Balance Sheets under one banking licence. At the time of signing the accounts no decision on this has been taken and therefore the strategy as set out in this document remains the primary strategy of the Bank. We believe that even if such a consolidation was to go ahead the process would not impact the going concern assumptions that form the basis of the financial statements.

The Bank will continue to work alongside the Branch to provide leading commercial and wholesale banking services. As mentioned already the Bank is not expected to grow its balance sheet in 2019 but will continue to form the core for operational activities of ICBC in London. One of the major projects for the Bank will be to assist in creating an EMEA syndications hub for ICBC and expand London as one of the major funding centres for the Group. 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.

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.

We do not expect the same level of regulatory changes that we have seen in the last two years, but will be focussing on embedding the recent changes as well as ensuring that we have the correct infrastructure in place to comply with HMRC's "Making Tax Digital" requirements.

Finally, data quality enhancement and managing the integrity of our internal data resources will be a key focus for the Bank in 2019.

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 shareholder and relevant stakeholders. They are 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 (ALCO), the Financial Crime Risk Committee and the IT Steering 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 undertaken by the third line of defence on a regular basis and the Bank is externally audited by KPMG.

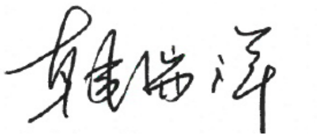
We ensure that we fully comply with the conduct risk framework and fully subscribe to the principle of “treating customers fairly” in order that the trust put in us as bankers is well-founded. It is important for the Bank not to be seen to only comply with the letter of the law, but also embrace the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

Strategic Report

Conclusion

The Bank recognises that 2019 will be a year with exceptional geopolitical uncertainty. We are confident that we are well placed to withstand and manage this uncertainty and have put measures in place to enhance the robustness of the Bank from a capital, liquidity and funding perspective. We remain positive about the Bank's ability to build on the strong foundations and look forward to the year ahead.

The Strategic Report was approved by the Board on 15 March 2019 and signed on its behalf by:



Ruixiang Han

Chief Executive Officer

Board of Directors and other information

Directors
Hao Hu (Chairman)
Ruixiang Han (Director and Chief Executive Officer)
Shuyi Yuan (Director and Deputy Chief Executive Officer)
Qingsheng Lin (Non-Executive Director)
David Newton (Independent Non-Executive Director)
Peter Goshawk (Independent Non-Executive Director – Resigned 31 August 2018)
Alan Gemes (Independent Non-Executive Director – Appointed 6 September 2018)
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 (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 2018.

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 business review, future developments 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$25.37 million (2017: US$21.70 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)
Ruixiang Han (Director and Chief Executive Officer)
Shuyi Yuan (Director and Deputy Chief Executive Officer)
Qingsheng Lin (Non-Executive Director)
David Newton (Independent Non-Executive Director)
Peter Goshawk (Independent Non-Executive Director – resigned 31 August 2018)
Alan Gemes (Independent Non-Executive Director – appointed 6 September 2018)
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 (2017: 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. The Directors consider Brexit as a significant event that will have impact on the Bank's liquidity, capital and profit. The Directors assess the Bank's forecasted results and projections, estimated capital, funding and liquidity requirements, contingent liabilities, and possible economic, market and product developments under a normal and stressed scenarios, including a range of possible Brexit outcomes. The Directors are satisfied that the Bank has the resources to continue in business for the foreseeable future. Further, the Directors are not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern.

Directors' Report

As mentioned in the Strategic Report, the Directors are considering a possible consolidation of the Subsidiary and Branch Balance Sheets under one banking licence (the Branch licence). At the time of signing the financial statements no decision has been made. We do not believe that such a consolidation has an impact on the going concern assessment made in this 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 as the external auditor is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

J Kerr

John Kerr

Company Secretary

15 March 2019

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 Annual Report, 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

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United Kingdom

Independent auditor's report to the members of ICBC (London) plc

Our opinion is unmodified

We have audited the financial statements of ICBC (London) plc ("the Company") for the year ended 31 December 2018 which comprise the Profit and Loss Account, Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity, Statement of Cash Floss and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- the financial statements give a true and fair view of the state of Company's affairs as at 31 December 2018 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 first appointed as auditor by the Directors on 23 June 2015. The period of total uninterrupted engagement is for the three financial years ended 31 December. 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 matters: including 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 matters, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were 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 these matters.

Key audit matter	How our audit addressed the key audit matter
The impact of uncertainties due to the UK exiting the European Union on our Audit Refer to page 5 of the strategic for the Brexit disclosures, the potential impact and uncertainties.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: • **Our Brexit knowledge:** We considered the directors' assessment of Brexit related sources of

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Independent auditor's report to the members of ICBC (London) plc

Unprecedented levels of uncertainty

All audits assess and challenge the reasonableness of estimates, in particular as described in impairment of loans and advances to customers below and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements (see below). All of these depend on assessments of the future economic environment and the Company's future prospects and performance.

Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.

risk for the Company's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks.

- **Sensitivity analysis:** When addressing impairment of loans and advances to customers and other areas that depend on forecasts, we compared the directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and, where forecast cash flows are required to be discounted at a rate other than the original effective interest rate, considered adjustments to discount rates for the level of remaining uncertainty.
- **Assessing transparency:** As well as assessing individual disclosures as part of our procedures on impairment of loans and advances to customers, we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks.

Our results:

As reported under impairment of loans and advances to customers, we found the resulting estimates and related disclosures of impairment of loans and advances to customers and disclosures in relation to uncertainty due to Brexit to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and advances at amortised cost Refer to page 27 (accounting policy) and page 46 (financial disclosures) **Subjective estimate** IFRS 9 was implemented by the Company on 1 January 2018. This new standard requires the Company to recognise expected credit losses (ECL) on financial instruments which involves significant judgement and estimates. The carrying value of financial instruments within the scope of IFRS 9 ECL may be materially	**Control design, observation and operation:** We tested the design and operation of manual and automated controls over ECL including: — the accuracy of data input into the system used for credit grading and the approval of credit facilities — assessing the suitability of the model used and appropriateness of the model validation controls in operation; and — the ongoing monitoring and identification of loans displaying indicators of impairment and whether they are migrating, on a timely basis to the watchlist or the impaired assets report. **Our financial risk modelling expertise:** We involved our

misstated if judgements or estimates made by the Company are inappropriate.	own financial risk modelling specialists in evaluating the appropriateness of the Company's IFRS 9 impairment methodologies (including the SICR criteria used). We used our experience to independently assess the reasonableness of the probability of default, loss given default and exposure at default assumptions, after considering the characteristics of the loan book. **Our economic scenario expertise:** We involved our own economic specialists to assist us in assessing the appropriateness of the Company's methodology for determining the economic scenarios used and the probability weightings applied to them. **Tests of details:** Key aspects of our testing involved: • Re-performing the model calculation to assess whether the calculation was working as per our expectations; and • sample testing over key inputs and assumptions impacting ECL calculations. . **Our results:** We considered the credit impairment charge and provision recognised and the related disclosures to be acceptable (2017: acceptable).

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 $1.33m (2017: $1.36m), determined with reference to a benchmark of profit before tax, of which it represents 5% (2017: 5%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding $66k (2017: $68k), 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

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

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In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Company's available financial resources over this period were:

- Availability of funding and liquidity in the event of a market wide stress scenario including the impact of Brexit; and
- Impact of any macroeconomic deterioration, particularly a China slowdown, on the recoverability of the loan book

As these were risks that could potentially cast significant doubt on the Company's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Company's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise.

Based on this work, 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 a year from the date of approval of the financial statements.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

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 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.

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7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 12 , 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 areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience through discussion with the directors and other management as required by auditing standards, and from inspection of the company's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of Company's licence to operate. We identified the following areas as those most likely to have such an effect: health and safety, anti-bribery, employment law, regulatory capital and liquidity and certain aspects of company legislation recognising the financial and regulated nature of the Company's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and inspection of regulatory and legal correspondence, if any. These limited procedures did not identify actual or suspected non-compliance.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely

Independent auditor’s report to the members of ICBC (London) plc

the inherently limited procedures required by auditing standards would identify it. In addition, 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. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

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.

Suvro Dutta (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square

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E14 5GL

15 March 2019

Profit and Loss Account

for the year ended 31 December 2018

	Notes	2018 *$ '000*	2017 *$ '000*
Interest receivable from financial investments	2	11,608	6,678
Other interest receivable	2	55,803	51,298
Interest payable	2	(37,960)	(29,349)
Net interest income		**29,451**	**28,627**
Fees and commissions receivable	2	4,325	7,074
Fees and commissions payable	2	(1,127)	(2,339)
Net fees and commission		**3,198**	**4,735**
Revaluation (loss)/gain on financial derivatives	11	(983)	522
Foreign exchange gain and realised gain on financial derivatives		2,379	529
Other operating income	3	8,288	5,174
Gain on sale of tangible assets		3	-
Gain on sale of financial instruments		28	-
Other income		**9,715**	**6,225**
Total operating income		**42,364**	**39,587**
Personnel expenses	4	(30,039)	(25,684)
Depreciation of tangible fixed assets	14	(1,684)	(1,668)
Amortisation of intangible assets	15	(99)	(73)
Impairment losses	10	(167)	(1,269)
Other operating expenses	6	(9,094)	(10,623)
Reimbursement of expenses attributable to the Branch		29,697	26,621
Operating expenses		**(11,386)**	**(12,696)**
Profit on ordinary activities before tax		**30,978**	**26,891**
Tax on profit on ordinary activities	7	(5,611)	(5,193)
Profit for the financial year		**25,367**	**21,698**

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

Notes 1 to 38 form part of these financial statements.

Statement of Comprehensive Income

for the year ended 31 December 2018

	Note	2018 $ '000	2017 $ '000
Profit for the financial year		**25,367**	**21,698**
Other comprehensive income:			
Change in fair value of financial investments at fair value through other comprehensive income (FVOCI)	22	(1,431)	(2,033)
Impairment allowance on financial investments at FVOCI	10	72	
Tax on components of other comprehensive income	22	193	688
Other comprehensive loss for the year, net of income tax		**(1,166)**	**(1,345)**
Total comprehensive income for the year		**24,201**	**20,353**

Notes 1 to 38 form part of these financial statements.

Balance Sheet

As at 31 December 2018

	Note	2018 $ '000	2017 $ '000
Assets			
Cash and balances at central banks		10,369	162
Loans and advances to banks	8	900,153	840,064
Loans and advances to customers	9	809,084	953,232
Derivative financial instruments	11	12,667	52,120
Financial investments at fair value through other comprehensive income(FVOCI)	12	393,988	448,210
Financial investments at amortised cost	13	191,156	69,522
Tangible fixed assets	14	36,761	37,994
Intangible assets	15	144	178
Prepayments, accrued income and other assets	16	20,309	29,757
Total Assets		**2,374,631**	**2,431,239**
Liabilities			
Deposits by banks	18	1,355,754	1,475,894
Customer accounts	19	467,426	375,734
Derivative financial instruments	11	12,466	50,936
Provisions	24	2,997	3,220
Accruals and deferred income	20	4,564	3,433
Subordinated loan	23	100,000	100,000
Current tax liabilities		1,175	4,091
Deferred tax liabilities	17	449	618
Other liabilities		7,363	18,913
Total Liabilities		**1,952,194**	**2,032,839**
Share Capital and Reserves			
Authorised and called up share capital	21	200,000	200,000
Retained earnings	22	224,235	199,057
Other reserves	22	(1,798)	(657)
Total Share Capital and Reserves		**422,437**	**398,400**
Total Liabilities and Share Capital and Reserves		**2,374,631**	**2,431,239**
Memorandum items			
Contingencies and commitments	25	308,233	566,787

These financial statements were approved by the Directors on 15 March 2019 and are signed on their behalf by:

Ruixiang Han — Director

Graeme Tosen — Chief Financial Officer

Company Registration No: 4552753

Notes 1 to 38 form part of these financial statements.

Statement of Changes in Equity

for the year ended 31 December 2018

	Ordinary Share Capital	Retained Earning	Other Reserves	Total Equity
	$ '000	*$ '000*	*$ '000*	*$ '000*
Balance at 1 January 2017	**200,000**	**177,359**	**688**	**378,047**
Profit for the year	-	21,698	-	**21,698**
Other comprehensive loss	-	-	(1,345)	**(1,345)**
Balance at 31 December 2017	**200,000**	**199,057**	**(657)**	**398,400**
Balance at 1 January 2018	**200,000**	**199,057**	**(657)**	**398,400**
Adjustment on initial application of IFRS 9	-	(189)	25	**(164)**
Restated balance at 1 January 2018	**200,000**	**198,868**	**(632)**	**398,236**
Profit for the year	-	25,367	-	**25,367**
Other comprehensive loss	-	-	(1,166)	**(1,166)**
Balance at 31 December 2018	**200,000**	**224,235**	**(1,798)**	**422,437**

Notes 1 to 38 form part of these financial statements.

Statement of Cash flows

for the year ended 31 December 2018

	Notes	2018 $ '000	2017 $ '000
Cash flows from operating activities			
Profit before tax		**30,978**	**26,891**
Adjustments for non-cash items			
Depreciation of tangible fixed assets	14	1,684	1,668
Tangible fixed assets expensed off	14	17	-
Amortisation of intangible assets	15	99	73
Impairment losses	10	167	1,269
Interest income	2	(67,411)	(57,976)
Interest expense	2	37,960	29,349
Gain on disposal of tangible fixed assets		(3)	-
Gain on sale of financial investments at FVOCI		(28)	-
Exchange gain and accretion of discounts and amortisation of premiums on financial investments		474	1,767
Revaluation gain/(loss) on financial derivatives	11	983	(522)
		(26,058)	**(24,372)**
(Increase)/ decrease in operating assets			
Loans to banks	8	(63,378)	276,532
Loans and advances to customers	9	144,068	70,269
Other assets	16	(3,158)	(16,268)
		77,532	**330,533**
(Decrease)/increase in operating liabilities			
Deposits by banks	18	(120,140)	(278,644)
Deposits from customers	19	91,692	(15,278)
Other liabilities		154	16,506
		(28,294)	**(277,416)**
Adjustment for cash items			
Interest received		66,312	56,073
Interest paid		(36,643)	(29,773)
Income tax paid		(7,208)	(3,313)
		22,461	**22,987**
Net cash from /(used in) operating activities		**76,619**	**78,623**
Cash flow from investing activities			
Acquisition of financial investments at FVOCI	12	(224,306)	(226,102)
Maturity /Disposal of financial investments at FVOCI	12	275,189	166,059
Acquisition of financial investments at amortised cost	13	(142,014)	(69,678)
Maturity of financial investments at amortised cost	13	19,688	-
Acquisition of tangible fixed assets	14	(468)	(174)
Disposal of tangible fixed assets	14	3	-
Acquisition of intangible assets	15	(65)	(223)
Net cash from /(used in) investing activities		**(71,973)**	**(130,118)**
Net cash from financing activities		-	-
Net (decrease)/ increase in cash and cash equivalents		**4,646**	**(51,495)**
Cash and cash equivalents at 1 January	29	**71,939**	**126,704**
Effects of exchange rates on cash and cash equivalents		2,109	(3,270)
Cash and cash equivalents at 31 December	29	**78,694**	**71,939**

The notes 1 to 38 form part of these financial statements.

Notes to the financial statements

for the year ended 31 December 2018

1. Accounting policies

1.1 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).

1.2 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 under a range of possible Brexit scenarios and 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 15 March 2019.

1.3 Review of accounting policies

The Bank prepares financial statements in accordance with FRS 102. The Bank has chosen to adopt the recognition and measurement provisions of IFRS 9 Financial Instruments issued by the IASB in July 2014, 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 from 1 January 2018, departing from the recognition and measurement provisions of IAS 39.

The adoption of IFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets.

The Bank elected not to restate comparative figures of the previous year as permitted by IFRS 9. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period.

Disclosures relating to the impact of the adoption of IFRS 9 on the Bank are set out in Note 28.

1.4 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.

1.5 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.

Notes to the financial statements

for the year ended 31 December 2018

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.

1.6 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:

1.6.1 Impairment losses on financial assets

The Bank determines impairment losses on financial assets based on the expected credit loss (ECL). The measurement of the expected credit loss allowance for financial assets measured at amortised cost and fair value through other comprehensive income (FVOCI) is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

1.6.2 Classification of financial assets

The classification of financial assets is based on (i) the business model within which financial assets are managed and (ii) contractual cash flow characteristics (whether the cash flows represent 'solely payment of principal and interest'(SPPI)). Determining the appropriate business models and assessing the SPPI requirements for the financial assets may require significant accounting judgement.

1.6.3 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.

Notes to the financial statements

for the year ended 31 December 2018

1.7 Exemption under FRS 102

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

1.7.1 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.

1.8 Significant Accounting Policies

1.8.1 Financial instruments

The Bank has chosen to adopt the recognition and measurement provisions of IFRS 9 Financial Instruments (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 from 1 January 2018.

1.8.1.1 Financial Assets

The Bank classifies and subsequently measures the financial assets based on:

- The business model within which financial assets are managed; and
- Contractual cash flow characteristics

Based on these factors, the Bank classifies its financial assets into one of the following three measurement categories:

i. Amortised cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at fair value through profit or loss (FVPL), are measured at amortised cost. The carrying amount of these assets is adjusted by the impairment allowance.

Loans to banks, loans to customers and some bond investment of the Bank are measured at amortised cost.

ii. Fair value through other comprehensive income (FVOCI)

Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVPL are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through other comprehensive income (OCI), except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in the Profit and Loss Account.

The Bank only measures some bond investments held for liquidity purposes at FVOCI.

iii. Fair value through profit or loss (FVPL)

Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss.

The Bank measures financial derivatives at FVPL.

Business model

The business model reflects how the Bank manages the assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of an 'other' business model and measured at FVPL. Factors considered by the Bank in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the assets' performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

Contractual cash flow characteristics

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

The Bank reclassifies financial assets when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

1.8.1.2 Impairment of financial assets

The impairment of financial assets is recognised based on 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 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.

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 12 months 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 quantitative test for determining the SICR includes a deterioration of the probability of default (PD) of counterparties at the reporting date compared to the life time PD at the date of origination (the PD needs to deteriorate at higher scale - both in terms of the percentage and the absolute value - for a highly rated counterparty than for a counterparty rated as a sub-investment grade in order to trigger the SICR); and a backstop of 30 days past due. 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:

i. Quantitative default criteria

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

ii. 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.

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for the year ended 31 December 2018

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 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-month and lifetime PDs 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 given 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 12 months 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.

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Modification of contractual cash flows

Modifications of the contractual cash flows of a financial asset might result in de-recognition of the existing instrument if the existing agreement is cancelled and a new agreement made on substantially different terms or if the terms of an existing agreement are modified such that the renegotiated loan is a substantially different instrument. The date of the modification is the date of initial recognition for the new financial asset.

Where a modification does not result in de-recognition, the gross carrying amount of the modified asset is adjusted to reflect the revised contractual cash flows. The new gross carrying amount is determined as the present value of the estimated future modified contractual cash flows discounted at the asset's original effective interest rate. The resulting adjustment is charged to the income statement as a gain or loss on modification.

Modified assets are assessed to determine whether a significant increase in credit risk has occurred. The Bank considers the credit risk at the reporting date under the modified contractual terms of the asset. This is compared to the credit risk at initial recognition under the original unmodified contractual terms of the financial asset. If this comparison does not show a significant increase in credit risk, the loss allowance is measured at a 12-month ECL.

Write-offs

The gross carrying amount of a financial asset will be reduced when the Bank has no reasonable expectations of recovering the asset. Write-offs can relate to a financial asset in its entirety or to a portion of it. Such assets are written off against the related credit allowance. Subsequent recoveries of amounts previously written off reduce the amount of the expense in the income statement.

1.8.1.3 Financial Liabilities

The Bank classifies its financial liabilities in the following categories:

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

Financial liabilities 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.

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.

1.8.1.4 Derecognition of financial assets and liabilities

Financial assets are derecognised when 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.

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1.8.1.5 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.

1.8.1.6 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.

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.

1.8.1.7 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.

Accounting policies for Financial Instruments applicable before 1 January 2018

The Bank adopted 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 until 31 December 2017.

Financial Assets

The Bank classified 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 depended on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments were 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.

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i. Financial assets at fair value through profit or loss

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

Financial assets held for trading

A financial asset was classified as held for trading if:

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

Financial assets designated at fair value through profit or loss

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

- eliminated or significantly reduced a measurement or recognition inconsistency
- applied to a group of financial assets, financial liabilities, or both that the Bank managed and evaluated on a fair value basis; or
- related to an instrument that contained an embedded derivative which was not evidently closely related to the host contract.

Financial assets at fair value through the profit or loss were 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 were recognised in the Profit and Loss Account.

ii. Loans and receivables

Loans and receivables were financial assets with fixed or determinable payments and fixed maturities that were not quoted in an active market and which were 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 were subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost was calculated by taking into account any discount or premium on acquisition and fees and costs that were an integral part of the effective interest rate. The amortisation was included in “interest receivable” in the Profit and Loss Account. The losses arising from the impairment were recognised in the Profit and Loss Account

The Bank classified 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 were non-derivative financial assets with fixed or determinable payments that the Bank intended and was able to hold to maturity and that did not meet the definition of loans and receivables and were 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 were subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost was calculated by taking into account any discount or premium on acquisition and fees and costs that were an integral part of the effective interest rate. The amortisation was included in “interest receivable” in the Profit and Loss Account. The losses arising from the impairment were recognised in the Profit and Loss Account

If the Bank sold 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 would 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, were classified under this category.

iv. Available-for-sale financial investments

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

At the initial recognition of financial instruments as available for sale, all financial instruments were to be carried at fair value. After initial measurement, available-for-sale financial investments were subsequently measured at fair value. Unrealised gains and losses were recognised directly in equity in other comprehensive income – the available-for-sale reserve. When the security was disposed of, the cumulative gain or loss previously recognised in equity was recognised in the Profit and Loss Account.

Interest income was 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 were included in the calculation of their effective interest rates.

If the available-for-sale financial investment was 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, was removed from other comprehensive income and recognised in the Profit and Loss Account.

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

Financial Liabilities

The Bank classified its financial liabilities in the following categories:

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

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

- eliminated or significantly reduced a measurement or recognition inconsistency;
- applied to a group of financial assets, financial liabilities, or both which was managed and its performance was evaluated on a fair value basis.

Financial Liabilities at fair value through profit or loss were 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 were recognised in the Profit and Loss Account.

ii. Other Financial Liabilities

All other financial liabilities were measured initially at fair value including transaction costs that were directly attributable to the acquisition or issue of the financial liabilities. Subsequently, they were carried at amortised cost.

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 assessed individually for financial assets that were individually significant, and collectively for financial assets that were not individually significant, whether there was objective evidence of impairment. For the purpose of collective evaluation of impairment, which was intended to reflect incurred losses that had not been specifically identified, financial assets might 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 were difficult to quantify.

Objective evidence of impairment might 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 had not been received.
- The issuer or obligor would enter bankruptcy proceedings;
- The primary sources of repayment were insufficient to service the remaining contractual principal and interest amounts, and the Bank had to rely on secondary sources for repayment;
- The asset was no longer traded publicly or there was no market to trade the assets;
- Clear evidence of measurable data indicating that actual and future cash flow would be insufficient to service interest and principal.

If there was objective evidence that an impairment loss had been incurred, the amount of the loss was 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 had not yet been incurred). The carrying amount of the asset was reduced through the use of an allowance account and the amount of the loss was recognised in the Profit and Loss Account.

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

All impaired loans were reviewed for changes to the recoverable amount. If, in a subsequent year, the amount of estimated impairment loss increased or decreased because of an event occurring after the impairment had been recognised, the previously recognised impairment loss was increased or reduced by adjusting the allowance account. If a write-off was later recovered, the recovery was credited to the Profit and Loss Account.

The present value of the estimated cash flows was discounted at the financial asset's original effective interest rate. If a loan had a variable interest rate, the discount rate for measuring any impairment loss was 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 might result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure was probable.

- ***Financial instruments held-to-maturity***

The Bank assessed at each reporting date whether there was objective evidence that a held-to-maturity asset was impaired. A held-to-maturity asset was impaired and impairment losses were incurred only if there was 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 could be reliably estimated.

- ***Financial instruments available-for-sale***

For financial instruments available-for-sale, the Bank assessed at each balance sheet date whether there was objective evidence that an instrument or a group of instruments was impaired.

Impairment was assessed based on the same criteria as financial assets carried at amortised cost. Interest continued to be accrued at the original effective interest rate on the reduced carrying amount of the asset and was recorded as part of "interest receivable".

When a decline in the fair value of an available-for-sale financial asset had been recognised in other comprehensive income and there was objective evidence that the asset was impaired, the cumulative loss that

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had been recognised in other comprehensive income should be reclassified from Equity to the Profit and Loss Account as a reclassification adjustment even though the financial asset had not been derecognised.

The amount of the cumulative loss that was reclassified from Equity to the Profit and Loss Account should 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 increased and the increase could be objectively related to an event occurring after the impairment loss was recognised in the Profit and Loss Account, the impairment loss was reversed through the Profit and Loss Account.

1.8.2 Interest and similar income and expense

For all financial instruments measured at amortised cost and interest-bearing financial instruments measured at fair value through other comprehensive income, 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 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.

1.8.3 Fee and commission income

The Bank earns fee and commission income from loans and advances, trade finance facilities and other services such as fund transfer etc. 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.

1.8.4 Taxation

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

i. 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.

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ii. 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.

1.8.5 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.

1.8.6 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.

1.8.7 Impairment of non-financial assets

At each balance sheet date, the Bank reviews the carrying amounts of its non-financial assets (other than deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The 'recoverable amount' of an asset is the greater of its value in use and its fair value less costs to sell. 'Value in use' is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount.

Impairment loss is recognised in the Profit and Loss Account. The impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

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1.8.8 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 the 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.

1.8.9 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.

1.8.10 Provisions

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.

1.8.11 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose 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.

1.8.12 Cash and cash equivalents

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

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2. Interest and similar income

2018

	Loans and advances	Financial investments at FVOCI*	Financial Investments at AC**	Financial Derivatives at FVPL***	Deposits by bank	Customer accounts	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Interest and similar income							
arising from financial investments	-	7,876	3,732	-	-	-	**11,608**
Other interest and similar income	55,654	-	-	149	-	-	**55,803**
Total Interest and similar income	**55,654**	**7,876**	**3,732**	**149**	-	**-**	**67,411**
Interest expense	-	-	-	-	(33,986)	(3,974)	**(37,960)**
Net interest income	**55,654**	**7,876**	**3,732**	**149**	**(33,986)**	**(3,974)**	**29,451**
Fees and commissions income							4,325
Fees and commissions expense							(1,127)
Net fees income							**3,198**

**FVOCI –Fair value through other comprehensive income*

***AC– Amortised cost*

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

Interest income on impaired loans was nil in 2018 (2017: $2.06 million).

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2017

	Loans and advances	Financial investments at FVOCI*	Financial Investments at AC**	Derivative instruments at FVPL***	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**

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

3. Other operating income

	2018	**2017**
	$'000	*$'000*
Fees earned for services provided under a service level agreement with related parties	8,288	5,174
	8,288	**5,174**

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 support its Prime Dealer Services (PDS).

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4. Personnel expenses

Personnel expenses (including Directors) comprise the following:

	2018	2017
	$'000	*$'000*
Wages and salaries	25,871	22,016
Social security costs	3,100	2,197
Pension costs	890	650
Other costs	178	821
	30,039	**25,684**

Of the total personnel expenses, the cost attributable to the Branch was $22.25 million (2017: $18.94 million).This has been included in the "Reimbursement of expenses attributable to the Branch" line in the Profit and Loss Account.

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

	2018	2017
	No	*No*
- Senior Management	6	6
- Corporate Banking	28	24
- Institutional Banking	11	10
- Treasury	14	12
- Global Loan Syndications	5	2
- Retail Banking and Account Services	8	8
- PDS	12	12
- Risk control	24	21
- Support functions	57	45
- Compliance and Legal and Internal Audit	13	10
- Company Secretary	1	1
	179	**151**

Notes to the financial statements

for the year ended 31 December 2018

5. Directors' emoluments

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

	2018	2017
	$'000	*$'000*
Salary	1,264	1,185
Bonus	417	263
	1,681	**1,448**

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

	2018	2017
	$'000	*$'000*
Salary, benefits and performance-related bonus	807	665

6. Other operating expenses

	2018	2017
	$'000	*$'000*
Administrative expenses	8,373	7,730
Operating leases:		
- Operating lease charges	498	722
- Revision of provision for onerous leases	(37)	1,977
Auditor's remuneration:		
- Audit of the financial statements		
Current year	171	165
Previous year	60	-
- Audit-related assurance services		
Current year	29	29
	9,094	**10,623**

Notes to the financial statements

for the year ended 31 December 2018

Of the total other operating expenses, expenses attributable to the Branch were $6.20 million in 2018 (2017: USD 6.45 million). This has been included in the “Reimbursement of expenses attributable to the Branch” line in the Profit and Loss Account.

7. Tax on profit on ordinary activities

The tax charge is made up as follows:

	2018 *$'000*	**2017** *$'000*
Current tax:		
UK corporation tax	(6,023)	(6,265)
Adjustments in respect of prior years	432	1,174
Total current tax	**(5,591)**	**(5,091)**
Deferred tax:		
Origination and reversal of timing differences	(26)	(105)
Adjustment for prior years	6	3
Total deferred tax (charge)/credit for the year	**(20)**	**(102)**
Total charge for the year	**(5,611)**	**(5,193)**

Factors affecting tax charge for the year:

The tax assessed for the year is the standard rate of Corporation Tax in the UK of 19% (2017: 19.25%). The differences are explained below:

	2018 *$'000*	**2017** *$'000*
Profit on ordinary activities before tax	**30,978**	**26,891**
Current tax at 19% (2017: 19.25%)	(5,885)	(5,177)
Bank Surcharge (8% on taxable profit above GBP 12.5 million)	-	(916)
Difference in tax rate used for the current and deferred tax	42	(24)
Non-deductible expenses	(233)	(232)
Other adjustments	27	(21)
Adjustments in respect of prior years	438	1,177
Total tax charge for the year	**(5,611)**	**(5,193)**

Notes to the financial statements

for the year ended 31 December 2018

Reductions in the UK Corporation Tax rate from 20% to 19% (effective from 1 April 2018) and to 17% (effective from 1 April 2020) were substantively enacted in October 2015 and September 2017 respectively. Further, the Bank Corporation Tax Surcharge of 8 % came into effect from 1 January 2017. 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 2018 has been calculated at 25% (17% Corporation Tax + 8% Bank Surcharge).

Consortium relief

In December 2018, the Bank claimed consortium relief for 2017 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 2017. Consequently, the Bank will receive a repayment of tax previously paid to HMRC for 2017. The total tax repayment receivable from HMRC including interest on tax was $1.94 million, which is included in “Current tax liabilities” in the Balance Sheet.

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 $1.34 million, which is included in “Other liabilities” in the Balance Sheet.

8. Loans and advances to banks

	2018 *$'000*	**2017** *$'000*
Loans and advances to banks	900,235	840,309
Less: Impairment losses (Note 10)	(82)	(245)
Net loans and advances to banks	**900,153**	**840,064**

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:

	2018 *$'000*	**2017** *$'000*
- On demand	68,325	71,777
- Three months or less	611,000	539,918
- Above three months to one year	92,660	47,464
- Above one year to five years	128,250	181,150
	900,235	**840,309**

Notes to the financial statements

for the year ended 31 December 2018

Loans and advances to banks by geographical area:

	2018 *$'000*	2017 *$'000*
Area:		
Australia	-	40,000
China	381,942	479,127
Germany	200,430	-
Hong Kong	2,079	2,089
India	-	30,000
Singapore	80,000	-
South Africa	107,433	169,174
United Arab Emirates	33,824	-
United Kingdom	63,508	67,842
United States	11,019	21,489
Others	20,000	30,588
	900,235	**840,309**

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).

	2018 *$'000*	2017 *$'000*
Amounts include:		
Due from ICBC group entities	88,430	38,948

9. Loans and advances to customers

	2018 *$'000*	2017 *$'000*
Loans and advances to customers	816,199	960,267
Less: Impairment losses (Note 10)	(7,115)	(7,035)
Net loans and advances to customers	**809,084**	**953,232**

Notes to the financial statements

for the year ended 31 December 2018

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:

	2018 *$'000*	2017 *$'000*
- Overdue	5,000	5,000
- Three months or less	-	88,834
- Above three months to one year	69,050	156,749
- Above one year to five years	602,529	551,409
- Above five years	139,620	158,275
	816,199	**960,267**

Loans and advances to customers by geographical area:

	2018 *$'000*	2017 *$'000*
Area:		
Angola	33,732	45,498
Australia	-	38,268
China	23,978	25,074
France	9,381	21,286
Hong Kong	27,317	20,788
Netherlands	73,709	64,589
Nigeria	79,345	-
Russia	-	19,841
Switzerland	30,970	57,301
United Kingdom	359,600	447,416
United States	5,000	5,000
Zambia	120,000	135,000
Others	53,167	80,206
	816,199	**960,267**

Notes to the financial statements

for the year ended 31 December 2018

10. Impairment loss

The impairment loss for 2018 was computed based on the expected credit loss as per IFRS 9. The total impairment loss charged in the Profit and Loss Account was $167k in 2018. (2017:$1.24 million - calculated as per IAS 39). The breakdown of impairment losses is set out below:

i. Loans and advances at amortised cost

	IAS 39 Loan & advances to banks (Collective impairment)	IFRS 9 Loan & advances to banks Stage 1	IAS 39 Loan & advances to customers (Collective impairment)	IAS 39 Loan & advances to customers (Specific impairment)	IFRS 9 Loan & advances to customers Stage 1	IFRS 9 Loan & advances to customers Stage 2	IFRS 9 Loan & advances to customers Stage 3	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Balance at 1 January 2017	**30**	**-**	**1,990**	**15,000**	**-**	**-**	**-**	**17,020**
Charge/(Reversal) during the year	**215**	**-**	**45**	**979**	**-**	**-**	**-**	**1,239**
Amounts written off	-	-	-	**(10,979)**	-	-	-	**(10,979)**
Balance at 31 December 2017	**245**	**-**	**2,035**	**5,000**	**-**	**-**	**-**	**7,280**
Balance at 1 January 2018	**245**	**-**	**2,035**	**5,000**	**-**	**-**	**-**	**7,280**
Adjustment on initial application of IFRS 9	(245)	236	(2,035)	(5,000)	608	1,252	5,000	**(184)**
Restated balance at 1 January 2018	**-**	**236**	**-**	**-**	**608**	**1,252**	**5,000**	**7,096**
(Reversal)/charge during the year	**-**	**(154)**	**-**	**-**	**410**	**(141)**	**-**	**115**
FX translation loss	**-**	**-**	**-**	**-**	**(14)**	**-**	**-**	**(14)**
Balance at 31 December 2018	**-**	**82**	**-**	**-**	**1,004**	**1,111**	**5,000**	**7,197**

Notes to the financial statements

for the year ended 31 December 2018

ii. Financial investments at amortised cost

	IAS 39	IFRS 9 Stage 1	IFRS 9 Stage 2	IFRS 9 Stage 3	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
Balance at 1 January 2018	**-**	**-**	**-**	**-**	**-**
Adjustment on initial application of IFRS 9	-	8	-	-	8
Restated balance at 1 January 2018	**-**	**8**	**-**	**-**	**8**
Charge for the year	-	27	-	-	27
Balance at 31 December 2018	**-**	**35**	**-**	**-**	**35**

iii. Financial investments at fair value through other comprehensive income(FVOCI)

	IAS 39	IFRS 9 Stage 1	IFRS 9 Stage 2	IFRS 9 Stage 3	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
Balance at 1 January 2018	**-**	**-**	**-**	**-**	**-**
Adjustment on initial application of IFRS 9	-	25	-	-	25
Restated balance at 1 January 2018	**-**	**25**	**-**	**-**	**25**
Charge for the year	-	47	-	-	47
Balance at 31 December 2018	**-**	**72**	**-**	**-**	**72**

Notes to the financial statements

for the year ended 31 December 2018

iv. Undrawn loan commitments and guarantees

	IAS 39	IFRS 9 Stage 1	IFRS 9 Stage 2	IFRS 9 Stage 3	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
Balance at 1 January 2018	**-**	**-**	**-**	**-**	**-**
Adjustment on initial application of IFRS 9	-	92	312	-	404
Restated balance at 1 January 2018	**-**	**92**	**312**	**-**	**404**
(Reversal)/ Charge during the year	-	(26)	4	-	**(22)**
FX translation loss	-	(4)	(16)	-	**(20)**
Balance at 31 December 2018	**-**	**62**	**300**	**-**	**362**

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for the year ended 31 December 2018

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.

	2018			2017		
	Positive fair value	Negative fair value	Revaluation gain/(loss)	Positive fair value	Negative fair value	Revaluation gain/(loss)
	$000	*$000*	*$000*	*$000*	*$000*	*$000*
Forward Exchange Contracts	10,252	(10,478)	(1,279)	50,123	(49,070)	623
Interest Rate Swaps	2,415	(1,988)	296	1,997	(1,866)	(101)
	12,667	**(12,466)**	**(983)**	**52,120**	**(50,936)**	**522**

12. Financial investments at fair value through other comprehensive income (FVOCI)

Financial investments measured at FVOCI include investments in quoted bonds. The Bank values bonds using the quoted market price at the balance sheet date.

	2018	2017
	$''000	*$'000*
Balance at 1 January	**448,210**	**388,541**
Additions	224,306	226,102
Disposals/ Matured	(275,161)	(166,059)
Fair value adjustment	(1,407)	(2,033)
Premium/ Discount amortisation	(387)	467
Foreign exchange difference	(1,573)	1,192
Balance at 31 December	**393,988**	**448,210**

Notes to the financial statements

for the year ended 31 December 2018

	2018	2017
	$'000	*$'000*
Analysed by maturity:		
- Due within one year	56,599	246,235
- Due after one year	337,389	201,975
Analysed by sector:		
- Government	314,909	360,239
- Other sectors	79,079	87,971

13. Financial investments at amortised cost

	2018	2017
	$''000	*$'000*
Balance at 1 January	**69,522**	**-**
Additions	142,014	69,678
Matured during the year	(19,688)	-
Premium/ Discount amortisation	(657)	(156)
Impairment loss (Note 10)	(35)	-
Balance at 31 December	**191,156**	**69,522**

Notes to the financial statements

for the year ended 31 December 2018

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 2018	**2,785**	**44,718**	**2,074**	**1,073**	**17**	**1,184**	**51,851**
Additions	-	283	89	96	-	-	**468**
Disposal/Written off	-	-	(10)	-	(17)	-	**(27)**
At 31 December 2018	**2,785**	**45,001**	**2,153**	**1,169**	**-**	**1,184**	**52,292**
Accumulated depreciation:							
At 1 January 2018	**-**	**9,670**	**2,038**	**965**	**-**	**1,184**	**13,857**
Depreciation for the year	-	1,571	41	72	-	-	**1,684**
Reversal of depreciation of the disposed assets	-	-	(10)	-	-	-	**(10)**
At 31 December 2018	**-**	**11,241**	**2,069**	**1,037**	**-**	**1,184**	**15,531**
Net book value:							
At 31 December 2018	**2,785**	**33,760**	**84**	**132**	**-**	**-**	**36,761**
At 31 December 2017	**2,785**	**35,048**	**36**	**108**	**17**	**-**	**37,994**

Of the total depreciation expense for the year, the depreciation charge attributable to the Branch was $1.25 million in 2018 (2017: $1.23 million). This has been included in the "Reimbursement of expenses attributable to the Branch" line in the Profit and Loss Account.

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for the year ended 31 December 2018

2017

	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 the Branch" line in the Profit and Loss Account.

15. Intangible assets

	2018	2017
	$'000	*$'000*
Original Cost:		
At 1 January	254	31
Additions	65	223
At 31 December	**319**	**254**
Amortisation		
At 1 January	76	3
Amortisation for the year	99	73
At 31 December	**175**	**76**
Net book value:		
At 31 December	**144**	**178**

Notes to the financial statements

for the year ended 31 December 2018

16. Prepayments, accrued income and other assets

	2018	2017
	$'000	*$'000*
Accrued interest receivable	10,343	9,244
Prepayments	984	804
Other assets	525	464
Receivable from HMRC*	-	13,707
Amount owed by ICBC group undertakings	8,457	5,538
	20,309	**29,757**

*In 2018, the tax receivable from HMRC of $2.13 million was netted against the tax liabilities and presented in the "Current tax liabilities" in the Balance Sheet.

17. Deferred tax assets/ (liabilities)

	2018	2017
	$'000	*$'000*
Deferred tax liabilities included in the Balance Sheet comprise the following:		
Accelerated capital allowances	(1,190)	(1,177)
Other timing differences	741	559
	(449)	**(618)**
Movements in deferred tax liabilities during the year were as follows:		
Balance at 1 January	**(618)**	**(1,160)**
(Charged)/credited to the Profit and Loss Account	(20)	(102)
Credited to the opening Retained Earning for the IFRS 9 transitional adjustment	63	-
Credited to Other Comprehensive Income	126	644
Balance at 31 December	**(449)**	**(618)**

18. Deposits by banks

	2018	2017
	$'000	*$'000*
Repayable:		
- On demand	206,166	172,161
- Three months or less	211,101	307,423
- Above three months to one year	499,026	499,563
- Above one year to five years	439,461	496,747
	1,355,754	**1,475,894**

Notes to the financial statements

for the year ended 31 December 2018

	2018	2017
	$'000	*$'000*
Amounts include:		
Deposits by ICBC group entities	479,375	321,024

19. Customer accounts

	2018	2017
	$'000	*$'000*
Repayable:		
- On demand	246,553	182,785
- Three months or less	138,435	89,902
- Above three months to one year	82,438	102,887
- Above one year	-	160
	467,426	**375,734**

20. Accruals and deferred Income

	2018	2017
	$'000	*$'000*
Accrued interest payable	4,272	2,955
Deferred income	292	478
	4,564	**3,433**

21. Share capital

	2018	2017
	$'000	*$'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 2018

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

	Share capital	Retained earning	Other reserves	Total shareholder's funds
	$'000	*$'000*	*$'000*	*$'000*
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 asset recognised through Equity	-	-	644	644
At 31 December 2017	**200,000**	**199,057**	**(657)**	**398,400**
At 1 January 2018	**200,000**	**199,057**	**(657)**	**398,400**
IFRS 9 adjustments		(189)	25	**(164)**
Restated balance at 1 January 2018	**200,000**	**198,868**	**(632)**	**398,236**
Profit for the year	-	25,367	-	25,367
Change in fair value of financial investments at FVOCI	-	-	(1,431)	(1,431)
Impairment charged on financial investments at FVOCI	-	-	72	72
Tax charge on change in fair value of financial investments at FVOCI	-	-	68	68
Deferred tax liability recognised through Equity	-	-	125	125
At 31 December 2018	**200,000**	**224,235**	**(1,798)**	**422,437**

23. Subordinated loan

	2018	2017
	$'000	*$'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%.

Notes to the financial statements

for the year ended 31 December 2018

24. Provision for Liabilities

i. Onerous lease

	2018 $'000			2017 $'000		
	36 King Street	*77 Shaftesbury Avenue*	*Total*	*36 King Street*	*77 Shaftesbury Avenue*	*Total*
Balance at 1 January	**248**	**2,972**	**3,220**	**226**	**909**	**1,135**
(Reversal)/Addition during the year	(248)	25	**(223)**	22	2,063	**2,085**
Balance at 31 December	**-**	**2,997**	**2,997**	**248**	**2,972**	**3,220**

a. 36 King Street

The lease contract on 36 King Street expired in April 2018 and the remaining provision for the onerous lease was reversed into the Profit and Loss Account.

b. 77 Shaftesbury Avenue

The Bank leased premises at 77 Shaftesbury Avenue in April 2017 in order to open a branch. However, in November 2017 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 8-year UK Government bond yield.

25. Memorandum items – contingencies and commitments

	2018 $'000	2017 $'000
Undrawn documentary credits and short-term trade related transactions	12,828	63,863
Undrawn loans and advances	295,405	502,924
Balance at 31 December	**308,233**	**566,787**

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.

Notes to the financial statements

for the year ended 31 December 2018

Operating lease commitments

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

	2018	2017
	$'000	*$'000*
Not later than 1 year	426	413
Above 1 year but less than 5 years	1,703	1,489
5 years and above	958	1,210

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:

	2018	2017
	$'000	*$'000*
Balance sheet		
Derivative financial Instruments (Assets)	993	-
Loans and advances to banks	28,149	56,154
Prepayments, accrued income and other assets	138	189
Derivative financial Instruments (Liabilities)	(4,183)	(24,214)
Deposits by banks	449	589
Other liabilities	1,343	12,476
Notional amount of FX derivatives outstanding	**152,277**	**217,399**
Profit and loss account		
Interest receivable	1,457	2,525
Revaluation gain on financial derivatives	21,024	16,595
Fees and commission receivable	7	4

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The above transactions were with the following group entities:

i. ICBC Standard Bank Plc, 60%-owned subsidiary of Industrial and Commercial Bank of China Limited.

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

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

iv. 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 at fair value through other comprehensive income

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 2018

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

2018	Level 1	Level 2	Level 3	Total
	$'000	*$'000*	*$'000*	*$'000*
Assets				
Derivative financial instruments:				
Foreign Exchange Forwards	-	10,252	-	**10,252**
Interest Rate Swaps	-	2,415	-	**2,415**
Financial investments at FVOCI:				
Government debt securities	314,909	-	-	**314,909**
Other debt securities	79,079	-	-	**79,079**
	393,988	**12,667**	**-**	**406,655**
Liabilities				
Derivative financial instruments:				
Foreign Exchange Forwards	-	10,478	-	**10,478**
Interest Rate Swaps	-	1,988	**-**	**1,988**
	-	**12,466**	**-**	**12,466**

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**

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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.

2018

	Fair value through profit or 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	-	-	10,369	**10,369**
Loans and advances to banks	-	-	900,153	**900,153**
Loans and advances to customers	-	-	809,084	**809,084**
Derivative financial instruments	12,667	-	-	**12,667**
Financial Investments at FVOCI	-	393,988	-	**393,988**
Financial investments at amortised cost	-	-	191,156	**191,156**
Total assets	**12,667**	**393,988**	**1,910,762**	**2,317,417**
Deposits by banks	-	-	1,355,754	**1,355,754**
Customer accounts	-	-	467,426	**467,426**
Derivative financial instruments	12,466	-	-	**12,466**
Subordinated loan	-	-	100,000	**100,000**
Total liabilities	**12,466**	**-**	**1,923,180**	**1,935,646**

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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**
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**

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28. Impact of the adoption of IFRS 9

The adoption of IFRS 9 impacted on the Bank's accounting for the financial instruments in the classification and measurement and impairment. The opening shareholder's equity reduced by $164k at 1 January 2018 after the IFRS 9 transitional adjustments.

A. Classification and measurement of financial instruments

The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at 1 January 2018 are compared as follows:

	IAS 39		IFRS 9	
Financial Assets	**Measurement Category**	**Carrying Amount** *$'000*	**Measurement Category**	**Carrying Amount** *$'000*
Cash and balances at central banks	Amortised cost (Loans and receivables)	162	Amortised cost	162
Loans and advances to banks	Amortised cost (Loans and receivables)	840,065	Amortised cost	840,074
Loans and advances to customers	Amortised cost (Loans and receivables)	953,231	Amortised cost	953,406
Derivative financial instruments	Fair value through profit or loss (FVPL)	52,120	FVPL	52,120
Financial investments at amortised cost	Amortised cost (Held to maturity)	69,522	Amortised cost	69,514
Financial investments at FVOCI	Fair value through other comprehensive income (FVOCI)	448,210	FVOCI	448,210

There were no changes to the classification and measurement of financial liabilities.

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B. Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018:

Financial Assets	Impairment loss under IAS 39 *$'000*	Re-measurement *$'000*	Impairment loss under IFRS 9 *$'000*
Loans and advances to banks	245	(9)	236
Loans and advances to customers	7,035	(175)	6,860
Financial investments at amortised cost	-	8	8
Financial investments at FVOCI	-	25	25
Loan commitments and guarantees	-	404	404
	7,280	**253**	**7,533**

29. Cash and cash equivalents

	2018 *$'000*	**2017** *$'000*
Cash balance	171	162
Balance with central bank	10,198	-
Balance with other banks	68,325	71,777
	78,694	**71,939**

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30. 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 established a number of sub-committees governed by clear terms of reference. The principal Board-level sub-committees are Audit Committee, Governance and Compliance Committee and Risk Committee. At the Executive-level there are four committees concerned with risk management issues: Executive Committee, Asset and Liability Committee, Credit Committee and Financial Crime Risk Committee. In 2018, the Bank established the Information Technology Steering Committee.

The Bank has established and maintained an Enterprise-Wide Risk Management framework 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.

Policies and procedures are written consistent 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, undertakes independent, risk-based reviews on the implementation and effectiveness of risk controls.

As part of its Enterprise-Wide Risk Management, the Bank sets limits to control risk exposures. In setting risk limits, 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.

31. Credit risk

Credit risk exposes the Bank to losses due to 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:

- A clear view of the target market.

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- 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 grading methodology

The Bank uses both the internal credit rating, developed by Industrial and Commercial Bank of China Limited "the Parent Bank" and the external credit rating of counterparties assessed by the nominated credit rating agencies, namely Standard & Poor's, Moody's and Fitch, in order to analyse credit risks, to classify and monitor assets denoting strengths and weaknesses in the loan portfolio of the Bank. The credit rating also assists in defining the asset quality of the loan portfolio of the Bank and detects any deterioration in the quality of assets and tracks migration of risks.

The internal rating is based on similar concept of probability of default which underpins the external rating agencies' principles. The rating model of the Parent Bank is based on quantitative and qualitative assessment of a corporate customer. The quantitative assessment takes into consideration earnings, profitability, profit margins, EBITDA, interest coverage measures, accounting quality, cash flow and liquidity, capital and debt structure, solvency etc. The qualitative assessment includes industry environment, the entity's market position and competitive strengths and weaknesses, management and corporate governance.

The Master Scale rating model of the Parent Bank is mapped to the external credit rating agencies scales starting with the highest rating of AAA/Aaa to the lowest rating of D (default) with PD (probability of default) range of lower and upper limits and average PD limit for each rating. If a corporate or financial institution has an external rating, the Bank can map the external rating to the Master Scale to classify the asset.

The credit grading system covers both on-and off balance sheet exposures as shown in the tables below in relation to loans to banks, customers and undrawn commitments and guarantees.

The Bank does not undertake lending to retail customers and SME's.

Credit quality analysis

The following tables contain an analysis of the credit quality of the financial instruments for which an expected credit loss is recognised. The gross carrying amount of financial assets below also represents the Bank's maximum exposure to credit risk on these assets.

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i. Loans and advances to banks

	2018				2017
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Total**
	$'000	***$'000***	***$'000***	***$'000***	***$'000***
Credit grade					
Normal	900,235	-	-	900,235	840,309
Special mention	-	-	-	-	-
Substandard	-	-	-	-	-
Loss	-	-	-	-	-
Gross carrying amount	**900,235**	**-**	**-**	**900,235**	**840,309**
Impairment loss	(82)	-	-	**(82)**	(245)
Carrying amount	**900,153**	**-**	**-**	**900,153**	**840,064**

ii. Loans and advances to customers

	2018				2017
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Total**
	$'000	***$'000***	***$'000***	***$'000***	***$'000***
Credit grade					
Normal	749,453	-	-	749,453	886,485
Special mention	-	61,746	-	61,746	68,782
Substandard	-	-	-	-	-
Loss	-	-	5,000	5,000	5,000
Gross carrying amount	**749,453**	**61,746**	**5,000**	**816,199**	**960,267**
Impairment loss	(1,004)	(1,111)	(5,000)	(7,115)	(7,035)
Carrying amount	**748,449**	**60,635**	**-**	**809,084**	**953,232**

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iii. Financial investments at amortised cost

	2018				2017
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Total**
	$'000	***$'000***	***$'000***	***$'000***	***$'000***
Credit grade					
Normal	191,191	-	-	191,191	69,522
Special mention	-	-	-	-	-
Substandard	-	-	-	-	-
Loss	-	-	-	-	-
Gross carrying amount	**191,191**	**-**	**-**	**191,191**	**69,522**
Impairment loss	(35)	-	-	(35)	-
Carrying amount	**191,156**	**-**	**-**	**191,156**	**69,522**

External credit rating of financial investments at amortised cost

	2018	**2017**
	$'000	*$'000*
Investment-grade		
AAA to AA-	29,896	21,844
A+ to A-	65,015	47,678
BBB+ to BBB-	96,280	-
Total	**191,191**	**69,522**

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iv. Financial investments(bond investments) at FVOCI

	2018				2017
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Total**
	$'000	***$'000***	***$'000***	***$'000***	***$'000***
Credit grade					
Normal	393,988	-	-	393,988	448,211
Special mention	-	-	-	-	-
Substandard	-	-	-	-	-
Loss	-	-	-	-	-
Gross carrying amount	**393,988**	**-**	**-**	**393,988**	**448,211**
Impairment loss	**(72)**	**-**	**-**	**(72)**	**-**

External credit rating of financial investments (bond investments) at FVOCI

	2018	**2017**
	$'000	*$'000*
Investment-grade		
AAA to AA-	277,007	344,894
A+ to A-	87,526	73,650
BBB+ to BBB-	29,455	29,667
Total	**393,988**	**448,211**

v. Undrawn commitments and guarantees

	2018				2017
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Total**
	$'000	***$'000***	***$'000***	***$'000***	***$'000***
Credit grade					
Normal	289,561	-	-	289,561	530,227
Special mention	-	18,672	-	18,672	36,560
Substandard	-	-	-	-	-
Loss	-	-	-	-	-
Gross carrying amount	**289,561**	**18,672**	**-**	**308,233**	**566,787**
Impairment loss	**(62)**	**(300)**	**-**	**(362)**	**-**

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Purchased or originated credit-impaired financial assets

The purchased or originated credit-impaired financial asset was nil in 2018 (2017: Nil).

Impairment of financial assets

The impairment of financial assets is assessed on a periodic basis as per the Bank's impairment policy. 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 impairment loss is calculated using 12 month PD for the financial assets in Stage 1 and the life time PD is used to calculate for the calculation of impairment for the financial assets in Stage 2 and Stage 3.

The accounting policies 1.8.1.2 (Page 26) outline the detail accounting policies for the impairment of financial assets.

Significant increase in credit risk (SICR)

The Bank considers reasonable and supportable information that is relevant and available without undue cost or effort when determining whether the risk of default has increased significantly since the initial recognition.

This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining PD as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The magnitude of a movement in PD in order to trigger the SICR varies depending on the PD at the time of initial recognition of the exposure. The PD needs to increase more - both in terms of the percentage and the absolute value - for a highly rated counterparty than for a counterparty rated as a sub-investment grade in order to trigger the SICR.

The Bank defines the following three criteria in its "Watch list" policy in order to determine whether there has been a significant increase in the credit risk:

- quantitative test based on movement in PD;
- qualitative indicators; and
- a backstop of 30 days past due

Impairment loss

The loss allowance recognised in the period is impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period.

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- Impact on the measurement of ECL due to changes in other factors such as:
  - Changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;
  - Changes made to models and assumptions;
  - Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis
  - Foreign exchange retranslations for assets denominated in foreign currencies and other movements.

The following tables explain the changes in the loss allowance between the beginning and the end of the annual period due to these factors:

i. Loans and advances to banks

	Stage 1 12 month ECL *$'000*	Stage 2 Lifetime ECL *$'000*	Stage 3 Lifetime ECL *$'000*	Total ECL *$'000*
Balance at 1 January 2018	**236**	**-**	**-**	**236**
Transfers:				
Transfer from Stage 1 to Stage 2	-	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-
Transfer from Stage 2 to Stage 1	-	-	-	-
				-
New financial assets originated or purchased	9	-	-	9
				-
Financial assets derecognised during the period	(119)	-	-	(119)
Movement in impairment loss on the existing assets	(44)	-	-	(44)
Balance at 31 December 2018	**82**	**-**	**-**	**82**

ii. Loans and advances to customers

	Stage 1 12 month ECL *$'000*	Stage 2 Lifetime ECL *$'000*	Stage 3 Lifetime ECL *$'000*	Total ECL *$'000*
Balance at 1 January 2018	**608**	**1,252**	**5,000**	**6,860**

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Transfers:				
Transfer from Stage 1 to Stage 2	-	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-
Transfer from Stage 2 to Stage 1	-	-	-	-
New financial assets originated or purchased	56	-	-	56
Financial assets derecognised during the period	(107)	(60)	-	(167)
Movement in impairment loss on the existing assets	447	(81)	-	366
Balance at 31 December 2018	**1,004**	**1,111**	**5,000**	**7,115**

iii. Financial investments at amortised cost

	Stage 1 12 month ECL *$'000*	Stage 2 Lifetime ECL *$'000*	Stage 3 Lifetime ECL *$'000*	Total ECL *$'000*
Balance at 1 January 2018	**8**	**-**	**-**	**8**
Transfers:				
Transfer from Stage 1 to Stage 2	-	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-
Transfer from Stage 2 to Stage 1	-	-	-	-
New financial assets originated or purchased	23	-	-	23
Financial assets derecognised during the period	-	-	-	-
Movement in impairment loss on the existing assets	4	-	-	4
Balance at 31 December 2018	**35**	**-**	**-**	**35**

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iv. Financial investments at FVOCI

	Stage 1 12 month ECL *$'000*	Stage 2 Lifetime ECL *$'000*	Stage 3 Lifetime ECL *$'000*	Total ECL *$'000*
Balance at 1 January 2018	**25**	**-**	**-**	**25**
Transfers:				
Transfer from Stage 1 to Stage 2	-	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-
Transfer from Stage 2 to Stage 1	-	-	-	-
New financial assets originated or purchased	5	-	-	5
Financial assets derecognised during the period	(4)	-	-	(4)
Movement in impairment loss on the existing assets	46	-	-	46
Balance at 31 December 2018	**72**	**-**	**-**	**72**

v. Undrawn commitments and guarantees

	Stage 1 12 month ECL *$'000*	Stage 2 Lifetime ECL *$'000*	Stage 3 Lifetime ECL *$'000*	Total ECL *$'000*
Balance at 1 January 2018	**92**	**312**	**-**	**404**
Transfers:				
Transfer from Stage 1 to Stage 2	-	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-
Transfer from Stage 2 to Stage 1	-	-	-	-
New financial assets originated or purchased	4	-	-	4

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Financial assets derecognised during the period	(43)	-	-	(43)
Movement in impairment loss on the existing assets	9	(12)	-	(3)
Balance at 31 December 2018	**62**	**300**	**-**	**362**

Collateral held and other credit enhancements

With the exception of commercial real estate, 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.

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.

Commercial real estate lending activities in the UK are collateralised by first registered mortgages or charges over property being financed. 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.

The gross maximum exposure to the credit risk of the Bank was $2,610 million as at 31 December 2018 (**2017**: $2,885 million) without taking account of any collateral held or other credit enhancements.

The value of the collateral included in the calculation of the ECL was $354 million in 2018.

Other credit enhancement not included in ECL

The Bank has used other credit enhancements in order to reduce the net credit risk exposure. These credit risk mitigation items are eligible instruments under the Capital Requirement Regulations (CRR).

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 in accordance with the 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

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counterparties. The gross credit exposure to the Parent Bank as at 31 December 2018 was $133.14 million, which was netted against the eligible deposits of $32.51 million leaving a net credit exposure of $100.63 million.

In addition, the Bank has taken collateral in the form of guarantees issued by insurance companies. As at 31 December 2018, the Bank held guarantees worth $10.4 million as an eligible credit risk mitigation as per CRR (2017: $70.2 million).

The Bank does not use credit default swaps (CDS) as a credit risk mitigation technique.

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

Write-off

The Bank writes off the gross carrying amount of a financial asset when there is no reasonable expectation of recovering the asset (either in its entirety or a portion of it).

There was no write-off of financial assets in 2018 (2017: Nil).

Regional Exposure

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

	2018		2017	
	$'000	%	*$'000*	%
Asia and Pacific (including China)	830,771	31.83	901,743	31.26
Europe:				
UK	561,202	21.5	870,692	30.18
Other EU	416,394	15.95	140,903	4.88
Non-EU	92,325	3.54	227,992	7.9
Middle East	33,823	1.3	-	-
North America	35,979	1.38	206,123	7.14
Africa	352,410	13.5	364,185	12.62
International Organisations*	286,942	11	173,457	6.02
Total regional exposure	**2,609,846**	**100**	**2,885,095**	**100**

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

Brexit can have a potential negative impact on the Bank's exposures in all regions and the impact is higher particularly for exposures to the UK and EU countries. The Bank views that the potential impact of Brexit on the Bank is minimal.

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32. 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 which are supported by 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.

2018

$ '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	366,404	50,988	503,891	-	444,303	-	**1,365,586**	**1,355,754**
Customer accounts	332,641	53,638	79,609	3,957	-	-	**469,845**	**467,426**
Subordinated loan	-	-	-	-	100,928	-	**100,928**	**100,000**
Derivative financial liabilities							**-**	**12,466**
Cash inflows	(88,980)	(13,068)	-	(8,309)	(114,072)	-	**(224,429)**	-
Cash outflows	91,317	15,000	-	10,000	120,394	-	**236,711**	-
	701,382	**106,558**	**583,500**	**5,648**	**551,553**	**-**	**1,948,641**	**1,935,646**
Undrawn documentary credits	-	19	-	12,148	661	-	**12,828**	**12,828**
Undrawn loan commitments	-	-	50,000	-	245,405	-	**295,405**	**295,405**
	701,382	**106,577**	**633,500**	**17,796**	**797,619**	**-**	**2,256,874**	**2,243,879**

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**	-

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	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**

At 31 December 2018, the Bank held highly liquid assets, comprising bond investments measured at FVOCI and amortised cost, of $585 million. These can be used in the event of any liquidity stress event. At the end of 2018, the Liquidity Coverage Ratio (LCR) was 250%.

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 $4.67 million as collateral for derivative clearing as at 31 December 2018 (2017: $ 617k).

33. 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 from both 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 2018, the foreign currency exposure was within limits at all times. As at 31 December 2018, FX overnight exposure was $595k (long) (2017: $477k (long).

FX Sensitivity Analysis

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

Movement in USD Exchange Rate	2018 ($)	2017 ($)
USD appreciates 200 basis points	(8,220)	(4,827)
USD appreciates 400 basis points	(16,318)	(9,529)
USD appreciates 800 basis points	(32,171)	(18,585)
USD depreciates 200 basis points	8,351	4,960
USD depreciates 400 basis points	16,840	10,060
USD depreciates 800 basis points	34,268	20,719

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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.

34. 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 2018 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

2018

$ '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						
Cash balance	-	-	-	-	171	**171**
Balance at central bank	10,198	-	-	-	-	**10,198**
Loans and advances to banks	865,153	-	35,000	-	-	**900,153**
Loans and advances to customers	804,154	4,930	-	-	-	**809,084**
Financial investments at FVOCI	157,679	-	39,626	196,683	-	**393,988**
Financial investments at amortised cost	94,313	-	9,935	86,908	-	**191,156**
Fixed and other assets	-	-	-	-	69,881	**69,881**
Total assets	**1,931,497**	**4,930**	**84,561**	**283,591**	**70,052**	**2,374,631**
Liabilities						
Deposits by banks	1,355,754	-	-	-	-	**1,355,754**
Customer accounts	384,987	78,532	3,907	-	-	**467,426**
Other liabilities	-	-	-	-	29,014	**29,014**
Subordinated loan	100,000	-	-	-	-	**100,000**
Shareholder's funds	-	-	-	-	422,437	**422,437**
Total liabilities and Shareholder's funds	**1,840,741**	**78,532**	**3,907**	**-**	**451,451**	**2,374,631**
Interest rate sensitivity gap	**90,756**	**(73,602)**	**80,654**	**283,591**	**(381,399)**	
Cumulative gap	**90,756**	**17,154**	**97,808**	**381,399**	**-**	**-**

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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	536
Interest rate increases by 200 basis points	1,071
Interest rate decreases by 100 basis points	(536)
Interest rate decreases by 200 basis points	(1,071)

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.

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**	**-**	**-**

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The table below shows projected changes in the 2017 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	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)

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.

35. Country by country reporting

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

2018

United Kingdom	Business	Turnover	Average employees	Profit before tax	Corporate Tax paid	Public subsidies received
		$ '000		*$ '000*	*$ '000*	
ICBC (London) plc	Banking	42,364	179	30,978	(5,418)	-

2017

United Kingdom	Business	Turnover	Average employees	Profit before tax	Corporate Tax paid	Public subsidies received
		$ '000		*$ '000*	*$ '000*	
ICBC (London) plc	Banking	39,587	151	26,891	(5,041)	-

The tax on profit for 2018 was 5,611k (**2017**: 5,193k).

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36. 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 be 'high-frequency/low-impact' events.

The objectives of operational risk management are 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 2018, the operational loss was $5k (2017: $2k).

37. 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

	2018	2017
	$ '000	*$ '000*
Share capital	200,000	200,000
Retained earnings	224,235	199,057
Other reserves	(1,798)	(657)
Less: Regulatory adjustments	(269)	(552)
Tier 1 capital	**422,168**	**397,848**
Subordinated Loan	100,000	100,000
Amortisation of Subordinated Loan	(3,562)	-
Collective impairment provision	-	2,280
Tier 2 capital	**96,438**	**102,280**
Total capital	**518,606**	**500,128**

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%.

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38. Events after the end of the balance sheet date

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

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