ICBC (London) plc

Report and Financial Statements

31 December 2020

Company Registration No : 4552753

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Chairman's Statement

In common with so many other financial institutions, this has been a challenging year for ICBC (London) plc "the Bank" as the Covid-19 pandemic forced us to change the way in which we do business, support our colleagues and clients and do our part to support the larger community that we operate in. For most of the year the Bank followed a working from home (WFH) model for the majority of our staff and I am pleased to say that, thanks to the dedication and hard work of all our colleagues, this change had no material impact on the Bank's operational resilience.

Profit was lower than the target we set at the beginning of the year, mostly due to additional impairment provisions raised against specific exposures in our loan book given the general deterioration in economic conditions. Considering these challenges, the Bank's financial performance remained robust and our asset quality remains high, with no non-performing loans at the end of the year. In line with our strategy, asset levels reduced and we expect further reductions in the loan book as existing assets mature, with new assets primarily being written through the ICBC London Branch. More information on the Bank's strategy is set out in the Strategic Report.

Capital levels remain exceptionally high, with a Capital Adequacy Ratio just above 40%, much higher compared to our market peers. The Bank also remains extremely liquid with all ratios significantly above the required regulatory minimums.

Whilst the medium- and long-term economic impact of the pandemic (and especially the uncertainty on duration and shape of a recovery) is a major challenge for all banks, there has been a level of reduction in geo-political risk on some fronts since the last report. Both the conclusion of the US presidential election as well as the finalisation of an EU/UK trade agreement has reduced the level of uncertainty, albeit not eliminated it. It is still too early to assess either the impact of the new US administration's approach on US/China relations or the effect of non-trade barriers and lack of detail on significant sectors of the UK economy, especially services, in the trade deal. The Bank will continue to monitor these and other issues that might have an impact on the Bank and its clients closely over the coming year. More detail on the Bank's approach to managing these risks is provided in the Strategic Report.

As mentioned in last year's report, Dr Hao Hu resigned from the Board in February 2020 to take up a new opportunity outside of the ICBC Group. We were hoping to have finalised the appointment of a new Board Chairman by the end of 2020 but unfortunately this was not possible and we now hope to make an announcement on Dr Hu's replacement later this year.

There were no other resignations or appointments of Board members since issuing last year's report.

I would like to thank all the staff for their contribution in making 2020 another successful year for the Bank, especially during such a difficult and unprecedented year. I especially want to relay my personal thanks to Mr Han for managing the Bank in a such a positive manner during these challenging times and to thank my fellow directors for the support and guidance they have provided during the year.

Alan Gemes

Acting Chairman

Strategic Report

Introduction

In line with most other Financial Institutions, the impact of the ongoing Covid-19 pandemic dominated the agenda of the Bank for most of 2020. Although the overall strategic approach of the Bank remained unchanged from the prior year, the pandemic had (and continues to have) an impact on how we realised and executed this strategy, both operationally as well as financially. For most of the year, the Bank operated a working-from-home (WFH) model for the majority of its staff in accordance with our Business Continuity Policy. Whilst the Bank has continued to be operationally resilient and financially robust throughout the pandemic, we are not immune to the impact it has had on the wider local and global economy.

The Bank's strategy continues to be not to grow its loan portfolio given the broader approach of ICBC to focus on larger ticket, relationship-based lending and the capital constraints due to large exposure rules inherent in the Bank makes it a less effective vehicle to achieve this when compared to the ICBC London Branch "the Branch". An unintended consequence of this no-growth approach followed by the Bank was that it provided protection against many of the non-credit related financial risks posed by the pandemic. Given that the Bank made a decision not to grow its assets any market contraction in new business had no impact on the Bank's forecasts, changes in benchmark interest rates had a minimal impact as the Bank ran very limited open interest rate risk and margins on existing assets were already fixed and therefore net interest income margin (NIM) was only impacted by fluctuations on the portion of the Balance Sheet where a funding mismatch exists, which again was very limited. As stated above, the impact of the pandemic on the wider global economy (both in the short and medium/long term) has however increased credit risk. More details on this is provided later in the report.

Last year we reported on the ongoing uncertainty regarding a Brexit deal and the US presidential election. A trade deal between the United Kingdom and the European Union was agreed in late December and although not fully comprehensive (especially when it comes to services), the Bank sees this agreement as a positive development when compared to a "no-deal" outcome and a welcome reduction in the long-running Brexit uncertainty. At the same time we realise that initial implementation of such an agreement might not be seamless and therefore we will continue to closely monitor the impact on our client base.

The conclusion of the US presidential election is also a positive development as it adds to the reduction in uncertainty that was present for most of the last year. We realise that it is early days into the new administration with little detail available on its priorities or its approach to issues that could have a major impact on the Bank (like future US/China trade relations for example) and we will follow developments on this front closely in addition to other national and international political developments to assess and mitigate the risks arising from these.

Another major challenge this year will be the ongoing process of the cessation of current benchmark rates (+ibor) and replacement with risk-free rates. Whilst the Bank has done a significant amount of work on this during the past year major challenges remain. More information is provided in other sections of this report.

ICBC remains fully committed to the UK and EMEA markets and has seen healthy growth in the combined assets of the Bank and the London Branch. It is our intention to continue growing the Balance Sheet of the London Branch in the coming year whilst the Bank (Subsidiary) will remain a vital contributor in the future plans of ICBC in the UK, particularly in the corporate governance, administrative and management functions of the two entities. The Bank will continue to invest in corporate bonds and explore growing its fee-based business services (like loan syndication services for example) in the coming year.

In the rest of this report we will set out the highlights of our performance against the objectives we set at the start of the year and explain the strategies we will employ in the coming financial year.

Achieving our objectives in a challenging macro-economic environment

As stated, 2020 was an extremely challenging year from a macro-economic perspective and although there are reasons to be more optimistic in the coming year, the impact of the pandemic will be long lasting and continue to affect the global economy negatively. Similar to other financial institutions, the Bank is exposed to the indirect consequences of these current uncertainties. As in previous years it remains true that we do not think that any of the major known challenges would have an individual direct impact on the performance of the Bank (through specific rules, regulations or sanctions that would directly be applied to the Bank and materially hinder our ability to perform), however it should be noted that the indirect impact on the local and global economy could be material. These include, amongst others, increased currency volatility, possible tightening of liquidity, more expensive

funding, lower levels of GDP growth (or higher than expected contraction), deterioration in asset quality and a general decline in foreign investment.

During the year the Bank set up a special Asset and Liability Management Working Group to monitor and manage our available funding and liquidity around key periods (specifically late March and throughout April) when liquidity in the market was tighter than usual due to the impact of the pandemic. We also brought in temporary changes to our normal pricing criteria for writing new assets to reflect increased cost of funding during this time. It should be noted that although the Bank followed a more conservative approach during this period, we did not experience any liquidity or funding shortages at any time. As market liquidity and funding reverted to more normal levels, the Bank has similarly reacted by removing some of the additional internal restrictions it had put in during this time. We will monitor this continuously. More information on specific actions the Bank has taken due to the Covid-19 pandemic is covered in the next section of this report.

The UK is expected to show GDP growth of slightly above 4% for both 2021 and 2022 as the economy slowly recovers from the significant retraction in 2020. We expect both unemployment and bankruptcies to increase in the next year, with business investment remaining weak due to the ongoing uncertainties. The impact of additional border costs and other non-tariff trade barriers might also have a negative effect on UK imports and exports.

China had a relatively volatile GDP trajectory in 2020 following a significant reduction in the first quarter and then a surge in the second quarter before stabilising in the latter part of the year. The expectation is that China will revert to its previous growth estimates in the coming years, with 8% growth expected in 2021 and just below 5% in 2022. Chinese exports have increased on the back of pent-up demand with real estate investment remaining strong. However, it is expected that it will take some time before employment levels recover and the impact of lower household income will dampen consumption levels. The Bank is of the view that 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 ICBC London Branch and other ICBC subsidiaries globally.

Financial performance, objectives and strategy

As mentioned above, the strategy for the Bank has not changed. The Bank recognises its responsibility to ensure legal entity separation between itself and the Branch is respected throughout. At the same time, it is important to ensure that the ICBC Group's operations in the UK and across Europe is managed in a sensible, structured manner that makes best use of the different banking licences that the Group hold and support a coordinated and rationale strategy. To this end, the Bank plays a vital role in the UK and will continue to do so, albeit a different role to Branch.

As ICBC's operations in the UK and abroad continue to expand, the target customer base mostly consists of large national and multi-national enterprises. The demand from these entities is generally for larger borrowing facilities which, due to large exposure rules mentioned already, can only be accommodated in the Branch which has access to the very significant capital base of the Parent Bank.

Last year we mentioned in our review that the Senior Management was considering whether a dual licence (both Subsidiary and Branch) structure remains the most effective way of expanding our business in the UK. We have not concluded on this but continue to explore the different opportunities and challenges resulting from the dual licence structure. It is our intention to manage the Bank as a going concern entity, maintain robust levels of capital and liquidity, continue investing in bonds whilst not increasing the traditional lending book and optimise the funding structure. In addition to this, the Bank remains 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 decreased by 11% during 2020 to $2bn. Almost all of the decrease was attributable to lower cash balances and assets maturing in line with their contractual terms without being completely replaced or alternatively the refinancing being done from the London Branch.

The Bank's assets portfolio and funding sources remain well diversified and backed by a very strong capital and liquidity position.

Strategic Report

Specific changes to prior year

There were no major changes to regulations or accounting standards that impacted the Bank. The Covid-19 pandemic resulted in the UK regulators requiring more detailed information from Banks (especially on credit risk related matters) as well as issuing guidance on the implementation of the impairment provision rules under IFRS 9. The Bank believes that our application of IFRS 9 during this time has been in line with the guidance received from the Regulators.

Key performance summary

The Bank employs several key financial performance indicators to assess financial performance and consider 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), Net Interest Margin (NIM), Non-performing loans to Assets (NPA) and Cost to Income ratio (CTI).

Total assets decreased by 11.37% compared to 2019 as a result of the Bank's strategies outlined in the financial performance, objectives and strategy section above.

Profit after tax decreased by 44.50% to $10.53m compared to 2019 mainly due to a decrease in net interest income on the back of a decrease in interest earning assets; other operating income and an increase in impairment losses resulting from the downturn in economic outlook triggered by the Covid- 19 pandemic.

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 2020 this ratio decreased to 2.34% (2019: 4.38%) due to a fall in profit after tax.

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 2020 also decreased to 0.55% compared to 0.94% in the previous 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 down from 1.31% in 2019 to 0.96% this year.

There were no non-performing assets at the end of this 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 was 36.31% in 2020 (2019: 28.72%). The reason for this change was mainly due to lower income levels, whilst operating costs remained in line with our budget.

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 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 Risk, 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, chaired by an Independent Non-executive director, which also oversees the results of the reviews undertaken. The Head of the Internal Audit department has a primary reporting line 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, the IT Steering Committee, the Finance Committee and the Credit Committee.

The Board has two sub-committees. The Audit Committee mentioned above, as well as the Risk and Compliance Committee (this committee is a merger of the previous Risk Committee and the Governance and Compliance Committee effective from January 2020). The Risk and Compliance Committee, chaired by an Independent Non-executive director, monitors and reviews the management of risk across the Bank and reports its findings back to the Board.

In March 2020 the Bank invoked its Business Continuity Plan (BCP) to deal with the specific management and operational challenges brought about by the pandemic – especially the impact on operational resilience from remote working and ensuring a Covid-safe working environment for staff who had to attend the office. As part of this a BCP Committee has been in place with meetings held at least weekly (more often at the start of the pandemic). This Committee will remain in place until such time that the Executive Committee no longer deems it necessary to work under BCP protocols.

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. More recently, we have also formally added climate risk as a separate category.

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 Risk 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 focussed on enhancing our post-lending management processes and capabilities.

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 (59.74% of total credit exposures), a large component being exposures to investment grade financial institutions. Other than financial institutions, the Bank's largest sector exposure is to commercial real estate which accounted for 16.39% of all exposures, most of which is secured. Credit risk indicators are well within internal risk appetite. There are no non-performing loans at the end of 2020, but impairment provisions for a limited number of stage 2 exposures increased by $1.9m.

• 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 ICBC London 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 Recovery Plan including liquidity contingency arrangements. At the end of the year the Bank had a Liquidity Coverage Ratio (LCR) of 372%, which is significantly above the minimum regulatory requirement. This is also a significant increase from the 255% at the end of 2019.

• 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 low and well within the internal risk appetite (2020: $36,224 – majority due to one external fraud event; 2019: $5,959). During the year, the Bank continued (despite the challenges posed by the pandemic) to make good progress in encouraging active and early disclosure of all risk incidents, regardless of whether actual financial loss was involved, as well as developing the framework to escalate potential operational

risk issues. The Bank reacted quickly to the pandemic, implementing remote working / working from home and instituting regular Business Continuity Planning (BCP) meetings, initially daily but moving to bi-weekly and finally weekly. The operational risk function was integrally involved with these actions and ensured that critical functions remained resilient. The risk arising from the internal environment was assessed to have increased year-on-year, mainly due to the large number of staff working from home and related changes in processes and controls, while the risk from external factors was also assessed to have increased, both due to the disruption generated by the pandemic and due to an overall increase in risks from the business environment. However, there is a strong governance and risk control framework in place, which was enhanced by a significant increase in focus on processes and controls in the extended BCP process and increased operational resilience; thus the overall residual risk profile is considered to remain low.

• 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 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 acts as the second line of defence in the management of financial crime risk, including anti-money laundering, anti-bribery and corruption, anti-fraud and sanctions monitoring, as well as cyber risk, data governance risk and conduct risk.

• The geopolitical risk that the Bank is exposed to has been highlighted already in this report. 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 and maintain operational resilience.

Further information on these risks is included in Notes 28-32 and 34 to the financial statements.

Covid-19 coronavirus

At the start of 2020 the Bank took a number of actions to ensure operational resilience with the safety of our staff being our number one priority. Some of these were mentioned in the 2019 Strategic Report and included travel restrictions, self-isolation for a number of staff members, the provision of hand sanitisers, safe disposal bins, regular bank-wide communications and the provision of protective gear for customer facing staff amongst others.

When the UK government announced the first national lock-down, the Bank invoked its Business Continuity Plan and moved to a remote working model for the majority of its staff. A BCP Committee was established to manage the daily arrangements under the plan and at the same time a special ALCO Working Group was put in place to ensure that liquidity and funding risk was actively managed at the highest decision making levels of the Bank.

From a customer perspective we introduced internal guidance on how to manage Covid-specific covenant breaches and requests for other relief (like interest payment holidays for example), ensuring that the Bank acts as a responsible corporate citizen in an unprecedented time whilst also enhancing our credit risk management through the introduction of a Covid-related special monitoring list. The Bank has not had any exposure moving into stage 3 (under the IFRS 9 methodology) due to Covid-related reasons. In response to the deterioration of the macro-economic outlook (resulting in a deterioration in probabilities of default and loss-given-default for certain exposures in our portfolio) we have increased our impairment provisions. We also delayed the finalisation of our annual ICAAP to ensure that the stress scenarios adequately reflected the impact of the pandemic.

The Bank has not made any staff redundancies or salary reductions during this time and we have not had the need to participate in any government based staff support schemes. All of our colleagues were able to work (either remotely or under Covid-secure conditions in the office) throughout this period. In addition, the Bank made allowances available to staff to assist them with home-working where necessary and amended our rules concerning annual leave in order to provide additional support to our staff.

From an operational risk perspective, the Bank had no material increase in operational risk incidents due to the home-working model and we continue to invest in and strengthen our cyber risk management tools during this time.

Whilst we are pleased that the Bank suffered no material credit losses, liquidity constraints, funding issues or operational risk during this time, we recognise that the impact of the pandemic is far from over and the performance

of the Bank may yet be impacted in the medium to longer term. This is an area of significant uncertainty at the moment and so we will continue with our heightened monitoring and active management of all Covid-related risks.

The future relationship between the United Kingdom and the European Union

As stated already, it is our assessment that Brexit in itself does not have a material direct impact on the Bank or its ability to operate. Given the removal of much of the uncertainty that existed at the beginning of the year (the transition period has ended and the UK has formally left the EU with a trade deal), we are in a much better position than we were one year ago.

Not all uncertainty has been removed though and we will be closely assessing the impact that implementing the new trade agreement has on our clients and the wider economy. The limited coverage of services and specifically the financial services industry remains concerning.

However, the Bank had done its planning for both capital and liquidity on a worst case no-deal scenario and we are therefore confident that we are well prepared and can withstand any negative impact from Brexit.

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 the new relationship with the EU is implemented.

Transition away from (L)ibor to Risk Free Rates

International regulators (under the framework of the Financial Stability Board) have been driving the move in benchmark rates away from Libor (and other ibor rates) to what is generally become known in Europe as Risk Free Rates (RFRs) or Alternative Benchmark Rates (ABR). This is a major change for the global financial services industry and poses significant operational system challenges for the Bank in the coming year to accommodate transition for GBP loans by the end of 2021, refinancing of existing loans and funding based on risk free rates and managing any basis risk that might arise from this change.

We referenced this change in the 2019 report and the Bank has made good progress, especially given the additional challenges faced due to the pandemic and subsequent changes in the working environment. In the UK it is the aim of the FCA that the use of Libor is completely ceased as a reference rate by the end of 2021 and replaced with RFRs. The expectation is that from the second quarter of 2021, new sterling loan lending will no longer use sterling Libor as a reference rate. As a different RFR is being proposed for each of the major currencies that the Bank does business in (USD, EUR and GBP), the timing of the change to relevant RFRs will be different. During 2020 US regulators have for example announced an extension to the publication of certain USD Libor rates, although the Bank aims to be in a position to move away from Libor as soon as possible and does not expect this extension to have a major impact on our transition plans.

The transition to RFRs impacts both existing and new transactions and a smooth transition is dependent on successfully adjusting our methodology used in the way in which we value exposures, changing our systems and processes to accommodate interest calculations, payment data, accounting accruals and reporting as well as assessing whether related hedges and other products still achieve the objectives they were designed for when initially entered into. All this work is underway at the moment and will continue throughout the current year.

We have seen an increase in demand in the market for non-Libor lending although it has not been significant. We expect this increase to be substantial over the next 12 months, and across a much wider section of our client base.

We do not underestimate the scale of change required and the challenge still facing the Bank. Libor transition is a standing item on the agenda of the monthly ALCO meeting and the Bank has nominated two members of the Senior Management to perform high-level oversight of the transition project. We have a working group in place led by a senior project manager and including members of the Senior Management, Heads of business units (Corporate Banking, Institutional Banking, Global Loan Syndications, Banking), Heads of central functions (Treasury, Financial Control, IT), Heads of control functions (Risk, Compliance) and other key staff. The working group is responsible for identifying LIBOR-related risk throughout the Bank and coordinating our approach to mitigating the risk from transition.

The Bank has a LIBOR Transition Work Plan with key milestones and deadlines. The Bank recognises that this plan will evolve as and when new developments take place given that LIBOR transition is both a market-led and regulator-push process, with reliance on markets to provide tools and infrastructure.

During 2020, two RFR deals were transacted by the Bank's sister institution, ICBC London Branch. In addition, extensive and detailed system and process requests have been shared with the Parent Bank in order to expedite development of the necessary functionality in ICBC Group shared systems and platforms.

The Bank's approach to Climate Risk

Like other risks set out earlier in our report, the financial risk resulting from climate change, climate related regulations and industry/sector/client adaptability to these changes poses a particular challenge to the Bank if left unmanaged. For the last year this has been an area of increasing focus for the Bank and we have made good progress in establishing a robust risk management framework, systems and controls to manage financial risks arising from this.

The main risk area to the Bank arising from climate change is the impact on credit risk. The Risk and Compliance Committee of the Board approved an initial climate risk appetite statement within the Bank's Risk Appetite Policy setting out the Bank's high level approach. The Bank rolled out a climate risk management scorecard and methodology for the business and credit risk teams to assess individual counterparties. This assessment has been included as part of new and existing credit reviews during 2020. Applications to the Credit Committee during the year have included this climate risk assessment to inform decision making. The next phase is to analyse the data gathered in these assessments and calculate a risk scoring for the Bank's current portfolio and develop appropriate metrics, stress tests and enhanced disclosures. We have already commenced this second phase and aim to have a fully completed methodology in place by the end of this year.

The governance framework around climate risk will continue to be strengthened with ongoing Board engagement, oversight and input into strategic plans in the coming year.

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 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 regulatory requirements and internal 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.

Whilst many of the charitable and corporate social responsibility events that the Bank's staff usually participate in were cancelled this year, we remain committed to do our part for the local community that we operate in and still managed to actively participate in several initiatives. We would like to take this opportunity to thank our colleagues in the larger ICBC network for assisting the Bank in procuring large quantities of Personal Protective Equipment (PPE) for local London hospitals. The Bank also continued its support for the local arts community through sponsorship of the Royal Shakespeare Company at a time when this industry has been severely impacted by Covid-related restrictions. To support the Group's poverty alleviation charity program, staff in the Bank volunteer to participant in teaching online English classes to children in poverty and cooperate with Fu Jia elementary school in Sichuan Province, China. In addition to that the Bank contributed to a number of cross- UK/China business initiatives, including supporting the partnership between CCCUK and The Lord Mayor's Appeal, aiming to strengthen the cultural and business ties between the City and China and to raise funds for the Lord Mayor's Appeal and rural development programs in China. The Bank was also a sponsor of the 3rd China-UK Economic Trade Forum.

At the end of the year we had 174 full time employees (2019: 169).

Strategic Report

Future developments

The Bank's primary focus in the first part of the year will be on ensuring that we successfully navigate the challenges brought about by the pandemic, always putting the health and safety of our colleagues first. Of particular importance here is the management of our credit portfolio and continued operational resilience.

Libor transition will again be a key priority and we will build on the progress made in 2020. As key transition dates approach (especially for new business) and change becomes more market driven (as opposed to solely regulatory) we recognise the need to be in a competitive position across all the major rates and we will intensify our efforts in this regard.

We aim to complete our climate risk framework by the end of the year and fully implement a climate risk scoring methodology, which will be used to set a formal risk appetite policy for climate related risks.

The Bank's management has also identified several areas of the Bank where additional investment in systems and automation would be beneficial and we will commence this work in the coming year.

As stated earlier in this report, the Bank plays a critical role in the broader ICBC presence in the UK and the larger EMEA region and will continue to do so alongside the London Branch. We will continue to provide first class commercial and wholesale banking services to all our clients and be the core for operational activities of ICBC in London.

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.

The PRA has confirmed their main priorities for the year and it is our view that our own priorities are aligned to these. They include financial resilience, operational risk and resilience, Libor transition and the financial risks arising from climate change. The Bank feels that it has taken a range of actions during the year that have strengthened our capability to withstand challenges in all of these areas and we will continue to do so in the year ahead.

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 are in place.

The Board delegates certain responsibilities to its relevant sub-committees (Audit Committee and the Risk 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), Finance Committee and the Financial Crime Risk Committee.

The Bank employs two independent UK-based non-executive directors, one of whom is the Chair of the Bank's Audit Committee and one of whom is the Chair of the Risk and Compliance Committee. In addition, there is one China-based non-executive director from our Parent Bank (the position of permanent Chair of the Board is currently vacant but will be filled by the Parent Bank during this year).

At an executive level, the Bank's management level committees mentioned above ensure effective implementation of all major policies and operating processes and decisions; establishing clear policies and decision-making procedures; and ensuring appropriate risk management through the three lines of defence and four eyes models. Independent, risk-based internal audit reviews are also undertaken on a regular basis and the Bank is externally audited by KPMG. This will be the last audit of the Bank conducted by KPMG. The Board has formally approved Deloitte to be the Bank's new auditors.

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.

ICBC London Branch

ICBC has a strong commitment to the UK market and whilst, for reasons set out in other sections of the Strategic Report, we have made a decision to not grow our loan book in the Subsidiary, the Branch had a very successful year. Internally we measure our overall success in the UK on the basis of the consolidated results in both the Branch and the Bank. The Branch followed a strategy of stable and sustained growth, concentrating on large corporates and institutions with a focus on creating deep relationships with its clients as it continues to grow its ancillary product offering. The Branch has expanded its Non-Bank Financial Institutions offering and continues to grow its large corporate, debt capital markets and project finance business areas.

From a risk perspective the main risks and how they are managed in the Branch are similar to that in the Bank, although the fact that the Branch's strategy is to continue to grow its loan assets might result in the severity of those risks being different for the Branch. This is true for both the impact of the UK/EU trade relationship and the impact of ibor replacement on new business. For example, post-Brexit direct new lending into certain EU jurisdictions will not be possible for the Branch and therefore alternative solutions (like fronting agreements with other ICBC group entities) are being explored. The Senior Management of the Branch continues to monitor the impact of both these risks closely and to mitigate them where possible.

In the coming year the Branch will continue to focus on steady growth of its asset book and the on-going diversification of income sources.

The Branch does not publish Financial Statements but will publish an unaudited performance update for the year ended 31 December 2020 on the ICBC London website.

Section 172 of the Companies Act

The Directors have acted in a way that they considered, in good faith, to be most likely to promote the success of ICBC (London) plc for the benefit of its member as a whole, and in doing so had regard, amongst other matters, to:

(i) the likely consequences of any decision in the long term;

(ii) the interests of the Company's employees;

(iii) the need to foster the Company's business relationships with suppliers, customers and others;

(iv) the impact of the Company's operations on the community and the environment;

(v) the desirability of the Company maintaining a reputation for high standards of business conduct; and

(vi) the need to act fairly as between members of the Company.

The Directors also took into account the views and interests of a wider set of stakeholders, including our regulators, the Government, and non-government organisations.

In setting the long term strategic direction for the Bank, we do not only consider financial metrics, but also consider the impact our plans will have on all our members and the society we operate in generally. We acknowledge that the Bank can only maintain its reputation as a responsible corporate citizen if it is managed in a way that promotes the well-being of all stakeholders involved with the Bank. This wider responsibility is embedded in the mission and value statement of the Bank.

Our employees are at the heart of what we do and being a relatively small company by number of employees operating in one location we have the benefit of a high-level of personal employee engagement. In addition to that the Bank has several other means to engage directly with employees through regular Town Hall meetings, a quarterly newsletter and an invitation to provide personal feedback or suggestions on any matter (either by name or anonymously) through a dedicated staff mailbox. More detail on employee engagement is provided elsewhere in the Strategic Report.

Strategic Report

At our core we are a relationship based Bank and our success is therefore predicated on building long term partnerships with our customers and suppliers to the mutual benefit of all parties. This means we are dedicated to ensure that our staff and management maintain a personal relationship with our customers and where possible incorporate regular site visits to get an understanding of our customers current needs and future plans and ambitions.

As part of the much larger ICBC banking group we are constantly looking at the role we can play in improving our impact on the environment (either through supporting global green finance or ESG initiatives, or supporting smaller initiatives locally). We recognise that we have a responsibility to our local community and the Bank therefore actively engages in a number of ways to make a difference.

Conclusion

The past year has been unprecedented and the Bank and its staff, like so many other individuals and institutions, have faced major challenges. Last year we said that we were confident that we were well placed to withstand and manage uncertainty but also to take advantage of any opportunities. Although we could not at that stage have anticipated the level and duration of the uncertainty faced in 2020, we can confidently say that the Bank had a robust and resilient response. Our capital, asset quality, liquidity and funding remains strong and we look forward to a successful, and in some ways a less eventful, year ahead.

The Strategic Report was approved by the Board on 23 April 2021 and signed on its behalf by:

Ruixiang Han

Chief Executive Officer

Board of Directors and other information

Directors
Alan Gemes (Interim Chairman and Independent Non-Executive Director)
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)
Graeme Tosen (Director and Chief Financial Officer)

Company Secretary

Asim Siddiqui

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

For the year ended 31 December 2020

The directors present their report and the financial statements of the Bank for the year ended 31 December 2020.

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 $10.54 million (2019: $18.98 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 reporting date

There is no significant event since the reporting date.

Directors and their interests

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

Alan Gemes (Interim Chairman and Independent Non-Executive Director)
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)
Graeme Tosen (Director and Chief Financial Officer)

No contracts of significance in relation to the Bank's business in which a director of the Bank had any 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 (2019: 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 assess the Bank's forecasted results and projections, estimated capital, funding and liquidity requirements, contingent liabilities, and possible economic, market and product developments under normal and stressed scenarios. These include assessments of impacts of Covid-19 and an implementation of new trade agreement with the EU. The Bank did an assessment of the risk to capital due to increased credit risk at an individual counterparty basis, which is the main risk to capital under stress for the Bank. We performed a severe stress on the capital resources, assuming a significant number of counterparties (from more vulnerable sectors) defaulted at the same time (at a 100% loss given default) without taking into account any benefit from additional management actions. In addition, a liquidity analysis for the next 12 months was performed with a stress overlay assuming no new funding and a full draw down of all committed facilities at the same time. The Directors are satisfied that the Bank has sufficient capital

Directors' Report

For the year ended 31 December 2020

and liquidity resources to continue in business for the foreseeable future under the stressed scenarios. 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.

As mentioned in the Strategic Report, the Directors are considering whether a dual licence (both Subsidiary and Branch) structure remains the most effective way of expanding our business in the UK. At the time of signing the financial statements no decision has been made.

Disclosure of information to the 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 an appointment of Deloitte as the external auditor is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

Ruixiang Han

Chief Executive Officer

23 April 2021

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.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

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

KPMG LLP
15 Canada Square
London
E14 5GL
United Kingdom

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

1 Our opinion is unmodified

We have audited the financial statements of ICBC (London) plc ("the Company") for the year ended 31 December 2020 which comprise the Profit and Loss Account, Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity, Statement of Cash Flow, and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of Company's affairs as at 31 December 2020 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 five financial years ended 31 December 2020. 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.

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

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matter 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.

In the prior year, we reported a key audit matter in respect of the disclosure quality over going concern and Covid-19 related disclosures. We have considered the developments since the prior year report, including the Company's response, levels of financial resources maintained and conducted a further assessment of disclosure quality. Accordingly, the relative significance of this matter on our audit work has reduced, and we no longer consider this a key audit matter.

Key audit matter	Our response
Impairment allowances of loans and advances at amortised cost **(2020: $6,183k; 2019: $3,103k)** Refer to page 28 (accounting policy) and page 45 (impairment loss disclosures) **The risk: subjective estimate** IFRS 9 requires the Company to recognise expected credit losses (ECL) on financial instruments which involves significant judgement and estimates. The level of judgements and estimation uncertainty are further elevated by the current challenged market conditions due to Covid-19. The key areas where we identified greater levels of management judgement and therefore increased levels of audit focus in the Company's implementation of IFRS 9 are: **Economic scenarios** – IFRS 9 requires the Company to measure ECLs on a forward-looking basis reflecting a range of future economic conditions. Significant directors' judgement is applied to determining the economic scenarios used and the probability weightings applied to different scenarios. **Staging of individual loan exposure** – The criteria selected to identify a significant increase in credit risk is a key area of judgement within the Company's ECL calculation as these criteria determine whether a 12 month or lifetime provision is recorded. **Model estimates** - Inherently judgemental modelling is used to estimate ECLs which involves determining Probabilities of Default ('PD'), Loss Given Default ('LGD'), and Exposures at Default ('EAD'). The PD model used in the portfolios are the key drivers of the Company's ECL results and are therefore the most significant judgemental aspect of the Company's ECL modelling approach. **Post model adjustments or "overlay":** these require significant directors' judgement, particularly in the current climate and uncertainties relating to Covid-19 The effect of these matters is that, as part of our risk assessment, we determined that the impairment allowances of loans	**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 — the ongoing monitoring and identification of loans displaying indicators of significant credit deterioration and whether they are migrating, on a timely basis to the watchlist or the impaired assets report. **Our credit risk expertise:** we involved our credit risk specialists in evaluating the appropriateness of IFRS 9 methodologies and the functionality of the ECL model. We developed our own modelled ECL using independent PD estimates to challenge the estimate developed by management. **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 (and the associated key economic variables) used and the probability weightings applied to them. We also assessed key economic variables to external sources as well as the overall reasonableness of the economic forecasts by comparing the Company's forecasts to our own modelled forecasts. **Tests of details:** Key aspects of our testing involved: — Performing credit file reviews over a large sample of loans in the Company's loan portfolio; — Assessing the underlying assumptions of management overlay and reperforming the calculation; — Re-performing the model calculation to assess whether the calculation was working as per our expectations; and — Sample testing over key inputs in ECL calculations. **Assessing transparency**: We evaluated and challenged whether the disclosures appropriately reflect and address the uncertainty which exists when determining the Company's overall ECL and whether key judgments and assumptions were sufficiently clear. **Our results:** We considered the credit impairment allowance recognised and the related disclosures to be acceptable (2019: acceptable).

and advances at amortised cost has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements disclose the sensitivities estimated by the Company (note 29).

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 $689,000 (2019: $1,059,000), determined with reference to a benchmark of profit before tax, of which it represents 5% (2019: 5%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level of risk that individually immaterial misstatement in individual account balances add up to a material amount across the financial statements as a whole. Performance materiality was set at 65% (2019: 65%) of materiality for the financial statements as a whole. We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the Audit Committee any corrected and uncorrected identified misstatements exceeding $34k (2019: $53k), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality and performance materiality levels specified above.

4 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").

We used our knowledge of the Company, its industry, and the general economic environment to identify the inherent risks to its 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:

- the impact on regulatory capital requirements in the event of an economic slowdown or recession which would increase impairment provisions; and
- the availability of funding and liquidity in the event of a market wide stress scenario including further impact from the COVID-19 pandemic, as it continues to unfold.

We considered whether these risks could plausibly affect the liquidity in the going concern period by comparing severe, but plausible downside scenarios that could arise from these risks individually and collectively against the level of available financial resources indicated by the Company's financial forecasts.

We performed following procedures to obtain comfort over going concern:

- We evaluated management's assessment on going concern in light of our understanding of the business including the impact of Covid-19.
- We inspected the Company's capital and liquidity stress testing (as detailed in Page 27 and the underlying assumptions. We concluded that the Company has sufficient capital and liquidity under severe, but plausible downside scenario.
- We considered whether the going concern disclosure in Note 1 to the financial statements gives a full and accurate description of the directors' assessment of going concern.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period; and
- we found the going concern disclosure in note 1 to be acceptable.

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 above conclusions are not a guarantee that the Company will continue in operation.

5 Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, management and internal audit and inspection of Fraud and Compliance policies as to the Company's high-level policies and procedures to prevent and detect fraud, the Company's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading board, audit committee, risk and compliance committee minutes
- Inspecting regulatory correspondences including FCA, PRA and HMRC.
- Using analytical procedures to identify any unusual or unexpected relationships.
- Performing journal testing by applying a risk-based selection criteria.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet profit targets and our overall knowledge of the control environment, we perform procedures to address the risk of management override of controls, in particular the risk that Company's management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates such as credit impairments. On this audit we have not identified a fraud risk related to revenue recognition because the Company's revenue streams consist primarily of interest income and fees and commissions. These typically comprise high volumes of lower value transactions which are processed in an automated manner and are not subject to a high degree of judgement by management. Further, the fraud risk related to credit impairment is also considered to be low. This is because, firstly, the incentive in relation to management bias for understating the credit impairment is low because the Company's results form a relatively small part of the Group's results, and secondly, the size of the loan book is small and the judgemental management overlay relates to a small sample of specific loans rather than portfolio level estimates, which can be more judgemental

We did not identify any additional fraud risks.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

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 and 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.

As the Company is regulated, our assessment of risks involved gaining an understanding of the control environment including the Company's procedures for complying with regulatory requirements.

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 the Company's license to operate. We identified the following areas as those most likely to have such an effect: specific areas of regulatory capital and liquidity, conduct, money laundering and financial crime and certain aspects of company legislation recognising the financial and regulated nature of the Company's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

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 is from the events and transactions reflected in the financial statements, the less likely 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 fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

6 We have nothing to report on the strategic report and the directors' report

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

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

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

7 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, 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.

8 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 15, 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 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 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.

9 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
London
E14 5GL

23 April 2021

Profit and Loss Account

for the year ended 31 December 2020

	Notes	2020 $ '000	Restated 2019 $'000
Interest receivable	2	**30,618**	**55,616**
Interest receivable and similar income arising from financial investments		10,892	13,658
Other interest receivable		19,726	41,958
Interest payable	**2**	**(12,493)**	**(29,651)**
Net interest income		**18,125**	**25,965**
Fees and commissions receivable	2	1,466	1,750
Fees and commissions payable	2	(550)	(2,819)
Net fees and commission		**916**	**(1,069)**
Dealing profits[1]		1,179	688
Other operating income	3	6,140	9,374
Other income		**7,319**	**10,062**
Total operating income		**26,360**	**34,958**
Staff costs	4	(34,134)	(33,657)
Depreciation and amortisation	15,16	(1,967)	(1,830)
Impairment losses	11	(3,907)	(618)
Other operating charges	6	(8,012)	(8,291)
Reimbursement of expenses attributable to the Branch	7	34,543	33,738
Operating expenses		**(13,477)**	**(10,658)**
Profit on ordinary activities before tax		**12,883**	**24,300**
Tax on profit on ordinary activities	8	(2,348)	(5,318)
Profit for the financial year		**10,535**	**18,982**

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

Notes 1 to 36 form part of these financial statements.

[1] *In 2019, the dealing profit was disclosed under separate headings (i) revaluation gain on financial derivatives of $145k and (ii) foreign exchange gain and realised gain on financial derivatives of $485k (iii)) other interest receivable of $58k*

Statement of Comprehensive Income

for the year ended 31 December 2020

	Note	2020 *$ '000*	2019 *$ '000*
Profit for the financial year		**10,535**	**18,982**
Other comprehensive income:			
Change in fair value of financial investments at fair value through other comprehensive income (FVOCI)		2,244	3,342
Impairment allowance on financial investments at FVOCI	11	417	30
Tax on components of other comprehensive income		(644)	(858)
Other comprehensive income for the year, net of income tax		**2,017**	**2,514**
Total comprehensive income for the year		**12,552**	**21,496**

Notes 1 to 36 form part of these financial statements.

Balance Sheet

As at 31 December 2020

	Note	2020 *$ '000*	2019 *$ '000*
Assets			
Cash and balances at central banks		200,967	376,810
Loans and advances to banks	9	689,413	741,330
Loans and advances to customers	10	428,558	513,279
Derivative financial instruments	12	26,115	17,623
Financial investments at fair value through other comprehensive income (FVOCI)	13	402,959	391,350
Financial investments at amortised cost	14	194,293	160,762
Intangible assets	16	155	159
Tangible fixed assets	15	33,744	35,321
Current tax assets		6,154	-
Prepayments, accrued income and other assets	17	15,355	17,449
Total Assets		**1,997,713**	**2,254,083**
Liabilities			
Deposits by banks	19	1,110,415	1,380,084
Customer accounts	20	386,884	395,956
Derivative financial instruments	12	26,708	17,277
Other liabilities		11,467	7,882
Accruals and deferred income	21	1,280	3,133
Provisions for liabilities	23	2,303	2,633
Current tax liabilities		-	1,805
Deferred tax liabilities	18	2,171	1,380
Total Liabilities		**1,541,228**	**1,810,150**
Share Capital and Reserves			
Called up share capital		200,000	200,000
Retained earnings		253,752	243,217
Other reserves		2,733	716
Total Share Capital and Reserves		**456,485**	**443,933**
Total Liabilities and Share Capital and Reserves		**1,997,713**	**2,254,083**
Memorandum items			
Contingencies and commitments	24	107,685	129,519

These financial statements were approved by the Directors on 23 April 2021 and are signed on their behalf by:

Ruixiang Han
Director

Graeme Tosen
Chief Financial Officer

Company Registration No: 4552753

Notes 1 to 36 form part of these financial statements.

Statement of Changes in Equity

for the year ended 31 December 2020

	Share capital	Retained earning	Other reserves	Total shareholder's funds
	$'000	*$'000*	*$'000*	*$'000*
At 1 January 2019	**200,000**	**224,235**	**(1,798)**	**422,437**
Profit for the year	-	18,982	-	18,982
Change in fair value of financial investments at FVOCI	-	-	3,342	3,342
Impairment charged on financial investments at FVOCI	-	-	30	30
Tax on other comprehensive income	-	-	(858)	(858)
At 31 December 2019	**200,000**	**243,217**	**716**	**443,933**
At 1 January 2020	**200,000**	**243,217**	**716**	**443,933**
Profit for the year	-	10,535	-	10,535
Change in fair value of financial investments at FVOCI	-	-	2,244	2,244
Impairment released on financial investments at FVOCI	-	-	417	417
Tax on other comprehensive income	-	-	(644)	(644)
At 31 December 2020	**200,000**	**253,752**	**2,733**	**456,485**

Notes 1 to 36 form part of these financial statements.

Statement of Cash flows

for the year ended 31 December 2020

	Notes	2020 $ '000	Restated 2019 $ '000
Cash flows from operating activities			
Profit		**10,535**	**18,982**
Adjustments for non-cash items			
Depreciation of tangible fixed assets	15	1,816	1,742
Amortisation of intangible assets	16	151	88
Impairment losses	11	3,907	618
Interest income*	2	(30,618)	(55,616)
Interest expense	2	12,493	29,651
Gain on sale of financial investments at FVOCI		(199)	-
Exchange gain and accretion of discounts and amortisation of premiums on financial investments		(15,104)	(2,297)
Revaluation gain/(loss) on financial derivatives		939	(145)
Tax on profit on ordinary activities	8	2,348	5,318
		(24,267)	**(20,641)**
(Increase)/ decrease in operating assets			
Loans to banks	9	118,342	183,979
Loans and advances to customers	10	82,313	294,894
Financial investments at FVOCI	13	(6,671)	8,156
Financial investments at amortised cost	14	(30,674)	30,000
Other assets	17	512	(801)
		163,822	**516,228**
(Decrease)/increase in operating liabilities			
Deposits by banks	19	(269,669)	24,330
Deposits from customers	20	(9,072)	(71,470)
Subordinated loan		-	(100,000)
Other liabilities		(2,281)	200
		(281,022)	**(146,940)**
Adjustment for cash items			
Interest received*		32,200	59,277
Interest paid		(14,346)	(30,790)
Income tax paid		(4,680)	(4,616)
		13,174	**23,871**
Net cash from /(used in) operating activities		**(117,758)**	**391,500**
Cash flow from investing activities			
Acquisition of tangible fixed assets	15	(239)	(302)
Acquisition of intangible assets	16	(147)	(103)
Net cash from /(used in) investing activities		**(386)**	**(405)**
Net cash from financing activities		-	-
Net (decrease)/ increase in cash and cash equivalents		**(118,144)**	**391,095**
Cash and cash equivalents at 1 January	27	**470,286**	**78,694**
Effects of exchange rates on cash and cash equivalents		9,398	497
Cash and cash equivalents at 31 December	27	**361,540**	**470,286**

* *Interest income from financial derivatives of $58k, which was disclosed under interest income in 2019, has been reclassified under the dealing profit in 2020. Consequently, there are differences of $58k each on both "Interest income" and "Interest received" headings for 2019 between the above restated cash flow and 2019's published financial statements.*

The notes 1 to 36 form part of these financial statements.

Notes to the financial statements

for the year ended 31 December 2020

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

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 for at least twelve months from the signing date of the Financial Statements. Due to the Covid-19 pandemic the Bank did an assessment of the risk to capital due to increased credit risk at an individual counterparty basis and performed a severe stress on the capital resources, assuming a significant number of counterparties (from more vulnerable sectors) defaulted at the same time (at a 100% loss given default) without taking into account any benefit from additional management actions. In addition, a liquidity analysis for the next 12 months was performed with a stress overlay assuming no new funding and a full draw down of all committed facilities at the same time. The Bank maintained a sufficient capital and liquidity position after the respective stresses were applied.

The financial statements have been prepared on a going concern basis as the Board of Directors concluded that there was a reasonable expectation that the Bank has adequate resources to continue as a going concern for a period of at least 12 months from date of approval of the financial statements.

The financial statements were authorised for issue by the Board of Directors of the Bank on 23 April 2021.

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.

1.4 Functional and presentational currency

The financial statements are prepared in US Dollars, which is the functional currency of the Bank since most of the assets and liabilities are in USD. 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 2020

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 mainly relating to impairment losses. The management judgement and estimation are also required for the classification of financial assets and fair value of financial instruments. The details 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). There is an increased uncertainty this year due to the Covid-19 pandemic.

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;
- Applying management overlays on ECL in order to address data or model limitations.

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.

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.

Notes to the financial statements

for the year ended 31 December 2020

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 those bond investments, which are held until maturity in order to collect contractual cash flows, 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 bond investments held for liquidity and interest earning 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 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'

Notes to the financial statements

for the year ended 31 December 2020

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 a probability-weighted estimate of credit losses over the expected life of the financial instrument. 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:

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

The 12-months ECL is the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

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 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.

Notes to the financial statements

for the year ended 31 December 2020

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.

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 reporting 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 reporting date to the default event together with any expected drawdown of a facility.

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.

Notes to the financial statements

for the year ended 31 December 2020

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.

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.

1.8.2 Interest 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

Notes to the financial statements

for the year ended 31 December 2020

integral part of the effective interest rate. 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 of the return on a financial instrument is recognised using 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.

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 reporting 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

Notes to the financial statements

for the year ended 31 December 2020

Motor vehicles	-	5 years
Computer hardware	-	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 reporting 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.

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.

Notes to the financial statements

for the year ended 31 December 2020

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 23.

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 an original maturity period of less than three months.

1.8.13 Reimbursement of expenses attributable to the Branch

The Bank books operating expenses including staff costs incurred for both the Bank and ICBC London Branch. The Bank will receive higher of Return on Assets or the cost incurred for the Branch's activities as a reimbursement for the Branch's share of total expenses, which is reported under "Reimbursement of expenses attributable to the Branch".

Notes to the financial statements

for the year ended 31 December 2020

2. Interest and similar income arising from debt securities

2020

	Loans and advances	Financial investments at FVOCI*	Financial Investments at AC**	Deposits by bank	Customer accounts	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Interest and similar income arising from financial investments	-	6,336	4,556	-	-	**10,892**
Other interest and similar income	19,726	-	-	-	-	**19,726**
Total Interest and similar income	**19,726**	**6,336**	**4,556**	-	**-**	**30,618**
Interest expense	-	-	-	(12,067)	(426)	**(12,493)**
Net interest income	**19,726**	**6,336**	**4,556**	**(12,067)**	**(426)**	**18,125**
Fees and commissions income						1,466
Fees and commissions expense						(550)
Net fees income						**916**

**FVOCI –Fair value through other comprehensive income*

***AC– Amortised cost*

2019

	Loans and advances	Financial investments at FVOCI*	Financial Investments at AC**	Deposits by bank	Customer accounts	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Interest and similar income arising from financial investments	-	8,223	5,435	-	-	**13,658**
Other interest and similar income	41,958	-	-	-	-	**41,958**
Total Interest and similar income	**41,958**	**8,223**	**5,435**	-	**-**	**55,616**
Interest expense				(27,810)	(1,841)	**(29,651)**
Net interest income -	-	-	-	**-**	**-**	**25,965**
Fees and commissions income						**1,750**
Fees and commissions expense						**(2,819)**
Net fees income						**(1,069)**

Notes to the financial statements

for the year ended 31 December 2020

3. Other operating income

	2020 *$'000*	2019 *$'000*
Fees earned for services provided under a service level agreement with related parties	6,140	9,374
	6,140	**9,374**

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). This service was terminated in 2019.

4. Staff costs

Staff costs (including Directors) comprise the following:

	2020 *$'000*	2019 *$'000*
Wages and salaries	28,897	28,981
Social security costs	3,459	2,996
Pension costs	1,155	961
Other costs	623	719
	34,134	**33,657**

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

	2020 *No*	2019 *No*
- Senior Management	6	6
- Front office functions	59	58
- Risk control and support functions	102	109
	167	**173**

Notes to the financial statements

for the year ended 31 December 2020

5. Directors' emoluments

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

	2020 *$'000*	2019 *$'000*
Salary	1,477	1,319
Bonus	389	261
	1,866	**1,580**

All Directors except Non-Executive Directors work for both the Bank and the Branch. Of the total Directors' emoluments, the cost attributable to the Branch was $1.36 million in 2020 (2019: $1.11 million).

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

	2020 *$'000*	2019 *$'000*
Salary, benefits and performance-related bonus	817	755

The highest paid director also works for both the Bank and the Branch. Of the total emolument, the cost attributable to the Branch was $650k in 2020 (2019: $595k).

Notes to the financial statements

for the year ended 31 December 2020

6. Other operating charges

	2020 $'000	2019 $'000
Administrative expenses	7,781	8,188
Operating leases:		
- Operating lease charges	345	371
- Reversal of provision for onerous lease	(400)	(477)
Auditor's remuneration:		
- Audit of the financial statements		
Current year	243	177
Previous year	14	-
- Audit-related assurance services		
Current year	29	29
Previous year	-	3
	8,012	**8,291**

7. Reimbursement of expenses attributable to the Branch

The total operating expenses including staff costs incurred for both the Bank and ICBC London Branch are booked in the Bank. The Bank will receive higher of Return on Assets or the cost incurred by the Bank for the Branch's activities as a reimbursement for the Branch's share of total expenses.

The table below shows the breakdown of the total operating cost allocated to the Branch.

	2020 $'000	2019 $'000
Staff cost	27,043	26,290
Other operating charges	6,054	6,076
Depreciation	1,446	1,372
Reimbursement of expenses attributable to the Branch	**34,543**	**33,738**

Notes to the financial statements

for the year ended 31 December 2020

8. Tax on profit on ordinary activities

The tax charge is made up as follows:

	2020 *$'000*	2019 *$'000*
Current tax:		
UK corporation tax	(2,626)	(5,519)
Adjustments in respect of prior years	425	273
Total current tax	**(2,201)**	**(5,246)**
Deferred tax:		
Origination and reversal of timing differences	(28)	(66)
Effect of tax rate change in opening balance	(98)	
Adjustment for prior years	(21)	(6)
Total deferred tax (charge)/credit for the year	**(147)**	**(72)**
Total charge for the year	**(2,348)**	**(5,318)**

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% (2019: 19%). The differences are explained below:

	2020 *$'000*	2019 *$'000*
Profit on ordinary activities before tax	**12,883**	**24,300**
Current tax at 19% (2019: 19%)	(2,448)	(4,617)
Bank Surcharge (8% on taxable profit above GBP 25 million for the ICBC UK Group)	-	(737)
Difference in tax rate used for the current and deferred tax	(8)	(16)
Non-deductible expenses	(216)	(233)
Other adjustments	18	17
Effect of deferred tax rate change in the opening balance	(98)	-
Adjustments in respect of prior years	404	268
Total tax charge for the year	**(2,348)**	**(5,318)**

Finance Act 2020 repealed the previously enacted reduction in the UK corporation tax rate (effective from 1 April 2020) from 19% to 17%, thereby maintaining the main corporation tax rate at 19%.

Notes to the financial statements

for the year ended 31 December 2020

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 allocated among the ICBC's UK banking group.

The deferred tax at 31 December 2020 has been calculated at 27% (19% Corporation Tax + 8% Bank Surcharge), which was calculated at 25% at 31 December 2019.

Consortium relief

In December 2020, the Bank claimed consortium relief for 2019 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 2019. Consequently, the Bank will receive a repayment of tax previously paid to HMRC for 2019, which is included in "Current tax assets" 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 a consideration for its tax losses surrendered to the Bank. The consideration for the tax losses payable to ICBCS is included in "Other liabilities" in the Balance Sheet.

9. Loans and advances to banks

	2020 *$'000*	**2019** *$'000*
Loans and advances to banks	690,162	741,407
Less: Impairment losses (Note 11)	(749)	(77)
Net loans and advances to banks	**689,413**	**741,330**

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:

	2020 *$'000*	**2019** *$'000*
- Repayable on demand	160,573	93,476
- Three months or less	420,000	508,749
- Above three months to one year	25,967	79,392
- Above one year to five years	83,622	59,790
	690,162	**741,407**

Notes to the financial statements

for the year ended 31 December 2020

Loans and advances to banks by geographical area:

	2020	2019
	$'000	*$'000*
Area:		
China	373,057	404,042
Germany	-	125,000
Hong Kong	85,088	10,728
South Africa	49,719	79,392
United Arab Emirates	33,902	33,862
United Kingdom	76,466	60,654
United States	71,930	27,729
	690,162	**741,407**

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).

	2020	2019
	$'000	*$'000*
Amounts include:		
Due from ICBC group entities	87,690	49,608

10. Loans and advances to customers

	2020	2019
	$'000	*$'000*
Loans and advances to customers	433,992	516,305
Less: Impairment losses (Note 11)	(5,434)	(3,026)
Net loans and advances to customers	**428,558**	**513,279**

Notes to the financial statements

for the year ended 31 December 2020

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:

	2020 *$'000*	2019 *$'000*
- Three months or less	46,148	-
- Above three months to one year	148,009	5,950
- Above one year to five years	229,253	498,770
- Above five years	10,582	11,585
	433,992	**516,305**

Loans and advances to customers by geographical area:

	2020 *$'000*	2019 *$'000*
Area:		
Angola	8,750	21,965
China	-	23,519
Hong Kong	27,436	27,247
Netherlands	52,209	47,923
Nigeria	79,859	79,602
United Kingdom	255,156	279,723
Others	10,582	36,326
	433,992	**516,305**

Notes to the financial statements

for the year ended 31 December 2020

11. Impairment loss

The total impairment loss charged in the Profit and Loss Account was $3.91m in 2020. (2019: $618k). The breakdown of impairment losses is set out below:

i. Loans and advances at amortised cost

	Loan & advances to banks	Loan & advances to customers			Total
	Stage 1	Stage 1	Stage 2	Stage 3	
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
Balance at 1 January 2019	**82**	**1,004**	**1,111**	**5,000**	**7,197**
(Reversed)/charged during the year	(5)	(699)	1,609	-	**905**
Amount written off	-	-	-	(5,000)	**(5,000)**
FX translation gain	-	1	-	-	**1**
Balance at 31 December 2019	**77**	**306**	**2,720**	**-**	**3,103**
Balance at 1 January 2020	**77**	**306**	**2,720**	**-**	**3,103**
charged during the year	672	520	1,856	-	**3,048**
FX translation gain	-	14	18	-	**32**
Balance at 31 December 2020	**749**	**840**	**4,594**	**-**	**6,183**

ii. Financial investments at amortised cost

	Stage 1	Stage 2	Stage 3	Total
	$'000	*$'000*	*$'000*	*$'000*
Balance at 1 January 2019	**35**	**-**	**-**	**35**
Charged during the year	16	-	-	**16**
Balance at 31 December 2019	**51**	**-**	**-**	**51**
Balance at 1 January 2020	**51**	**-**	**-**	**51**
Charged during the year	391			**391**
FX translation gain	2	-	-	**2**
Balance at 31 December 2020	**444**	**-**	**-**	**444**

Notes to the financial statements

for the year ended 31 December 2020

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

	Stage 1	Stage 2	Stage 3	Total
	$'000	*$'000*	*$'000*	*$'000*
Balance at 1 January 2019	**72**	**-**	**-**	**72**
Charged during the year	31	-	-	**31**
Balance at 31 December 2019	**103**	**-**	**-**	**103**
Balance at 1 January 2020	**103**	**-**	**-**	**103**
Charged during the year	417			**417**
FX translation gain	2	-	-	**2**
Balance at 31 December 2020	**522**	**-**	**-**	**522**

iv. Undrawn loan commitments and guarantees

	Stage 1	Stage 2	Stage 3	Total
	$'000	*$'000*	*$'000*	*$'000*
Balance at 1 January 2019	**62**	**300**	**-**	**362**
Recovered during the year	**(38)**	**(296)**		**(334)**
FX translation loss	-	(4)	-	**(4)**
Balance at 31 December 2019	**24**	**-**	**-**	**24**
Balance at 1 January 2020	**24**	**-**	**-**	**24**
Charged during the year	51			**51**
FX translation gain	2	-	-	**2**
Balance at 31 December 2020	**77**	**-**	**-**	**77**

Notes to the financial statements

for the year ended 31 December 2020

12. 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 reporting date.

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 reporting date.

	2020		2019	
	Derivatives financial assets	Derivatives financial liabilities	Derivatives financial assets	Derivatives financial liabilities
	$000	*$000*	*$000*	*$000*
Forward exchange contracts	3,400	3,177	4,168	3,998
Foreign exchange swaps	-	917	-	-
Interest rate swaps	22,715	22,614	13,455	13,279
	26,115	**26,708**	**17,623**	**17,277**

13. 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 reporting date.

	2020	2019
	$''000	*$'000*
Balance at 1 January	**391,350**	**393,988**
Additions	297,691	48,844
Disposals/ Matured	(290,820)	(57,000)
Fair value adjustment	2,244	3,343
Premium/ Discount amortisation	(1,012)	561
Foreign exchange difference	3,506	1,614
Balance at 31 December	**402,959**	**391,350**

	2020	2019
	$'000	*$'000*
Analysed by maturity:		
- Due within one year	119,631	224,307
- Due after one year	283,328	167,043

Notes to the financial statements
for the year ended 31 December 2020

Analysed by issuers:

- Issued by public bodies(government)	-	-
- Issued by other issuers	402,959	391,350

14. Financial investments at amortised cost

	2020 *$'000*	2019 *$'000*
Balance at 1 January	**160,813**	**191,191**
Additions	30,674	-
Matured during the year	-	(30,000)
Premium/ Discount amortisation	238	314
Foreign exchange difference	3,012	(692)
Balance at 31 December	**194,737**	**160,813**
Impairment loss (Note 11)	(444)	(51)
Net balance at 31 December	**194,293**	**160,762**

Notes to the financial statements

for the year ended 31 December 2020

15. Tangible fixed assets

2020

	Land	Building	Office furniture and equipment	Computers	Leasehold improvement	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Original cost:						
At 1 January 2020	**2,785**	**45,036**	**2,306**	**1,260**	**1,184**	**52,571**
Additions	-	-	9	230	-	**239**
Disposals	-	-	-	-	-	**-**
At 31 December 2020	**2,785**	**45,036**	**2,315**	**1,490**	**1,184**	**52,810**
Accumulated depreciation:						
At 1 January 2020	**-**	**12,819**	**2,148**	**1,099**	**1,184**	**17,250**
Depreciation for the year	-	1,584	82	150	-	**1,816**
Reversal of depreciation of the disposed assets	-	-	-	-	-	**-**
At 31 December 2020	**-**	**14,403**	**2,230**	**1,249**	**1,184**	**19,066**
Net book value:						
At 31 December 2020	**2,785**	**30,633**	**85**	**241**	**-**	**33,744**
At 31 December 2019	**2,785**	**32,217**	**158**	**161**	**-**	**35,321**

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2019

	Land	Building	Office furniture and equipment	Computers	Leasehold improvement	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Original cost:						
At 1 January 2019	**2,785**	**45,001**	**2,153**	**1,169**	**1,184**	**52,292**
Additions	-	35	154	113	-	**302**
Disposal/written off	-	-	(1)	(22)	-	**(23)**
At 31 December 2019	**2,785**	**45,036**	**2,306**	**1,260**	**1,184**	**52,571**
Accumulated depreciation:						
At 1 January 2019	**-**	**11,241**	**2,069**	**1,037**	**1,184**	**15,531**
Depreciation for the year	-	1,578	80	84	-	**1,742**
Reversal of depreciation of the disposed assets	-	-	(1)	(22)	-	**(23)**
At 31 December 2019	**2,785**	**12,819**	**2,148**	**1,099**	**1,184**	**17,250**
Net book value:						
At 31 December 2019	**2,785**	**32,217**	**158**	**161**	**-**	**35,321**
At 31 December 2018	**2,785**	**33,760**	**84**	**132**	**-**	**36,761**

16. Intangible fixed assets

	2020	2019
	$'000	*$'000*
Original Cost:		
At 1 January	422	319
Additions	147	103
At 31 December	**569**	**422**
Amortisation		
At 1 January	263	175
Amortisation for the year	151	88
At 31 December	**414**	**263**
Net book value:		
At 31 December	**155**	**159**

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for the year ended 31 December 2020

17. Prepayments, accrued income and other assets

	2020 *$'000*	2019 *$'000*
Accrued interest receivable	5,100	6,682
Prepayments	1,647	807
Other assets	**8,608**	**9,960**
:Of which amount owed by ICBC group undertakings	*6,077*	*9,142*
	15,355	**17,449**

18. Deferred tax liabilities

	2020 *$'000*	2019 *$'000*
Deferred tax liabilities included in the Balance Sheet comprise the following:		
Accelerated capital allowances	1,400	1,257
Other timing differences	771	123
	2,171	**1,380**
Movements in deferred tax liabilities during the year were as follows:		
Balance at 1 January	**1,380**	**449**
Recognised in the Profit and Loss Account	49	73
Effect of tax rate change in opening balances recognised in P&L	98	-
Effect of tax rate change in opening balances recognised to Other Comprehensive Income	12	-
Recognised in Other Comprehensive Income	632	858
Balance at 31 December	**2,171**	**1,380**

19. Deposits by banks

	2020 *$'000*	2019 *$'000*
Repayable:		
- On demand	237,524	95,358
- Three months or less	162,099	435,052
- Above three months to one year	527,213	266,594
- Above one year to five years	183,579	583,080
	1,110,415	**1,380,084**

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	2020	2019
	$'000	*$'000*
Amounts include:		
Deposits by ICBC group entities	630,707	751,303

20. Customer accounts

	2020	2019
	$'000	*$'000*
Repayable:		
- On demand	171,773	363,745
- Three months or less	12,584	9,460
- Above three months to one year	202,527	22,751
- Above one year	-	-
	386,884	**395,956**

21. Accruals and deferred Income

	2020	2019
	$'000	*$'000*
Accrued interest payable	1,280	3,133
	1,280	**3,133**

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22. Share capital

	2020	2019
	$'000	*$'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**

23. Provision for Liabilities

i. Onerous lease

	2020	2019
	$'000	*$'000*
Balance at 1 January	**2,633**	**2,997**
Reversal during the year	(400)	(477)
Fx gain	70	113
Balance at 31 December	**2,303**	**2,633**

a. 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 reporting date. Therefore, the onerous lease provision is computed on the total rent payable until April 2026, discounted by the 5-year UK Government bond yield.

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24. Memorandum items –Commitments

	2020	2019
	$'000	*$'000*
Undrawn documentary credits and short-term trade related transactions	683	686
Undrawn loans and advances	107,002	128,833
Balance at 31 December	**107,685**	**129,519**

The table above shows the nominal principal amounts of commitments and guarantees. They are mainly credit-related instruments which include both financial and non-financial guarantees and commitments to extend credit. Nominal principal amounts represent the amount at risk should the contract be fully drawn.

Operating lease commitments

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

	2020	2019
	$'000	*$'000*
1 year and less	457	443
Above 1 year to 5 years	1,826	1,773
Above 5 years	114	443

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for the year ended 31 December 2020

25. 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:

	2020	2019
	$'000	*$'000*
Balance sheet		
Assets		
Derivative financial Instruments	55	-
Loans and advances to banks	49,720	-
Prepayments, accrued income and other assets	206	104
Liabilities		
Derivative financial Instruments	2,884	1,430
Deposits by banks	4,030	1,174
Other liabilities	5,608	978
Notional amount of derivatives outstanding	**106,925**	**132,048**
Profit and loss account		
Interest receivable	215	381
Dealing loss	(2,002)	(187)

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, 92.82%-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.

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26. Fair values of financial instruments

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.

The fair value of financial investments measured at fair value through other comprehensive income are based on bid prices at the reporting date.

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

Derivatives financial instruments fall under the Level 2 hierarchy. 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.

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

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

2020	**Level 1**	**Level 2**	**Level 3**	**Total**
	$'000	*$'000*	*$'000*	*$'000*
Assets				
Derivative financial instruments:				
Foreign exchange forwards	-	3,400	-	**3,400**
Interest rate swaps	-	22,715	-	**22,715**
Financial investments at FVOCI:				
Government debt securities	-	-	-	**-**
Other debt securities	402,959	-	-	**402,959**
	402,959	**26,115**	**-**	**429,074**
Liabilities				
Derivative financial instruments:				
Foreign exchange forwards	-	3,177	-	**3,177**
Foreign exchange swaps		917		**917**
Interest rate swaps	-	22,614	**-**	**22,614**
	-	**26,708**	**-**	**26,708**

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2019	Level 1	Level 2	Level 3	Total
	$'000	*$'000*	*$'000*	*$'000*
Assets				
Derivative financial instruments:				
Foreign Exchange Forwards	-	4,168	-	**4,168**
Interest Rate Swaps	-	13,455	-	**13,455**
Financial investments at FVOCI:				
Government debt securities	-	-	-	**-**
Other debt securities	391,350	-	-	**391,350**
	391,350	**17,623**	**-**	**408,973**
Liabilities				
Derivative financial instruments:				
Foreign Exchange Forwards	-	3,998	-	**3,998**
Interest Rate Swaps	-	13,279	**-**	**13,279**
	-	**17,277**	**-**	**17,277**

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.

2020

	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	-	-	200,967	**200,967**
Loans and advances to banks	-	-	689,413	**689,413**
Loans and advances to customers	-	-	428,558	**428,558**
Derivative financial instruments	26,115	-	-	**26,115**
Financial Investments at FVOCI	-	402,959	-	**402,959**
Financial investments at amortised cost	-	-	194,293	**194,293**

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Total assets	**26,115**	**402,959**	**1,513,231**	**1,942,305**
Deposits by banks	-	-	1,110,415	**1,110,415**
Customer accounts	-	-	386,884	**386,884**
Derivative financial instruments	26,708	-	-	**26,708**
Total liabilities	**26,708**	**-**	**1,497,299**	**1,524,007**

2019

	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	-	-	376,810	**376,810**
Loans and advances to banks	-	-	741,330	**741,330**
Loans and advances to customers	-	-	513,279	**513,279**
Derivative financial instruments	17,623	-	-	**17,623**
Financial Investments at FVOCI	-	391,350	-	**391,350**
Financial investments at amortised cost	-	-	160,762	**160,762**
Total assets	**17,623**	**391,350**	**1,792,181**	**2,201,154**
Liabilities				
Deposits by banks	-	-	1,380,084	**1,380,084**
Customer accounts	-	-	395,956	**395,956**
Derivative financial instruments	17,277	-	-	**17,277**
Total liabilities	**17,277**	**-**	**1,776,040**	**1,793,317**

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27. Cash and cash equivalents

	2020	2019
	$'000	*$'000*
Cash balance	128	70
Balance with central bank	200,839	376,740
Balance with other banks	160,573	93,476
	361,540	**470,286**

28. 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 and Risk and Compliance Committee. At the Executive-level there are five committees concerned with risk management issues: Executive Committee, Asset and Liability Committee, Credit Committee, Information Technology Steering Committee and Financial Crime Risk 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 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 in order to maintain consistency 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 ensuring these are consistent with the Bank's obligation to maintain the risks within the constraints of both explicit and implicit capital and liquidity regulations.

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29. 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.
- 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 related to management of credit risks. 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 and risk appetite policy include establishing industry sector limits, country limits and regulatory limits in addition to counterparty limits.

Governance and oversight

The Bank has comprehensive policies and procedures in place to manage and monitor credit risk, both for pre-approval and post lending management stages. This section provides a very high-level overview of the process including the oversight for ECL assumptions.

The overall risk appetite is ultimately determined by the Board.

The Bank has country limits, sectorial limits, rating limits, duration limits and specific counterparty limits in place and loans cannot be approved if they do not fall within these limits (on occasion exceptions can be granted and a formal procedure is in place for this). In addition to these overriding limits, specific sectors also have sub-limits which are reviewed annually.

The process to bring a proposal to Credit Committee (CC) is formalised and comprehensive. The application is done in the form of an approved template to ensure that all required information is provided, which include but is not limited to a full analysis of all material risks, financial information, stress testing, sector information, margin

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requirements, historic data, forward looking plans, assessment of management competency, liquidity analysis etc. This includes a risk adjusted return assessment which incorporates an ECL projection.

On ECL specifically, the Bank uses a third-party supplier to provide it with a range (base, upside and downside) of macro-economic scenarios and resultant data, which are updated on a quarterly basis. This data is applied to the impairment model and outputs are presented to the Credit Committee for review and ultimately approved by the Bank's Chief Financial Officer (CFO). An analysis of major changes and the reasons for material movement in ECL numbers is provided by the Bank's Credit Risk Department.

The Credit Committee of the Bank approves the criteria for an asset to move from stage 1 to stage 2 (this includes the definition of significant increase in credit risk) or stage 2 to 3. Where the criteria are met an asset would automatically be transferred, but even where this is not the case the Credit Risk Department (or any member of the Credit Committee) could propose that an asset is moved into stage 2 or 3 based on evidence of credit deterioration. CFO acts as the Chair of the Credit Committee and ensures that decisions of the Committee are in line with relevant accounting standards. Any overlays or reversals of overlays to the model need to be approved by both the Credit Committee and the CFO of the Bank based on a recommendation and justification of such overlay by the Credit Risk Department.

The Bank uses an independent firm to validate the model on a regular basis (at least every two years).

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 and disclosure of information, cash flow and liquidity, capital and debt structure, solvency etc. The qualitative assessment includes industry environment, the entity's market share and position and competitive strengths and weaknesses, diversification by products and geography, strategy and management, corporate governance, complexity and/or simplicity of organizational structure.

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.

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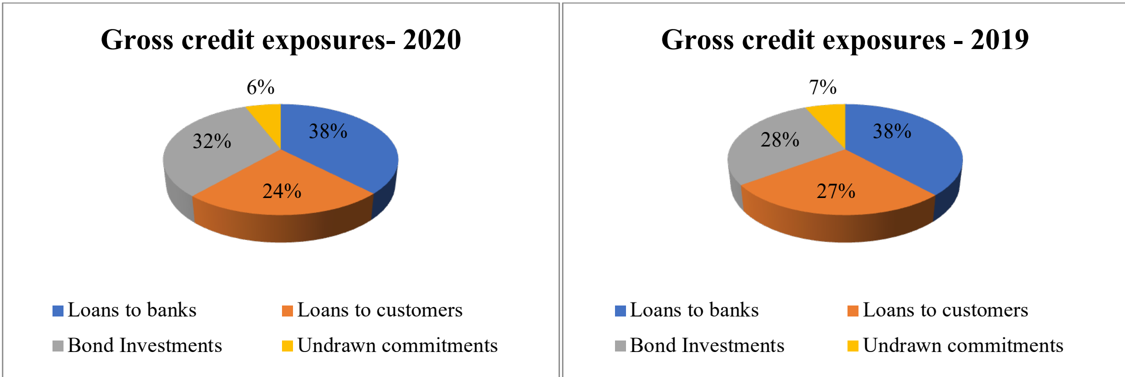
Credit risk profile

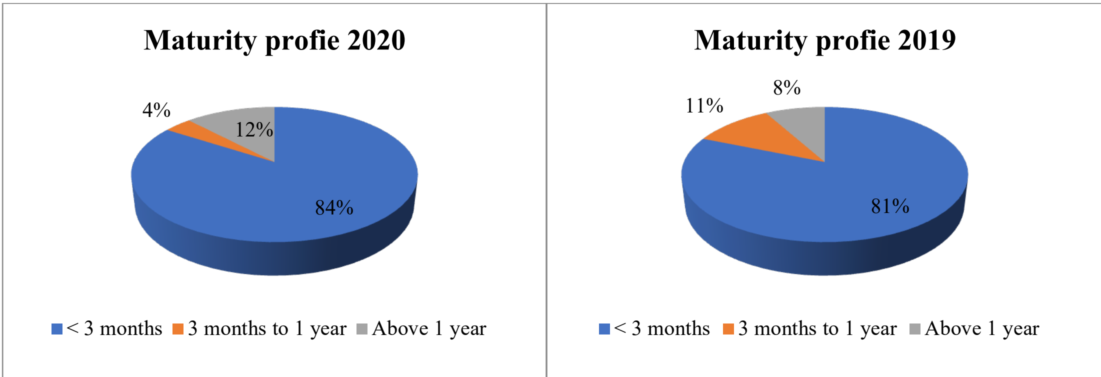
The Bank has a high-quality portfolio of assets from a credit risk perspective. The Bank has no non-performing loans, almost a third of credit exposures are on investment grade bond investments, a majority of assets have a short remaining maturity and 83% of all assets are investment grade or above. In addition, the Bank has a relatively low provision coverage ratio on an IFRS 9 modelling basis.

The breakdown of the Bank's gross credit exposures, which includes loans to banks, loans to customers, bond investments and off balance sheet commitment and guarantees, is presented in the graph below. It can be seen from this breakdown that almost one-third of the gross credit exposures is in the form of bond investments, most of which are high-quality liquid assets (HQLA) in accordance with Capital Requirement Regulations (CRR). A relatively small proportion of bond exposures are to investment grade corporates that do not form part of the Bank's HQLA portfolio.



Although loans and advances to banks make up 38% of our total gross credit exposures, the maturity breakdown of these assets has a significant impact on the associated credit risk of the portfolio. The graph below provides a maturity breakdown and it can be seen that the vast majority of these assets have relatively short remaining maturities, which reduces credit risk significantly.

Loans and advances to banks



The maturity breakdown of corporate loans is slightly more balanced, but even in this category a significant portion of loans have less than one year remaining.

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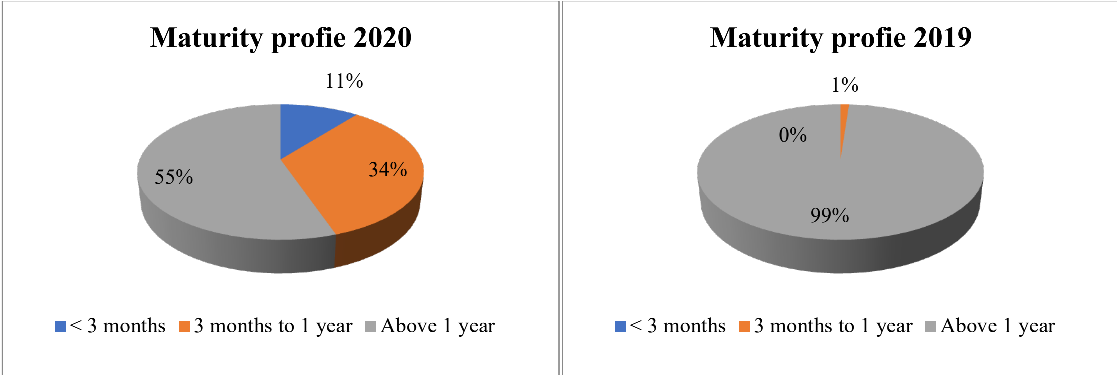
Loans and advances to customers



The Bank's asset portfolio is well diversified but we do recognise that certain top emerging risks (as set out in the Strategic Report) could impact certain concentrations of assets more than others. For example, on-going tensions between China and the US (or the UK) could have a greater impact on assets to corporates which are heavily China focused or where the Parent company is based in China. Similarly, the impact of government restrictions due to Covid 19 has a direct detrimental impact on our Commercial Real Estate (CRE) portfolio, especially in the retail sub-sector.

The Bank only have a limited number of stage 2 loans. Refinancing risk, underlying tenancy risk and geographical risk (main operations of clients are located in a vulnerable country - as per our internal definition) are principal reasons for downgrading these loans to Stage 2.

Impact of Covid-19 pandemic

The impact of Covid-19 pandemic has increased the level of judgement that the management have been required to exercise over the course of 2020. The Bank suffered no material credit losses in 2020 despite the impact of the pandemic and volatile macroeconomic environment.

The Bank assessed that Covid-19 pandemic have mainly affected the Bank's loans to Commercial Real Estate (CRE) sector, which was $205 million as at 31 December 2020 (2019: $213 million). Due to uncertainties surrounding the timing of valuations, management judgements have been made to downgrade credit ratings of CRE clients by 3 notches and to reduce the valuation of underlying securities. This has resulted in additional ECL of $0.42 million.

The Bank provided temporary relaxation of financial covenants to a client in 2020 but it was not considered to be a forborne loan.

Credit quality analysis

The Bank's assets and credit exposures are categorised into five categories: -

- **Normal**
  Stage 1 credit exposures.

- **Special mention**
  Credit exposures with a significant increase in credit risk (Stage 2) and which require closer monitoring by the management.

- **Substandard**

  Impaired credit exposures (Stage 3) with an anticipated loss of between 0-50% of the exposure at default (after deducting collateral / security).

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- **Doubtful**
  Impaired credit exposures (Stage3) with an anticipated loss of between 50-100% of the exposure at default (after deducting collateral / security).

- **Loss**
  Impaired credit exposures (Stage 3) with 100% anticipated loss of the exposure at default.

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.

i. Loans and advances to banks

	2020				2019
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Total**
	$'000	***$'000***	***$'000***	***$'000***	***$'000***
Credit grade					
Normal	690,162	-	-	690,162	741,407
Special mention	-	-	-	**-**	**-**
Substandard	-	-	-	**-**	**-**
Doubtful					
Loss	-	-	-	**-**	**-**
Gross carrying amount	**690,162**	**-**	**-**	**690,162**	**741,407**
Impairment loss	(749)	-	-	(749)	**(77)**
Carrying amount	**689,413**	**-**	**-**	**689,413**	**741,330**

ii. Loans and advances to customers

	2020				2019
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Total**
	$'000	***$'000***	***$'000***	***$'000***	***$'000***
Credit grade					
Normal	348,803	-	-	348,803	475,547
Special mention	-	85,189	-	85,189	40,758
Substandard	-	-	-	**-**	**-**
Doubtful					

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Loss	-	-	-	-	-
Gross carrying amount	**348,803**	**85,189**	**-**	**433,992**	**516,305**
Impairment loss	(840)	(4,594)	-	**(5,434)**	(3,026)
Carrying amount	**347,963**	**80,595**	**-**	**428,558**	**513,279**

iii. Financial investments at amortised cost

	2020				2019
	Stage 1 *$'000*	Stage 2 *$'000*	Stage 3 *$'000*	Total *$'000*	Total *$'000*
Credit grade					
Normal	194,737	-	-	**194,737**	160,813
Special mention	-	-	-	**-**	-
Substandard	-	-	-	**-**	-
Doubtful	-	-	-	**-**	-
Loss	-	-	-	**-**	-
Gross carrying amount	**194,737**	**-**	**-**	**194,737**	**160,813**
Impairment loss	(444)	-	-	(444)	(51)
Carrying amount	**194,293**	**-**	**-**	**194,293**	**160,762**

External credit rating of financial investments at amortised cost

	2020 *$'000*	2019 *$'000*
Investment-grade		
AAA to AA-	-	-
A+ to A-	105,395	105,202
BBB+ to BBB-	89,342	55,611
Total	**194,737**	**160,813**

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iv. Financial investments (bond investments) at FVOCI

	2020				2019
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Total**
	$'000	***$'000***	***$'000***	***$'000***	***$'000***
Credit grade					
Normal	402,959	-	-	402,959	391,350
Special mention	-	-	-	-	-
Substandard	-	-	-	-	-
Doubtful	-	-	-	-	-
Loss	-	-	-	-	-
Gross carrying amount	**402,959**	**-**	**-**	**402,959**	**391,350**
Impairment loss	**(522)**	**-**	**-**	**(522)**	**(102)**

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

	2020	**2019**
	$'000	*$'000*
Investment-grade		
AAA to AA-	234,301	223,565
A+ to A-	139,850	88,752
BBB+ to BBB-	28,808	79,033
Total	**402,959**	**391,350**

v. Undrawn commitments and guarantees

	2020				2019
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Total**
	$'000	***$'000***	***$'000***	***$'000***	***$'000***
Credit grade					
Normal	107,685	-	-	107,685	129,519
Special mention	-	-	-	-	-

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Substandard	-	-	-	-	-
Doubtful	-	-	-	-	-
Loss	-	-	-	-	-
Gross carrying amount	**107,685**	**-**	**-**	**107,685**	**129,519**
Impairment loss	**(77)**	**-**	**-**	**(77)**	**(24)**

Purchased or originated credit-impaired financial assets

The purchased or originated credit-impaired financial asset was nil in 2020 (2019: 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. In addition, loan-to-value (LTV) is an important indicator for commercial real estate (CRE) assets.

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 table below provides brief highlights of these indicators for 2020:

	Stage 1	Stage 2	Stage 3
Average LGD	20.06%	38.10%	-
Average 12 month PD	0.40%	13.04%	-
Average lifetime PD	-	13.57%	-
Average Loan to Value ratio(LTV ratio) (Commercial Real Estate loans only)	60%	65%	-

The accounting policies 1.8.1.2 (Page 30) 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 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;

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A significant increase in credit risk occurs when any of the following situations arise within the Bank's risk rating system:

- A deterioration in risk rating to AA4 or worse (equivalent to Standard & Poor's (S&P) risk ratings of BBB- or worse) for the credit exposures with an initial PD ranging between the Bank's credit rating of AAA1 to AA1 (equivalent to S&P's risk rating of AAA to BBB+).
- A deterioration in risk rating to AA5 or worse (equivalent to S&P's risk ratings of BB+ or worse) for the credit exposures with an initial PD ranging between the Bank's credit rating from AA2 to AA4 (equivalent to S&P's risk rating of BBB+ to BBB-).
- A deterioration in risk rating to A1 or worse (equivalent to S&P's risk ratings of BB- or worse) for the credit exposures with an initial PD ranging between the Bank's credit rating from AA5 to AA6 (equivalent to S&P's risk rating of BB+ to BB).
- Single notch deterioration in risk rating for the credit exposures with an initial rating of A1 or worse (equivalent to S&P's risk rating of BB-).

- qualitative indicators;
  - The counterparty is involved in major litigation (litigation amount exceeding 30% of its net assets); the operation of its major units suspended; its senior executive under investigation for law violation.
  - The host country/region in which a significant proportion of counterparty's operating assets are located is undergoing significant adverse changes in politics, the economy, revocation of licenses, financial and foreign exchange regulation, any of which may adversely affect the counterparty's ability to fulfil its repayment obligations under the credit agreement.
  - Collateral lost or devalued by 20% swiftly without any collateral top-up provided will trigger a review of staging if it is related to project finance or income producing real estate.
  - Significant cost/construction time overrun for project financing.
  - Other SICR events that may have material impact on the debt servicing ability of the counterparty.

- 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.
- 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.
  - Management overlay on the ECL in order to address data or model limitations.

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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

	2020				2019
	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total ECL	Total ECL
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
Balance at 1 January	**77**	**-**	**-**	**77**	**82**
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	680	-	-	**680**	**5**
Financial assets derecognised during the period	(75)	-	-	**(75)**	**(42)**
Movement in impairment loss on the existing assets	67	-	-	**67**	**32**
Balance at 31 December	**749**	**-**	**-**	**749**	**77**

ii. Loans and advances to customers

	2020				2019
	Stage 1 12 month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total ECL	Total ECL
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
Balance at 1 January	**306**	**2,720**	**-**	**3,026**	**7,115**
Transfers:					
Transfer from Stage 1 to Stage 2	-	394	-	**394**	**54**
Transfer from Stage 1 to Stage 3	-	-	-	**-**	**-**
Transfer from Stage 2 to Stage 1	-	-	-	**-**	**-**

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New financial assets originated or purchased	-	-	-	**-**	**-**
Financial assets derecognised during the period	(67)	-	-	**(67)**	**(612)**
Financial assets written off	-	-	-	**-**	**(5,000)**
Movement in impairment loss on the existing assets	601	1,480	-	**2,081**	**1,469**
Balance at 31 December	**840**	**4,594**	**-**	**5,434**	**3,026**

iii. Financial investments at amortised cost

	2020				
	Stage 1 12 month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total ECL**	**2019 Total ECL**
	$'000	***$'000***	***$'000***	***$'000***	***$'000***
Balance at 1 January	**51**	**-**	**-**	**51**	**35**
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	-	-	-	**-**	**-**
Financial assets derecognised during the period	-	-	-	**-**	**(1)**
Movement in impairment loss on the existing assets	393	-	-	**393**	**17**
Balance at 31 December	**444**	**-**	**-**	**444**	**51**

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iv. Financial investments at FVOCI

	2020				
	Stage 1 12 month ECL *$'000*	Stage 2 Lifetime ECL *$'000*	Stage 3 Lifetime ECL *$'000*	Total ECL *$'000*	2019 Total ECL *$'000*
Balance at 1 January	**103**	**-**	**-**	**103**	**72**
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	348	-	-	348	**8**
Financial assets derecognised during the period	(28)	-	-	(28)	**(1)**
Movement in impairment loss on the existing assets	99	-	-	99	**24**
Balance at 31 December	**522**	**-**	**-**	**522**	**103**

v. Undrawn commitments and guarantees

	2020				
	Stage 1 12 month ECL *$'000*	Stage 2 Lifetime ECL *$'000*	Stage 3 Lifetime ECL *$'000*	Total ECL *$'000*	2019 Total ECL *$'000*
Balance at 1 January	**24**	**24**	**-**	**24**	**362**
Transfers:					
Transfer from Stage 1 to Stage 2	-	-	-	**-**	**-**
Transfer from Stage 1 to Stage 3	-	-	-	**-**	**-**
Transfer from Stage 2 to Stage 1	-	-	-	**-**	**-**
Addition during the year	-	-	-	**-**	**-**
Commitment and guarantees derecognised during the period	-	-	-	**-**	**(300)**

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Movement in impairment loss on the existing commitments and guarantees	53	-	-	**53**	**(38)**
Balance at 31 December	**77**	**-**	**-**	**77**	**24**

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.

The Bank's total exposures to commercial real estate was $205 million as at 31 December 2020 (2019: $213 million). 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. The Bank reviews the revaluation of collateral periodically. 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 $1,830 million as at 31 December 2020 (**2019**: $1,940 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 $328 million in 2020 (2019: $349 million).

Forward looking information

The Bank incorporates forward looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

The economic assumptions in the Bank's models are derived from a range of scenarios provided to the Bank by an independent specialist. The Senior Management has selected the most relevant scenarios to our business model and exposure types. All economic indicators used are internally reviewed by the Credit Risk Department for their reasonableness. The economic forecasts cover four future years, which is one year beyond the Bank's three-year planning horizon. Data for the additional year is assessed against the data at the end of our planning horizon to ensure that the future trend look reasonable when compared to the trend established in our planning horizon. In addition to this trend analysis, the Bank is also provided with qualitative data explaining the rationale behind each indicator used.

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for the year ended 31 December 2020

Based on the Bank's asset portfolio these indicators incorporate data from four main regions: the UK, EU, US and China. Amongst the indicators used are unemployment forecasts, GDP projections, inflation, exchange rates etc.

The Bank formulates three economic scenarios: a base case, an upside and a downside scenario.

While measuring ECL, the Bank applies scenario probability weighting as below:

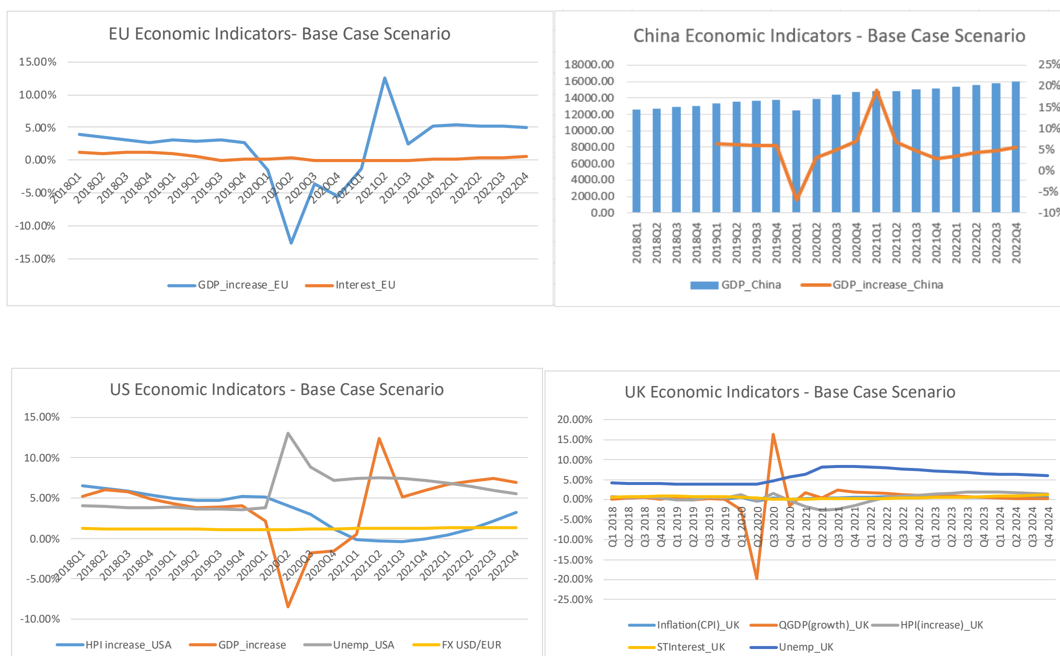
	2020			2019		
	Base	**Upside**	**Downside**	**Base**	**Upside**	**Downside**
Scenario probability weighting	40%	30%	30%	40%	30%	30%

If the Bank assesses that these weightings need to be adjusted, the Senior Management needs to approve this and will do so after consultation with the Bank's credit risk specialists.

The Bank's loan portfolio is sufficiently small to allow an individual assessment of counterparties and, in particular, those names classified at Stage 2. Where it is felt the ECL model is not providing an accurate reflection of this risk associated with a particular exposure, the calculated impairment charge can be adapted through a model overlay. Any overlays are subject to the approval of the Bank's Credit Committee.

The graphs below illustrate the movement over time of some of the more significant inputs under all three scenarios.

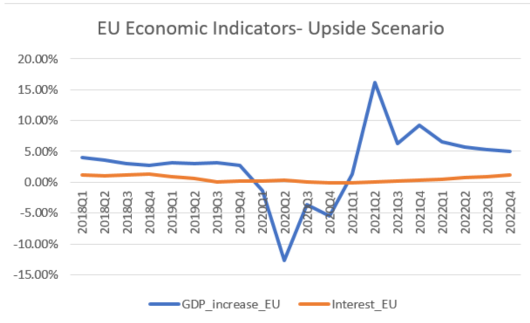
Base case:

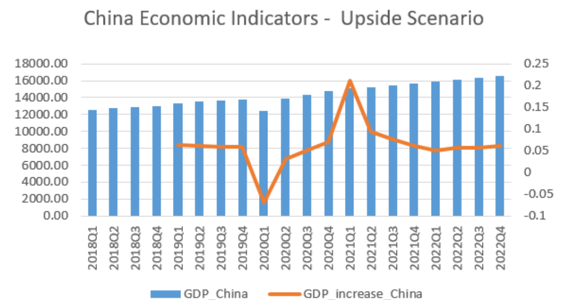


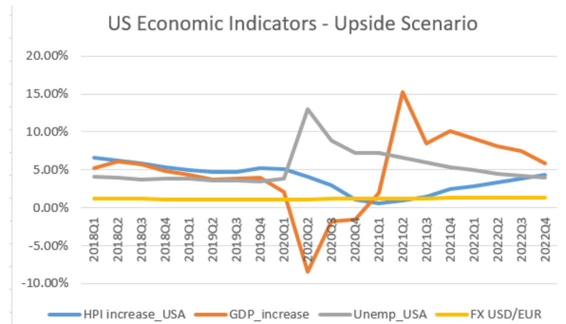
Notes to the financial statements

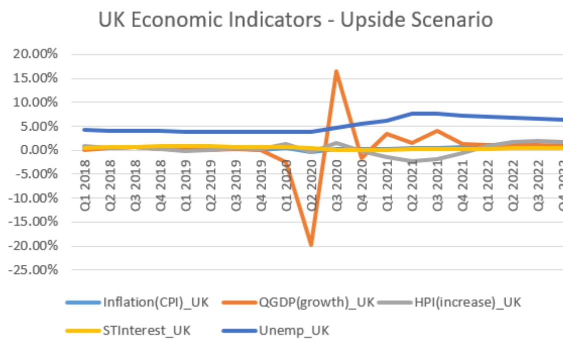
for the year ended 31 December 2020

Upside:

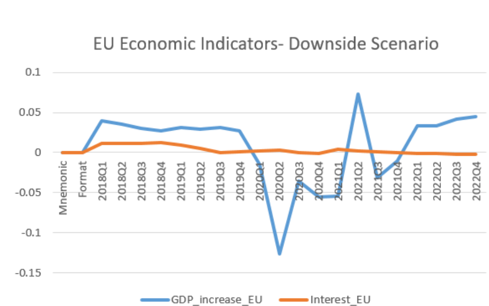


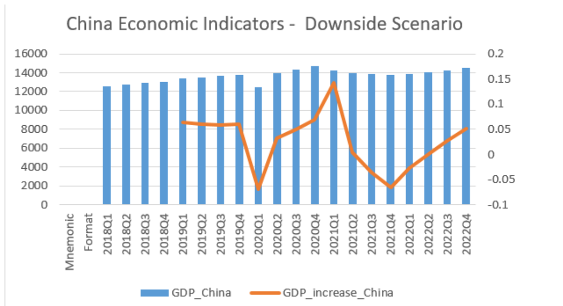


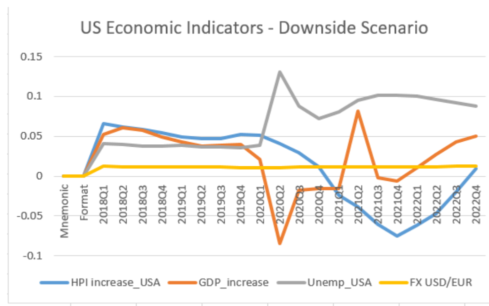


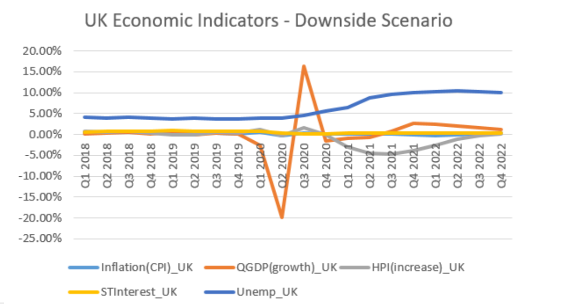


Downside:









Notes to the financial statements

for the year ended 31 December 2020

The most significant change in the central scenario compared to the previous period was in GDP and unemployment growth (especially in the UK, US and EU regions) on the back of the pandemic and the resultant depletion in economic activity.

Sensitivity of ECL to future economic conditions

ECLs are sensitive to judgements and assumptions made regarding formulation of forward-looking scenarios and how such scenarios are incorporated into the calculation. The Bank performs a sensitivity analysis on the ECL recognised on its financial assets.

The table below demonstrates the impairment loss on the Bank's financial assets assuming each forward-looking scenario (e.g. base, upside and downside) were weighted 100% instead of applying scenario probability weights.

	2020				2019			
$'000	**Base**	**Upside**	**Downside**	**Probability-weighted**	**Base**	**Upside**	**Downside**	**Probability-weighted**
Gross carrying amount								
Loans and advances	1,124,154	1,124,154	1,124,154	1,124,154	1,257,712	1,257,712	1,257,712	1,257,712
Bond investments	597,696	597,696	597,696	597,696	552,163	552,163	552,163	552,163
Undrawn commitments and guarantees	107,685	107,685	107,685	107,685	129,519	129,519	129,519	129,519
	1,829,535	**1,829,535**	**1,829,535**	**1,829,535**	**1,939,394**	**1,939,394**	**1,939,394**	**1,939,394**
Impairment loss								
Loans and advances	6,179	6,174	6,193	6,183	3,162	2,791	3,335	3,103
Bond investments	964	962	971	966	149	144	166	153
Undrawn commitments and guarantees	78	76	80	77	23	25	27	25
	7,221	**7,212**	**7,244**	**7,226**	**3,334**	**2,960**	**3,528**	**3,281**
Proportion of assets in stage 2								
Loans and advances	8%	8%	8%	8%	3%	3%	3%	3%
Bond investments	-	-	-	-	-	-	-	-
Undrawn commitments and guarantees	-	-	-	-	-	-	-	-

**Loans and advances include both loans to banks and customers. Bond investments include bonds accounted at FVOCI and amortised cost.*

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).

The Bank wrote off $5 million of gross carrying amount of financial asset against the impairment allowance in 2019 whereas the write off was nil in 2020.

Expected credit losses – how it is used

In addition to ECL being used to determine to level of impairment provisions in the Bank, it is a key indicator of the credit quality of the Bank's assets, feeds into our risk adjusted return model to determine the potential

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for the year ended 31 December 2020

profitability of new business opportunities and inputs (either directly or indirectly) to key performance and risk indicators for the Bank. Specifically, ECL is an important input into our risk adjusted return on capital (RAROC) model which is used to set minimum pricing levels acceptable to the Bank for new assets.

Regional Exposure

The table below analyses the geographical spread of the Bank's credit exposures based on the customer location.

	2020		**2019**	
	$'000	%	*$'000*	%
Asia and Pacific (including China)	826,197	45.16	750,894	38.72
Europe:				
UK	456,108	24.93	470,991	24.29
Other EU	112,820	6.17	214,829	11.08
Non-EU	-	-	24,805	1.28
Middle East	33,902	1.85	34,000	1.75
North America	71,929	3.93	27,729	1.43
Africa	148,911	8.14	192,579	9.93
International Organisations*	179,668	9.82	223,567	11.52
Total regional exposure	**1,829,535**	**100**	**1,939,394**	**100**

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

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for the year ended 31 December 2020

30. Liquidity and Funding risk

Liquidity risk means the risk that the Bank, although solvent, does not have sufficient available financial resources to enable it to meet its obligations as they fall due. Funding risk means the risk that the Bank does not have sufficient 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; it conducts liquidity stress testing which is supported by documented policies and procedures; it clearly aims to allocate responsibilities and maintains sound systems to ensure that both the liquidity position 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 assets and liabilities with respect to its undiscounted cash flows.

Financial assets

2020

$ '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 financial assets								
Cash and balances at central banks	200,967	-	-	-	-	-	**200,967**	**200,967**
Loans and advances to banks	580,573	-	-	26,070	84,343	-	**690,986**	**689,413**
Loans and advances to customers	46,283	-	-	149,055	231,164	10,763	**437,265**	**428,558**
Financial investments*	40,660	15,378	51,812	114,410	369,214	-	**591,474**	**597,252**
Derivative financial assets							**-**	**26,115**
Cash inflows	20,000	35,088	-	23,273	125,688	254,294	**458,343**	**-**
Cash outflows	(18,606)	(33,068)	-	(23,273)	(125,688)	(254,294)	**(454,929)**	**-**
	869,877	**17,398**	**51,812**	**289,535**	**684,721**	**10,763**	**1,924,106**	**1,942,305**

**** Financial investments include bond investments recognised as amortised cost and FVOCI.***

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for the year ended 31 December 2020

2019

$ '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 financial assets								
Cash and balances at central banks	376,810	-	-	-	-	-	**376,810**	**376,810**
Loans and advances to banks	552,795	50,304	-	79,908	60,297	-	**743,304**	**741,330**
Loans and advances to customers	-	-	-	6,014	502,790	11,878	**520,682**	**513,279**
Financial investments	-	25,285	17,642	183,166	331,560	-	**557,653**	**552,112**
Derivative financial assets	-	-	-	-	-	-	**-**	**17,623**
Cash inflows	244,330	-	20,000	-	120,394	-	**384,724**	**-**
Cash outflows	(244,330)	-	(20,000)	-	(115,626)	-	**(379,956)**	**-**
	929,605	**75,589**	**17,642**	**269,088**	**899,415**	**11,878**	**2,203,217**	**2,201,154**

Financial Liabilities

2020

$ '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	399,851	-	529,298	-	188,519	-	**1,117,668**	**1,110,415**
Customer accounts	177,295	7,187	195,446	7,262	-	-	**387,190**	**386,884**
Derivative financial liabilities							**-**	**26,708**
Cash inflows	(161,176)	(33,235)	-	(23,273)	(125,688)	(254,294)	**(597,666)**	**-**
Cash outflows	163,456	35,088	-	23,273	125,688	254,294	**601,799**	**-**
	579,426	**9,040**	**724,744**	**7,262**	**188,519**	**-**	**1,508,991**	**1,524,007**
Undrawn documentary credits	-	-	683	-	-	-	**683**	**683**
Undrawn loan commitments	-	-	-	6,030	100,972	-	**107,002**	**107,002**
	579,426	**9,040**	**725,427**	**13,292**	**289,491**	**-**	**1,616,676**	**1,631,692**

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2019

$ '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	530,484	-	267,936	-	588,073	-	**1,386,493**	**1,380,084**
Customer accounts	371,332	1,947	16,632	6,334	-	-	**396,245**	**395,956**
Derivative financial liabilities							**-**	**17,277**
Cash inflows	(244,330)	(22,847)	(20,000)	-	(115,848)	-	**(403,025)**	**-**
Cash outflows	244,330	22,847	20,000	-	120,394	-	**407,571**	**-**
	901,816	**1,947**	**284,568**	**6,334**	**592,619**	**-**	**1,787,284**	**1,793,317**
Undrawn documentary credits	-	-	-	23	663	-	**686**	**686**
Undrawn loan commitments	-	-	-	-	128,833	-	**128,833**	**128,833**
	901,816	**1,947**	**284,568**	**6,357**	**722,115**	**-**	**1,916,803**	**1,922,836**

At 31 December 2020, the Bank held highly liquid assets, comprising cash balance, balance with Bank of England, bond investments measured at FVOCI and amortised cost, of $512 million. These can be used in the event of any liquidity stress event.

Encumbered assets

The Bank maintained $2.93 million as an initial and variation margin for derivative clearing as at 31 December 2020 (2019: $2.94 million).

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for the year ended 31 December 2020

31. Market risk

Market risk is defined as the risk of losses arising from movements in market prices. The Bank is exposed to relatively few market risks. The principal market risk is Foreign Exchange (FX) risk arising from both the banking book and the trading book. As the Bank does not undertake proprietary trading and market making, trading book exposure arises from client servicing only. In the banking book, positions arise from interest income, financial and tax expenses and impairment provisions. Potential market risk of position risk arises 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 net material market risk arising from these trading products.

Foreign exchange risk

Throughout 2020, the foreign currency exposure was within limits at all times. As at 31 December 2020, FX overnight exposure was $990k (long) (2019: $896k (short)).

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	2020 ($)	2019 ($)
USD appreciates 200 basis points	(12,495)	4,743
USD appreciates 400 basis points	(24,958)	9,481
USD appreciates 800 basis points	(49,728)	18,942
USD depreciates 200 basis points	12,601	(4,749)
USD depreciates 400 basis points	25,242	(9,503)
USD depreciates 800 basis points	50,727	(19,026)

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.

32. 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 maturities (for fixed-rate instruments) and re-priced rates (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 2020 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.

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Interest rate sensitivity table

2020

$ '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	-	-	-	-	128	**128**
Balance at central bank	200,839	-	-	-	-	**200,839**
Loans and advances to banks	689,413	-	-	-	-	**689,413**
Loans and advances to customers	428,558	-	-	-	-	**428,558**
Financial investments at FVOCI	49,466	15,069	55,097	283,327	-	**402,959**
Financial investments at amortised cost	107,256	-	33,954	53,083	-	**194,293**
Fixed and other assets	-	-	-	-	81,523	**81,523**
Total assets	**1,475,532**	**15,069**	**89,051**	**336,410**	**81,651**	**1,997,713**
Liabilities						
Deposits by banks	1,110,415	-	-	-	-	**1,110,415**
Customer accounts	184,358	195,297	7,229	-	-	**386,884**
Other liabilities	-	-	-	-	43,929	**43,929**
Shareholder's funds	-	-	-	-	456,485	**456,485**
Total liabilities and Shareholder's funds	**1,294,773**	**195,297**	**7,229**	**-**	**500,414**	**1,997,713**
Interest rate sensitivity gap	**180,759**	**(180,228)**	**81,822**	**336,410**	**(418,763)**	
Cumulative gap	**180,759**	**531**	**82,353**	**418,763**	**-**	**-**

The following table shows the sensitivity of the Bank's net interest income (NII) to a reasonably possible change in interest rates, with all other variables held constant. 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	660
Interest rate increases by 200 basis points	1,320
Interest rate decreases by 100 basis points	(660)
Interest rate decreases by 200 basis points	(1,320)

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

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2019

$ '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	-	-	-	-	70	**70**
Balance at central bank	376,740	-	-	-	-	**376,740**
Loans and advances to banks	741,330	-	-	-	-	**741,330**
Loans and advances to customers	513,279	-	-	-	-	**513,279**
Financial investments at FVOCI	150,245	17,491	79,032	144,582	-	**391,350**
Financial investments at amortised cost	73,657	-	-	87,105	-	**160,762**
Fixed and other assets	-	-	-	-	70,552	**70,552**
Total assets	**1,855,251**	**17,491**	**79,032**	**231,687**	**70,622**	**2,254,083**
Liabilities						
Deposits by banks	1,380,084	-	-	-	-	**1,380,084**
Customer accounts	373,205	16,483	6,268	-	-	**395,956**
Other liabilities	-	-	-	-	34,110	**34,110**
Shareholder's funds	-	-	-	-	443,933	**443,933**
Total liabilities and Shareholder's funds	**1,753,289**	**16,483**	**6,268**	**-**	**478,043**	**2,254,083**
Interest rate sensitivity gap	**101,962**	**1,008**	**72,764**	**231,687**	**(407,421)**	
Cumulative gap	**101,962**	**102,970**	**175,734**	**407,421**	**-**	**-**

The table below shows projected changes in the 2019 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	1,080
Interest rate increases by 200 basis points	2,161
Interest rate decreases by 100 basis points	(1,080)
Interest rate decreases by 200 basis points	(2,161)

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

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for the year ended 31 December 2020

33. Country by country reporting

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

2020

United Kingdom	Business	Turnover	Average employees	Profit before tax	Corporate Tax paid	Public subsidies received
		$ '000		*$ '000*	*$ '000*	
ICBC (London) plc	Banking	26,360	167	12,883	(4,888)	-

2019

United Kingdom	Business	Turnover	Average employees	Profit before tax	Corporate Tax paid	Public subsidies received
		$ '000		*$ '000*	*$ '000*	
ICBC (London) plc	Banking	34,958	173	24,300	(4,040)	-

The tax on profit for 2020 was 2,348k (**2019**: 5,318k).

34. 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 considered more likely to consist of '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 2020, the operational loss was $36k (2019: $6k).

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for the year ended 31 December 2020

35. Capital

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.

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

	2020	2019
	$ '000	*$ '000*
Share capital	200,000	200,000
Retained earnings	253,752	243,217
Other reserves	2,733	716
Less: Regulatory adjustments (Unaudited)	(357)	(412)
Tier 1 capital	**456,128**	**443,521**
Tier 2 capital	**-**	**-**
Total capital	**456,128**	**443,521**

Transitional relief for IFRS 9 – Expected credit losses

From a regulatory capital perspective, the Bank has made use of the transitional relief under regulatory capital rules for the transition to IFRS 9. However, the impact of this on the Bank's overall capital position is not material.

ECL is an important factor in the Bank's profitability and therefore has a direct impact on the regulatory capital of the Bank. However, we do not consider it in itself as a key driver in the Bank's capital management, but rather indirectly through the role it plays in the Bank's asset selection (as explained above). The Bank's strategy is to invest in high credit quality assets and ECL is an important factor in determining both the perceived credit quality of an asset as well as determining the appropriate risk/return balance.

36. Events after the end of the reporting date

There has been no adjusting event after the end of the reporting date.

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