Contents

Madam Lili Wang
Chairman

Chairman's Statement

I am delighted to report in this, the 5th Annual Report of ICBC (London) Limited, that the company has continued its steady success despite the very difficult market conditions and has achieved a pre-tax profit of $6.225million in 2007 (2006 - $3.277 million).

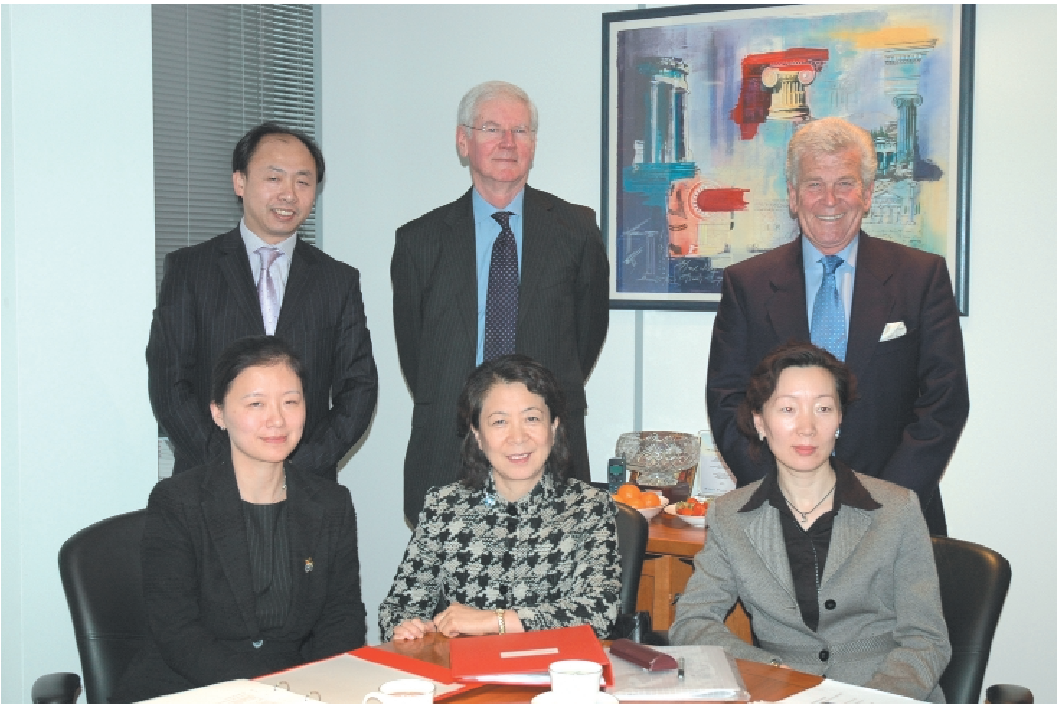
2007 has been a turbulent year for many banks. In the first half of the year there was a great deal of liquidity which meant that margins available on good quality assets at the time were extremely fine. The credit crunch that began in the summer, hit ICBC (London) Limited along with all other banks in spite of the fact that we do not have any direct exposure to sub-prime lending in the United States. Our own prudent approach to lending combined with the strength of our parent bank in China ensured that we were well able to weather the storm. Indeed, I am delighted to report that our parent bank, ICBC Limited, decided to confirm its commitment to the London market by injecting a further $100 million capital in October 2007 to enable future expansion.

As the Bank has expanded in London, a number of new staff have joined and I would like to welcome them to ICBC. There was also a change of directors in 2007: in November, Mei Tao resigned from the Board to take up a new appointment with a new Group company in Beijing. I would like to thank Mei for her contribution to the Bank and wish her well in her future career. I would also like to welcome Jingfen Zhao who joined the Bank in November as Deputy Managing Director. Jingfen brings a wealth of experience in international banking gained in both China and Hong Kong SAR.

I would like, also, to thank my fellow directors, the management team and the staff of the Bank for their contribution to our continuing success.

Lili Wang
Chairman

Board of Directors



Back Row From Left:	Mr Jinlei Xu	(Managing Director)
	Mr Edwin Lacy	(Non-Excutive Director)
	Mr Graham Penny	(Non-Excutive Director)
Front Row From Left:	Ms Mei Tao	(Resigned, 29 November 2007)
	Madam Lili Wang	(Chairman)
	Ms Jingfen Zhao	(Deputy Managing Director)

Management Team

From Left:	Mr Qiang Xiao	(Head of Financial Control)
	Mr Bo Jiang	(Deputy General Manager & Head of Credit & Marketing Department)
	Mr John Kerr	(Deputy General Manager)
	Mr Jinlei Xu	(Managing Director)
	Ms Jingfen Zhao	(Deputy Managing Director)
	Mr Eddie Lau	(IT Manager)
	Mr Qinghui Zeng	(Head of Barking Department)

Managing Director's Review of the Business

Introduction

2007 was a year of considerable turmoil in the financial markets: the value of the US dollar against other currencies fluctuated considerably during the year and, since August, there has been a tightening of credit following the crisis in sub-prime lending in the United States. As a result of our prudent approach to business, ICBC (London) Limited has successfully negotiated these difficult trading conditions without loss or without significant disruption to our business portfolio. In the year ending 31 December 2007 we returned a profit before tax of $6.225 million, an increase of 90% on the profits in 2006 ($3.277 million 2006) and 1.46% above budget for the year.

Summary of Business

The majority of our total income, $9.132 million or 78.8% of the total, came from net interest income. This was up by 34% compared with the previous year ($6.821 million in 2006). This income was largely derived from our portfolio of medium and longer term loans. However, a small but increasing proportion came from short term lending associated with our trade services business - a business line that we have expanded considerably in the last year. Our interest margin for the year declined to 30% from 40% in 2006 due to increasing cost of funding from the parent bank with the revision in money market rates since the second half of 2007. Further, the lending rates during the first half of the year have relatively lower yield due to competitive market rates. Nevertheless, we still successfully managed our margins to a point where, overall for the year, our interest margin was only 11 basis points below budget.

Non-interest income increased to $2.454 million in 2007: a rise of 131% compared with 2006. It was also substantially in excess of our budgeted figure for the year. It also formed a larger proportion of total income than previously (21.2 % of total income compared with 13.46 % of total income in 2006). The most significant growth was in loan commitment fees and other non-interest income mainly relating to our trade services business.

Our operating expenses in 2007 increased by 16.4% compared with 2006. This reflects mainly growth in our staff numbers and office expenses to cope with the increased workloads but was also affected by a rise in the cost of office space. Nevertheless through strong cost control we managed to maintain our costs at less than 90% of the budgeted figure for the year.

In October 2007 our parent bank demonstrated their commitment to international banking and, in particular, to the London Market by investing a further $100million capital in our bank. This strengthened our balance sheet considerably and has put us in a very favourable position to exploit future business opportunities. However, the timing of the capital injection and the restrictions that prevailed in the credit market in the second half of 2007 limited its influence on the year-end balance sheet. Nevertheless, when compared with previous years our year-end balance sheet showed extremely healthy growth: total assets grew by over 100% compared with 2006 reflecting the continuing success of our marketing efforts.

This growth was achieved without a reduction in asset quality. We did not directly enter into any exposure affected by the 'sub-prime lending crisis' and, as far as we are aware, none of our lending to banks is directly at risk as a result of the crisis. Nevertheless, the credit crunch has not been without its effects on us: we have had to increase our 'available for sale reserve' to $2.383 million ($550,000 in 2006) to reflect the market reduction of the value of the bonds in our investment portfolio; and we have made an additional collective impairment provision of $177,000 which raises the total balance of impairment provisions to $1.139 million.

Total customer deposits were $23.8 million at the end of 2007 - 16.4% higher than 2006. During the year we introduced revised, highly competitive personal deposit interest rates with the result that the number of personal accounts opened increased by almost 200% in 2007. The number of small business accounts also grew significantly during the year. However, our assets remain mainly financed by inter-bank and intra-Group deposits. Even with the tight access to credit at the moment we have been able to secure access to the necessary funds to maintain our business activities.

Future Developments

The turmoil in the inter-bank market is expected to last for the first half of 2008 and this may constrain the type of lending and size of loans that we can offer. Nevertheless we have a very strong balance sheet and a strong success record in the London market and we will continue to build upon this sound base during the coming year. Our main focus will remain China-related business and we will seek opportunities to assist both UK and non-UK companies and individuals. During the last year we have developed strong links with an increasing number of banks in China as well as with regional branches of our parent bank. This will enable us to make a major contribution to assisting both companies and individuals seeking to do business in China.

International Trade Finance

Our trade services business has grown dramatically in the last year partly because of our high service quality and partly as a result of our marketing successes. We will continue to capitalise on our established expertise in this area and aggressively seek to expand this business, particularly in relation to the financing of trade between China and other countries. We will continue to market our full range of trade-related services including forfaiting, supplier and buyer credits, letters of guarantee and acceptances.

Corporate Banking

Whilst continuing to operate in the syndicated loans market, we will also further develop our bilateral lending by offering a range of banking facilities to corporate customers including loans and syndications, trade services, cash management and foreign exchange. We have already established a well diversified portfolio but, naturally, we remain particularly interested in China-related business.

We will also seek to develop further our business with small and medium sized enterprises in 2008 by offering current account services and trade related services at competitive prices.

Retail banking

We increased our personal and small business account base dramatically in 2007 and we will seek to continue this rate of growth in 2008. This will be achieved by continuing to offer competitive interest rates on savings accounts and competitive pricing on other banking services. Our retail banking and small business services are primarily designed for the Chinese market in the UK and this will continue. A number of initiatives are planned for 2008 to increase the range of services we offer and we will continue to work closely with our parent to ensure that we provide an excellent service to their customers visiting the UK.

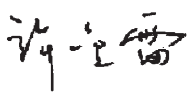
Reputation

The Bank values its status as a bank Authorised and Regulated by the Financial Services Authority and it is structured in accordance with the principles of good corporate governance in banking. This includes: employing non-executive directors; establishing a range of committees to ensure at least 'four eyes' are involved in all major policy and operating decisions; establishing clear policies and decision making processes and ensuring that the effectiveness of our operating procedures is regularly tested by internal audit.

Employees

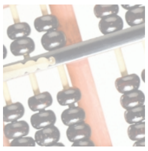
The Bank aims to maintain a highly skilled workforce to meet the challenges of a fast growing financial services company. To achieve this we will:

- Provide opportunities for our staff to develop their skills and capabilities so that they can progress in the organization
- Supplement the skills of our existing staff by recruiting suitably qualified new staff where appropriate.
- Respect diversity and promote a sensible work/life balance
- Reward contributions to the Bank's success
- Seek to retain key staff by adopting 'family friendly' policies and dealing with all staff in a sensitive manner.



Jinlei Xu

DIRECTORS



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

SECRETARY

John Kerr

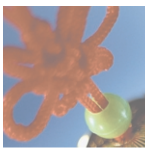
AUDITORS

Ernst & Young LLP
1 More London Place
London
SE1 2AF

REGISTERED OFFICE

2nd Floor Kings House
36 King Street
London
EC2V 8BB

MANAGEMENT TEAM



Jinlei Xu *(Managing Director)*

Jingfen Zhao *(Deputy Managing Director)*

John Kerr *(Deputy General Manager)*

Bo Jiang *(Deputy General Manager & Head of Credit and Marketing)*

Qiang Xiao *(Head of Financial Control)*

Qinghui Zeng *(Head of Banking)*

Eddie Lau *(IT Manager)*

Board of Directors

Madam Lili Wang

Chairman

In addition to being Chairman of ICBC (London) Ltd and Vice Chairman of ICBC (Asia) Ltd, Ms. Wang Lili is Executive Vice President of Industrial and Commercial Bank of China (ICBC). In this role she is responsible for international business, overseas business, corporate banking, treasury and legal affairs of the Bank. Ms. Wang is also the China member for ABAC (APEC Business Advisory Committee) and a member of WLN (Women Leaders Network of the World). She has been a member of the ICC Executive Board since 2003.

Ms. Wang was among the first international finance professionals in China following China's economic reforms and policy of openness. Prior to joining ICBC, Ms. Wang was with the Bank of China (BOC) and gained vast experience in areas ranging across FX trading, derivatives, capital markets financing and credit risk management. She served successively as General Manager of Overseas Institutions Administration Department, Credit Management Department and Risk Management Department. In 1998, she was named Executive Assistant President and Chairman of Bank of China (Canada) Ltd and of Hong Kong based, Yien Yieh Commercial Bank.

Ms. Wang, a graduate of Nankai University, also has an M.B.A in international banking and finance from the University of Birmingham.

Jinlei Xu

Managing Director

Jinlei Xu was appointed Managing Director and CEO of ICBC (London) Limited in March, 2005 having first joined the ICBC Group in 1989. He has held several senior roles within the Group including; Deputy General Manager of International Department, General Manager of Foreign Exchange Treasury Department and General Manager of ICBC Tokyo Branch.

Mr. Xu has a Master's Degree in Banking and Finance from Tianjin University of Economics and Finance and an MBA from Hong Kong University.

Jingfen Zhao

Deputy Managing Director

Jingfen Zhao was appointed Deputy Managing Director of ICBC (London) Limited in December 2007, having first joined the ICBC Group in 1985. she has held several senior roles within the Group including: Deputy General Manager of International Business Department of ICBC Head Office, Managing Director and Deputy General Manager of ICBC (Asia) Limited, and Deputy General Manager of Financial Markets Department of ICBC Head Office.

Ms. Zhao has a Bachelor degree in Economics from Tianjin University of Economics and Finance, and a Master's degree in Economics from Renmin University of China.

Graham Penny

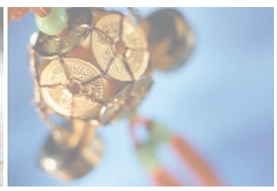
Non-executive director

Graham Penny was appointed a non-executive director in April 2003 after having spent many years with a major UK banking Group. During his career he covered both domestic and international banking and has a very wide experience of banking in Asia, Europe and the Middle East. He is Chairman of the bank's Audit Committee and a member of Remuneration Committee. He is an Associate of the Institute of Bankers, a member of the Guild of International Bankers, an Associate of the Institute of Internal Auditors UK and Ireland and a member of the Institute of Directors. Mr. Penny is also on the Board of another London-based subsidiary of an international Bank.

Edwin S. Lacy

Non-executive director

Edwin Lacy was appointed a Non Executive Director of ICBC (London) Limited in September 2003 when the Bank was established in London. Mr. Lacy has worked in international banking for more than 40 years: half of which has been spent as the General Manager of the London Branches of banks from America, France and Indonesia. Mr. Lacy is Chairman of the Bank's Remuneration Committee and he is on the Board of two other London-based Subsidiaries of international banks.



Director's Report

The Directors present their report and the financial statements of the Company for the year ended 31 December 2007.

Financial statements

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

Business review and future developments

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

The financial statements of the Company for the year to 31 December 2007 incorporate, for the first time, the requirements of FRS 29. These requirements change the way the Company discloses its financial instruments.

Results and dividends

The trading results for the year, and the Company's financial position at the end of the year are shown in the attached financial statements.

No dividend has been paid and the directors do not recommend the payment of a dividend for the year.

The profit of the Company for the year, after taxation, amounted to $4,329,000 (2006: $2,342,000). The credit balance on the profit and loss account is to be carried forward.

Principal activities

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

Financial instruments

The Company's principal business risks, financial risk management objectives and policies are discussed in the Notes 25 to 29 to the financial statements.

Events since the balance sheet date

There have been no significant events since the balance sheet date.

Directors and their interests

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

Lili Wang (Chairman)

Jinlei Xu

Jingfen Zhao (Appointed 29 November 2007)

Mei Tao (Resigned 29 November 2007)

Graham Penny

Edwin Lacy

No contracts of significance in relation to the Company's business in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year, within the meaning of Section 324 of the Companies Act 1985.

Donations

The Company made no charitable or political donations (2006: $nil).

Statement of directors' responsibilities

The directors are responsible for the financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare financial statements for each financial year. Under the law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Director's statement as to disclosure of information to auditors.

The directors who were members of the board at the time of approving the directors' report are listed above. Having made enquiries of fellow directors and of the Company's auditors, each of these directors confirms that:

- To the best of each director's knowledge and belief, there is no information relevant to that preparation of their report of which the Company's auditors are unaware; and
- Each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

A resolution to reappoint Ernst & Young LLP for the ensuing year will be proposed at the Annual General Meeting.

By order of the board

J Kerr

John Kerr
Company Secretary
18 March 2008

Independent Auditors' Report

We have audited the financial statements of ICBC (London) Limited ("the Company") for the year ended 31 December 2007 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses, Reconciliation of Movement in Shareholder's Funds and the related notes 1 to 30. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's member, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's member 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 member as a body, for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of the directors and the auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements. The information given in the directors' report includes that specific information presented in the managing director's review of the business that is cross referred from the business review section of the directors' report.

In addition, we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the directors' report, the chairman's statement and the managing director's review of the business. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2007 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

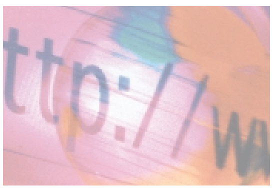
Ernst & Young LLP
Registered Auditor
London
19 March 2008


Profit and Loss Account

for the year ended 31 December 2007

	Notes	2007 $000	2006 $000
Interest receivable from financial investments	2	4,924	2,310
Other interest receivable	2	28,877	14,771
Interest payable	2	(23,721)	(10,260)
Net interest income		10,080	6,821
Fees and commission income	2	776	582
Fees and commission expense	2	(96)	(40)
Net gain on financial assets and liabilities designated as fair value through profit or loss	10	670	96
Foreign exchange gain		117	344
Other operating income		39	79
Non-interest income		1,506	1,061
Total income		11,586	7,882
Personnel expenses	3	3,016	2,438
Depreciation and amortisation		177	179
Impairment losses on loans and advances	9	177	-
Other operating expenses	5	1,991	1,988
Operating expenses		5,361	4,605
Profit on ordinary activities before tax		6,225	3,277
Tax on profit on ordinary activities	6	(1,896)	(935)
Profit for the financial year		4,329	2,342

All activities of the Company are considered to relate to continuing operations.
The notes on pages 19 to 42 form part of these financial statements.



Statement of Recognised Gains and Loss

for the year ended 31 December 2007

	2007	2006
	$'000	$'000
Profit for the financial year	4,329	2,342
Change in fair value of financial investments available-for-sale	(2,005)	59
Tax deduction on change in fair value of financial investments available-for-sale	624	-
Financial investments available-for-sale reserve recycled through profit and loss upon disposal of the investment	172	-
(Reversal of)/Increase in cash flow hedge (Note 10)	(14)	10
Deferred tax asset recognised through equity (Note 14)	123	-
Total recognised gains and losses relating to the year	3,229	2,411
Effect of FRS 26 implementation (first time adoption in previous year)	-	786
Total recognised gains and losses since last annual report	3,229	3,197

Reconciliation of movement in shareholder's funds

for the year ended 31 December 2007

	2007	2006
	$'000	$'000
Profit for the financial year	4,329	2,342
Change in fair value of financial investments available-for-sale	(2,005)	59
Tax deduction on change in fair value of financial investments available-for-sale	624	-
Financial investments available-for-sale reserve recycled through profit and loss upon disposal of the investment	172	-
(Reversal of)/increase in cash flow hedge (Note 10)	(14)	10
Deferred tax asset recognised through equity (Note 14)	123	-
New ordinary shares issued and paid up	100,000	-
Net addition to shareholder's funds	103,229	2,411
Opening shareholder's funds	101,648	99,237
Closing shareholder's funds	204,877	101,648

The notes on pages 19 to 42 form part of these financial statements.

Balance Sheet

at 31 December 2007

	Notes	2007 $000	2006 $000
Assets			
Cash and balances at central banks		67	50
Loans and advances to banks	7	479,245	205,716
Loans and advances to customers	8	203,239	128,034
Derivative financial instruments	10	18	20
Financial investments available-for-sale	11	126,058	61,699
Tangible fixed assets	12	152	303
Prepayments, accrued income and other assets	13	5,963	2,859
Deferred tax assets	14	220	80
Total assets		814,962	398,761
Liabilities			
Deposits by banks	15	577,423	272,799
Customer accounts	16	23,812	20,461
Derivative financial instruments	10	13	6
Other liabilities		3,272	502
Accruals and deferred income	17	5,176	2,322
Corporation tax		389	1,023
Total liabilities		610,085	297,113
Share capital and reserves			
Authorised and called up share capital	18	200,000	100,000
Retained earnings	19	7,260	2,184
Available-for-sale reserve	19	(2,383)	(550)
Cash flow hedge reserve	19	-	14
Equity shareholder's funds		204,877	101,648
Total liabilities and share capital and reserves		814,962	398,761
Memorandum Items			
Contingent liabilities and commitments	20	224,065	118,884

These financial statements were approved by the directors on 18 March 2008 and are signed on their behalf by:

许金雷　　　　赵京丁

Jinlei Xu　　　　Jingfen Zhao

The notes on pages 19 to 42 form part of these financial statements.

Notes to the Financial Statement

at 31 December 2007

1. Accounting policies

Basis of accounting

The financial statements of ICBC (London) Limited were approved for issue by the Board of Directors on 18 March 2008.

The financial statements have been prepared in accordance with applicable Accounting Standards in the UK as defined in Section 256. The financial statements of the Company have been prepared in accordance with the specific provisions of Part VII of the Companies Act 1985 relating to banking companies / groups. The financial statements are prepared under the historical cost convention modified to include the revaluation of derivatives and other financial instruments.

Changes in accounting policies and accounting estimates

This is the first year when the Company is required to report under FRS 29 (Financial Instruments: Disclosure). The adoption of this standard does not impact the financial results since the Company has already adopted FRS 25 and FRS 26, and relevant restatement was included in the prior annual report. However, the new standard does provide better information about risks arising from financial instruments held by the Company by requiring disclosures that are more closely aligned to the way the Company manages and monitors risks. Changes in disclosure include:

- significance of financial instruments on financial position and performance;
- qualitative and quantitative information about exposure to risks arising from financial instruments;
- the Company's objectives, policies and processes for managing capital.

Furthermore, the Company has elected to change its accounting estimate by reducing the depreciation period of computer hardware and software from 5 years to 3 years since 1 January 2007. The change in accounting estimate has no material financial effect on the profit for the current year.

Financial statements

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

Cash flow statement

Under FRS1 (revised 1996), the Company is exempt from the requirement to prepare a cash flow statement on the ground that it is consolidated in the financial statements of The Industrial and Commercial Bank of China, which are publicly available.


Notes to the Financial Statement

at 31 December 2007

Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing financial instruments classified as available-for-sale financial investments, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a short period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Company revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of a financial asset or group of similar financial assets has been reduced to an impairment loss, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Fee income on loans and advances

The Company earns fee and commission income from services it provides to its customers that are provided over a certain period of time.

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income, management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan.

Taxation

The charge for taxation is based on the profit or loss for the year and takes into account any taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or a right to pay less, tax in the future have occurred at the balance sheet date, with the following exceptions:

- Provision is made for tax on gains on disposal of fixed assets that have been rolled over into replacement assets only where, at the balance sheet date, there is a commitment to dispose of the replacement assets with no likely subsequent roll over and/or available capital losses.
- Deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Foreign currencies

Transactions in currencies other than US Dollars are recorded in US Dollars at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in currencies other than US Dollars are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

Notes to the Financial Statement

at 31 December 2007

Tangible fixed assets and depreciation

Fixed assets are recorded at cost less any accumulated depreciation.

Depreciation is calculated to write down the cost of fixed assets to their estimated residual values on a straight-line basis over the period of their estimated useful economic lives as follows:

Leasehold improvements, furniture and office equipment	-	5 years
Motor vehicles	-	5 years
Computer hardware and software	-	3 years

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

Pension costs

The Company does not operate a pension scheme. However, the Company contributes to the personal pension schemes of each eligible employee. Contributions are charged to the profit and loss account as incurred.

Operating leases

Rentals payable under operating leases are charged to the profit and loss account as incurred.

Financial instruments

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace are recognised on the trade date, i.e. the date that the Company commits to purchase or sell the asset. Derivatives are recognised on trade date basis.

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

(i) Loans and advances to banks and customers

Loans and advances to banks and customers are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified in any of the other categories as described in FRS 26. After initial measurement, loan and advances to banks and customers are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortisation is included in ‘interest receivable’ in the profit and loss account. The losses arising from the impairment are recognised in the profit and loss account.

Notes to the Financial Statement

at 31 December 2007

(ii) Financial investments available-for-sale

Financial investments available-for-sale are those which are designated as such or do not qualify to be classified as any of the other categories as described in FRS 26.

At the initial recognition of financial investments available-for-sale, all financial instruments (debt securities) are to be carried at fair value. After initial measurement, financial investments available-for-sale are subsequently measured at fair value. Unrealised gains and losses are recognised directly in equity in the available-for-sale reserve. When the security is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the profit and loss account. Where the Company holds more that one investment in the same security they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding financial investments available-for-sale is reported as interest income using the effective interest rate. The losses arising from impairment of such investments are recognised in the profit and loss account and removed from the available-for-sale reserve.

(iii) Deposits by banks and customer accounts

Deposits by banks and customer accounts which are borrowed funds not designated at fair value through profit or loss are classified as other financial liabilities, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset. After initial measurement, such borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are not an integral part of the effective interest rate.

(iv) Derivatives recorded at fair value through profit and loss

Derivatives include interest rate swaps, forward foreign exchange contracts and forward rate agreements. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are taken to the profit and loss account

Impairment of financial assets

(i) Loans and advances to banks and customers

For loans and advances to banks and customers carried at amortised cost, the Company first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit and loss account. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written back when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company. If, in a subsequent year, the amount of estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the profit and loss account. The present value of the estimated cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of available external credit ratings. Where external credit ratings are not available, internal ratings which are equivalent are used in assessing credit risks.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) Financial investments available-for-sale

For financial investments available-for-sale, the Company assesses at each balance sheet date whether there is objective evidence that an investment or a group of investments is impaired. Impairment is assessed based on the same criteria as financial assets carried at amortised cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of 'interest receivable'. If, in a subsequent year, the fair value increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the profit and loss account, the impairment loss is reversed through the profit and loss account.

Notes to the Financial Statement

at 31 December 2007

Hedge accounting

The Company makes use of derivative instruments to manage exposures to interest rate and foreign currency risks, including exposures arising from forecast transactions. In order to manage particular risks, the Company applies hedge accounting for transactions which meet the specified criteria.

At inception of the hedge relationship, the Company formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

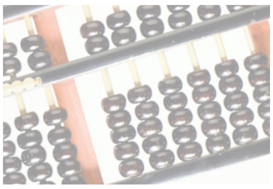
Also, at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designed risk in the hedged item. Hedges are formally assessed each quarter. A hedge is regarded as highly effective if the changes in the cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%. For situations where the hedged item is a forecast transaction, the Company assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the profit and loss account.

For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is initially recognised directly in equity in the cash flow hedge reserve. The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in the profit and loss account.

When the hedged cash flow affects the profit and loss account, the gain or loss on the hedging instrument is 'recycled' in the corresponding income or expense line of the profit and loss account. When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the hedged forecast transaction is ultimately recognised in the profit and loss account. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that are reported in equity is immediately transferred to the profit and loss account.

Fair values

The fair value of debt securities is determined by reference to quoted values by third party brokers.



Notes to the Financial Statement

at 31 December 2007

2. Analysis of profit and loss account by classification basis

2007	Loans and advances	Financial Investments available-for-sale	Derivative financial instruments at fair value through profit and loss	Deposits by banks and customer accounts	Total
	$000	*$000*	*$000*	*$000*	*$000*
Interest receivable from financial investments	-	4,924	-	-	4,924
Other interest receivable	28,769	-	108	-	28,877
Interest payable	-	-	(84)	(23,637)	(23,721)
Net interest income	28,769	4,924	24	(23,637)	10,080
Fees and commissions receivable	776				
Fees and commissions payable	(96)				
Net non-interest income	680				

2006	Loans and advances	Financial Investments available-for-sale	Derivative financial instruments at fair value through profit and loss	Deposits by banks and customer accounts	Total
	$000	*$000*	*$000*	*$000*	*$000*
Interest receivable from financial investments	-	2,310	-	-	2,310
Other interest receivable	14,771	-	-	-	14,771
Interest payable	-	-	-	(10,260)	(10,260)
Net interest income	14,771	2,310	-	(10,260)	6,821
Fees and commissions receivable	582				
Fees and commissions payable	(40)				
Net non-interest income	542				

Notes to the Financial Statement

at 31 December 2007

3. Staff costs

Staff costs (including directors) comprise the following:

	2007 *$000*	2006 *$000*
Wages and salaries	2,357	1,737
Social security costs	290	325
Pensions costs	95	59
Other costs	274	317
	3,016	2,438

Employees

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

	2007 *No.*	2006 *No.*
- Retail banking	7	7
- Corporate banking	7	5
- Investment banking	2	2
- Accounts and IT	5	4
- Administration	7	6
	28	24

4. Directors' emoluments

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

	2007 *$000*	2006 *$000*
Emoluments	664	532
Company contributions paid to pension schemes	-	-

The emoluments of the highest paid director were as follows:

	2007 *$000*	2006 *$000*
Salary and benefits and performance related bonuses	338	262

Notes to the Financial Statement

at 31 December 2007

5. Other operating expenses

	2007 *$000*	2006 *$000*
Operating lease charge - property	500	489
Auditors' remuneration;		
- Audit of the financial statements	106	83
- Taxation services	17	7

6. Tax on profit on ordinary activities

The tax charge is made up as follows:

	2007 *$000*	2006 *$000*
Current tax:		
UK corporation tax	1,917	1,024
Tax overprovided in previous year	(4)	(57)
Deferred tax:		
Origination and reversal of timing differences	(17)	(32)
Total charge for the year	1,896	935

The tax assessed on the profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 30% (2006: 30%). The differences are reconciled below:

	2007 *$000*	2006 *$000*
Profit on ordinary activities before tax	6,225	3,277
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	1,868	983
Expenses not deductible for tax purposes	30	12
Capital allowances for year in deficit of depreciation	2	29
Tax overprovided in previous year	(4)	(57)
Deferred tax asset not recognised previously	-	(32)
Current tax charge for year	1,896	935

Notes to the Financial Statement

at 31 December 2007

7. Loans and advances to banks

	2007	2006
	$000	*$000*
Gross loans and advances to banks	479,685	206,050
Less: Allowance for impairment losses (Note 9)	(440)	(334)
Net loans and advances to customers	479,245	205,716

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

	2007	2006
	$000	*$000*
Repayable:		
- on demand	1,394	673
- three months or less	169,029	72,577
- one year or less but over three months	110,489	39,191
- five years or less but over one year	198,773	93,609
	479,685	206,050

Gross loans and advances to banks by geographical area:

	2007	2006
	$000	*$000*
China	101,990	44,593
United Kingdom	36,712	28,919
India	30,706	41,402
Others	310,277	91,136
	479,685	206,050

	2007	2006
	$000	*$000*
Amounts include:		
Due from parent undertaking	69,990	26,612

8. Loans and advances to customers

	2007	2006
	$000	*$000*
Gross loans and advances to customers	203,938	128,662
Less: Allowance for impairment losses (Note 9)	(699)	(628)
Net loans and advances to customers	203,239	128,034

8. Loans and advances to customers (Continue)

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

	2007	**2006**
	$000	*$000*
- on demand	-	-
- three months or less	133,766	48,400
- one year or less but over three months	27,275	22,118
- five years or less but over one year	19,897	35,144
- over five years	23,000	23,000
	203,938	128,662

Gross loans and advances to customers by geographical area:

	2007	**2006**
	$000	*$000*
Switzerland	83,985	20,000
United Kingdom	36,021	30,480
United States	33,563	4,550
China	23,000	35,856
Others	27,369	37,776
	203,938	128,662

9. Impairment allowance

		Collective impairment			
	Individual impairment	Loan and advances - banks	Loan and advances - customers	Total	Total
	$000	*$000*	*$000*	*$000*	*$000*
Balance at 1 January 2007	-	334	628	962	962
Charge to profit and loss account	-	106	71	177	177
Balance at 31 December 2007	-	440	699	1,139	1,139
Balance at 1 January 2006	-	334	628	962	962
Charge to profit and loss account	-	-	-	-	-
Balance at 31 December 2006	-	334	628	962	962

Notes to the Financial Statement

at 31 December 2007

10. Derivative financial instruments

The Company is exposed to variability in future interest cash flows on non-trading assets and liabilities which bear interest at a variable rate. The Company uses interest rate swaps and forward rate agreements as cash flow hedges of these risks. Also, the Company is exposed to foreign exchange risks which are hedged with currency swaps. Whilst in view of the directors these derivatives are economic hedges, they do not meet the conditions under FRS 26 for hedge accounting.

In the following table, notional principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The fair value of a derivative financial instrument represents the positive or negative cash flows which would have occurred had the rights and obligations arising from that instrument been closed out by the Company in an orderly market transaction at balance sheet date. The replacement cost is considered to be the same as the positive fair value.

	2007 Notional principal amount $000	Positive fair value $000	Negative fair value $000	2006 Notional principal amount $000	Positive fair value $000	Negative fair value $000
Foreign exchange derivatives						
- Forward foreign exchange contracts	29,480	18	-	30,028	-	6
At 31 December	29,480	18	-	30,028	-	6
Interest rate derivatives						
- Swaps	3,269	-	13	3,269	20	-
- Forward rate agreements		-	-	6,750	-	-
At 31 December	3,269	-	13	10,019	20	-

Derivative financial assets and liabilities recognised at 31December 2006 were all settled in 2007 and reversed against reserves. At 31 December 2007, the derivative instruments were not found to be effective hedges. Therefore, the cumulative fair value changes in the derivatives of $14,000 was removed from equity and recognised in profit and loss statement under “Net gain on financial assets and liabilities designated at fair value through profit or loss”.

11. Financial investments: available-for-sale

	2007 $000	2006 $000
Balance at 1 January	61,699	36,865
Additions	73,946	33,651
Disposal	(9,000)	(9,000)
Fair value adjustment and interest receivable	(2,549)	183
Foreign exchange differences	1,962	-
Balance at 31 December	126,058	61,699

Notes to the Financial Statement

at 31 December 2007

11. Financial investments: available-for-sale (Continue)

	2007	2006
	$000	*$000*
Analysed by maturity:		
- due within one year	4,938	-
- due after one year	121,120	61,699
Analysed by listing status:		
- listed	95,449	28,127
- unlisted	30,609	33,572
Analysed by sector:		
- private sector	126,058	61,699
- public sector	-	-

12. Tangible fixed assets

	Leasehold improvements	Office furniture and equipment	Computers	Motor vehicles	Total
	$000	*$000*	*$000*	*$000*	*$000*
Cost:					
At 1 January 2007	451	110	250	89	900
Additions	-	8	23	-	31
Disposals	-	(20)	-	-	(20)
At 31 December 2007	451	98	273	89	91
Depreciation:					
At 1 January 2007	318	75	153	51	597
Charge for the year	90	18	51	18	177
Disposal	-	(15)	-	-	(15)
At 31 December 2007	408	78	204	69	759
Net book amount:					
At 31 December 2007	43	20	69	20	152
At 31 December 2006	133	35	97	38	303

Notes to the Financial Statement

at 31 December 2007

13. Prepayments, accrued income and other assets

	2007	2006
	$000	*$000*
Accrued income	5,708	2,360
Prepayments	190	186
Amount owing from group undertakings	28	35
Assets recoverable	37	278
	5,963	2,859

14. Deferred tax assets

	2007	2006
	$000	*$000*
Deferred tax assets included in the balance sheet comprise the following:		
Decelerated capital allowance	49	32
Other timing differences	171	48
	220	80
Movement in deferred tax assets during the year is as follows:		
Balance at 1 January	80	48
Deferred tax credited to the profit and loss account	17	32
Deferred tax credited directly to equity	123	-
Balance at 31 December	220	80

On 26 June 2007, Parliament substantively enacted legislation to bring about a change in tax rate from 30% to 28% with effect from 1 April 2008. The main effect of this legislation is to reduce the value of the deferred tax asset of the Company by $15,739 from $236,082 to $220,342.

15. Deposits by banks

	2007	2006
	$000	*$000*
Repayable:		
- on demand	18,219	7,523
- three months or less	486,050	237,628
- one year or less but over three months	73,154	27,648
	577,423	272,799

	2007	2006
	$000	$000
Amounts include:		
Deposits by parent undertaking	469,811	88,985

15. Deposits by banks (continued)

During the financial year, the Company entered into transactions, in the ordinary course of business, and acted in the capacity as an agent in certain treasury funding transactions between the parent undertaking and the overseas branches of the parent undertaking. The Company undertakes no risk or obligation arising from these back-to-back transactions as these transactions were transacted on identical and reciprocal terms and maturity periods, with no right of recourse to the Company.
The balances outstanding at 31 December of these inter-group funding activities are as follows:

	2007	2006
	$000	*$000*
Due from overseas branches and affiliate of parent undertaking	1,537,150	-
Due to parent undertaking	1,537,150	-

16. Customer accounts

	2007	2006
	$000	*$000*
Repayable:		
- on demand	7,524	2,317
- three months or less	13,871	17,054
- one year or less but over three months	2,417	1,090
	23,812	20,461

17. Accruals and deferred income

	2007	2006
	$000	*$000*
Accrued interest payable	4,008	1,547
Deferred income	1,168	775
	5,176	2,322

18. Share capital

	2007	2006
	$000	*$000*
Authorised share capital, Ordinary shares of $1 each:		
Balance at 1 January	150,000	150,000
Additions	100,000	-
Balance at 31 December	250,000	150,000
Allotted, called up and fully paid, Ordinary shares of $1 each:		
Balance at 1 January	100,000	100,000
New ordinary shares issued and paid up	100,000	-
Balance at 31 December	200,000	100,000

During the year, the Company's parent undertaking subscribed for $100 million of Ordinary Shares at par for cash.

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19. Reconciliation of shareholder's funds

	Share capital $000	Profit and loss account $000	Available-for-sale reserve $000	Cash flow hedge reserve $000	Total share holder's funds $000
At 1 January 2006	100,000	(158)	(609)	4	99,237
Profit for the year	-	2,342	-	-	2,342
Change in fair value of financial investments available-for-sale	-	-	59	-	59
Increase in cash flow hedge reserve	-	-	-	10	10
At 31 December 2006	100,000	2,184	(550)	14	101,648
At 1 January 2007	100,000	2,184	(550)	14	101,648
New ordinary shares issued and paid up	100,000	-	-	-	100,000
Profit for the year	-	4,329	-	-	4,329
Change in fair value of financial investments available-for-sale	-	-	(2,005)	-	(2,005)
Tax deduction on change in fair value of financial investments available-for-sale	-	624	-	-	624
Financial investments available-for-sale reserve recycled through profit and loss upon disposal of the investment	-	-	172	-	172
Deferred tax asset recognised through equity (Note 14)	-	123	-	-	123
Reversal of cash flow hedge (Note 10)	-	-	-	(14)	(14)
At 31 December 2007	200,000	7,260	(2,383)	-	204,877

20. Memorandum items - contingent liabilities and commitments

	2007 $000	**2006** $000
Undrawn documentary credits and short-term trade related transactions	107,426	21,261
Undrawn loans and advances	87,146	83,934
Forward foreign exchange contracts	29,493	13,689
	224,065	118,884

Capital and operating lease commitments

At 31 December 2007, the Company had annual commitments under non-cancellable operating leases as set out below:

	2007 *$000*	**2006** *$000*
Within one year	-	-
Within two to five years	-	-
More than five years	500	489

21. Segmental information

The directors consider the profit on ordinary activities to arise principally from the provision of international banking and related services and integral treasury dealing which are conducted by the Company. The directors consider that no segmental information is required.

22. Related party transactions

The Company was a wholly owned subsidiary of The Industrial and Commercial Bank of China for the year ended 31 December 2005. Accordingly, the Company has applied the exemption in paragraph 3 (c) of the Financial Reporting Standard 8 ("FRS 8"). This exempts the Company from disclosure of transactions with related parties that are included in the consolidated financial statements of The Industrial and Commercial Bank of China.

The Company is also exempt under the terms of paragraph 16 of FRS 8 from disclosing details of those transactions falling within the definition of 'banking transactions'.

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

	2007	2006
	$000	*$000*
Assets:		
Denominated in US Dollars	528,446	264,400
Denominated in currencies other than US Dollars	286,516	134,361
Total assets	814,962	398,761
Liabilities and shareholder's funds:		
Denominated in US Dollars	532,342	261,356
Denominated in currencies other than US Dollars	282,620	137,405
Total liabilities and shareholder's funds	814,962	398,761

24. Ultimate parent company

The ultimate parent company and controlling party is The Industrial and Commercial Bank of China, which is incorporated in China. The financial statements of the Company are consolidated in the group financial statements. Copies of the group financial statements of The Industrial and Commercial Bank of China are available from 55, Fuxingmennei Dajie, Beijing, 100032, China.

Notes to the Financial Statement

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25. Risk management

The Company has a formal structure for managing risks, including establishing risk limits and reporting lines and a system of control procedures. This structure is reviewed regularly by Senior Management who are charged with the responsibility for managing and controlling the exposures of the Company.

The financial risks faced by the Company cover credit risk, liquidity risk, interest rate risk and operational risk. The Company adopts a cautious and prudent approach to the management of risk and, at all times, seeks to eliminate unnecessary risks and minimise losses from avoidable risks. In adopting this approach the Company has considered the costs involved and sought to minimise risk provided that it is cost-justifiable.

The Board of directors set the policy regarding risk and the Risk Committee and Credit Committee assess the effectiveness of that policy in practice. A number of major prudential policies have been agreed by the Company and are reviewed by the Board regularly. The major policies are:

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

Departmental policy and procedure manuals are written in accordance with the Company's approach to risk management. Employees are instructed to operate within the guidelines set out in their own departmental policies and procedures and internal audit periodically carries out audits to assess compliance. If any member of staff detects an apparently unidentified risk in their standard operating procedures they are instructed to inform their departmental head immediately who should investigate the risk and if necessary, enhance the controls.

26. Credit risk

The Company places great importance on credit risk management. A credit analysis is performed on each loan request or asset to assess the counterparty's ability to repay.

Counterparty credit risk is assessed by the Company using both quantitative and qualitative analysis. The Company also uses and relies on the credit ratings of three reputable credit rating agencies, namely Moody's, Standard and Poor's and Fitch in the exercise of evaluating credit risk and building risk profile of the counterparty.

The Company uses an internal scoring model to grade corporates that are not rated by the three external credit agencies. The model focuses mainly on quantitative data and financial ratios and a rating is assigned based on Standard & Poor's rating grades.

Limits for banks are reviewed and approved annually by the credit committee and board of directors. Credit applications are prepared with notes and analysis and submitted for approval. Exposures are monitored and controlled by the credit analyst against individual limits set and approved for counterparties. Marketing and treasury operate within the limits approved.

Counterparty credit risk related to our treasury portfolio is based on policy guideline relying on investment grade credit ratings sourced as described above. Acquisition of debt securities by treasury are carried out using the policy as guideline to ensure that only securities judged to be of investment grade are acquired.

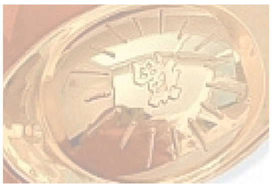
26. Credit risk (continued)

Maximum exposure to credit risk

The table below shows maximum exposure to credit risk for the components of the balance sheet including derivatives.

	2007		2006	
	Gross maximum exposure *$000*	Net maximum exposure *$000*	Gross maximum exposure *$000*	Net maximum exposure *$000*
Loans and advances to banks	479,685	479,685	206,050	206,050
Loans and advances to customers	203,938	121,410	128,662	128,662
Financial investments available-for-sale	126,058	126,058	61,699	61,699
	809,681	727,153	396,411	396,411
Contingent liabilities	29,493	29,493	13,689	13,689
Commitments	194,572	194,572	105,195	105,195
	224,065	224,065	118,884	118,884
Total credit risk exposure	1,033,746	951,218	515,295	515,295
Cash collateral:				
Deposits by parent undertaking	-	82,528	-	-

By way of the master netting agreement effective in 2007 with its parent undertaking, the Company has secured cash collateral against some selected funding of its syndicated loans portfolio. Under this agreement the Company will request and monitor deposits by its parent undertaking on the basis of its funding requirement for the selected loans participation. In return, the Company has agreed to pay to its parent undertaking, a marginal deduction of fees and interest that become due and receivable periodically in arrears during the course of its funding until final maturity. Deposits taken as collateral will only be released when corresponding loans participation are fully repaid.



Notes to the Financial Statement

at 31 December 2007

26. Credit risk (continued)

Credit quality per class of financial assets

At 31 December	2007 Current $000	Overdue $000	2006 Current $000	Overdue $000
Loans and advances to banks				
Investment grade	389,143	-	157,142	-
Sub-investment grade	90,390	152	48,908	-
Total	479,533	152	206,050	-

At 31 December	2007 Current $000	Overdue $000	2006 Current $000	Overdue $000
Loans and advances to customers				
Investment grade	180,108	-	97,992	-
Sub-investment grade	23,830	-	30,670	-
Total	203,938	-	128,662	-

At 31 December	2007 Available for sale $000	2006 Available for sale $000
Financial investments		
Investment grade	126,058	61,699
Sub-investment grade	-	-
Total	126,058	61,699

At 31 December 2007, the Company had overdue loan of $151,828 from a foreign bank. The management of the Company believes this will be collected fully within the short term therefore continue to classify it as performing loan.

Regional Exposure

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

	2007 Exposure $million	Exposure %	2006 Exposure $million	Exposure %
Asia and pacific	351	33.9	197	38.3
Europe	504	48.8	272	52.8
Middle East	79	7.6	18	3.5
North America	53	5.1	18	3.5
South America	-	-	-	-
Africa	47	4.6	10	1.9
Total	1,034	100	515	100

27. Liquidity risk

The Company's liquidity policy is to maintain sufficient liquid resources to cover cash flow imbalances and fluctuations in funding to retain full public confidence in the solvency of the Company and to enable the Company to meet its financial obligations as well as requirements under the FSA guidelines. This is achieved through maintaining a strong capitalisation and prudent levels of liquid assets and through management control of the growth of the business.

During the financial year the Company consistently maintained daily mismatch liquidity ratios, which is based on net liquid assets to customer liabilities as set out under regulatory guidelines. A minimum of 0% matched liquidity position is to be maintained for cash flows up to 8 days and a cumulative not exceeding (-5)% for cash flows up to 1 month.

	2007		**2006**	
	Contractual cash flow band		Contractual cash flow band	
	Up-to	Up-to	Up-to	Up-to
	8 days	1 month	8 days	1 month
At 31 December	$000	$000	$000	$000
Cumulative inflows	163,242	333,496	96,119	135,811
Cumulative outflows	(104,343)	(309,994)	(36,439)	(138,879)
Net cash flows	58,899	23,502	59,680	(3,068)
Total deposits	601,235		293,260	
Liquidity mismatch ratio	9.80 %	3.91 %	20.35 %	(1.05) %

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

	Contractual expiry band					
	0 - 1	2 - 3	4 - 6	7 - 12	1 - 5	
	month	months	months	monthsy	ears	Total
2007	*$000*	*$000*	*$000*	*$000*	*$000*	*$000*
Contingent liabilities	15,286	14,207	-	-	-	29,493
Commitments	22,625	31,140	22,095	17,465	101,247	194,572
Total	37,911	45,347	22,095	17,465	101,247	224,065
2006						
Contingent liabilities	-	13,689	-	-	-	13,689
Commitments	282	6,070	-	20,400	78,443	105,195
Total	282	19,759	-	20,400	78,443	118,884

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at 31 December 2007

28. Market risk

Foreign exchange risk

Foreign exchange risk is controlled by net short open and forward foreign exchange gap limits. Foreign exchange trading has not been a core activity of the Company during the year, and in the opinion of the directors, the risk inherent in these limits is considered to be minimal.

Interest rate risk

The interest rate sensitivity exposure of the Company at 31 December 2007 is set out below. Items are allocated to time bands by reference to the earlier of the next contractual interest rate re-pricing date and the maturity date.

Interest rate sensitivity table

2007

	Not more than 3 months	More than 3 months but not more than 6 months	More than 6 months but not more than 1 year	More than 1 year but not more than 5 years	More than 5 years	Non-interest bearing	Total
	$000	*$000*	*$000*	*$000*	*$000*	*$000*	*$000*
Assets							
Liquid assets-	-	-	-	-	67	67	
Loans and advances							
- to banks	332,035	142,045	4,153	1,452	-	(440)	479,245
- to customers	142,541	61,397	-	-	-	(699)	203,239
Financial investments available-for-sale	-	-	4,938	121,120	-	-	126,058
Fixed and other assets	-	-	-	-	-	6,353	6,353
Total assets	474,576	203,442	9,091	122,572	-	5,281	814,962
Liabilities and shareholder's funds							
Deposits by banks	504,269	73,154	-	-	-	-	577,423
Customer accounts	21,395	1,422	995	-	-	-	23,812
Other liabilities	-	-	-	-	-	8,850	8,850
Shareholder's funds	-	-	-	-	-	204,877	204,877
Total liabilities and shareholder's funds	525,664	74,576	995	-	-	213,727	814,962
Economic hedges	-	1,549	-	-	-	-	1,549
Interest rate sensitivity gap	(51,088)	130,415	8,096	122,572	-	(208,446)	1,549
Cumulative gap	(51,088)	79,327	87,423	209,995	209,995	1,549	-

Notes to the Financial Statement

at 31 December 2007

28. Market risk (continued)

The table below shows how interest rate movements affect profit and loss of the Company for 2007:

	Not more than 3 months $000	More than 3 months but not more than 6 months $000	More than 6 months but not more than 1 year $000	More than 1 year but not more than 5 years $000	More than 5 years $000	Total $000
Basis points						
+100	(64)	163	20	2,451	-	2,570
+200	(128)	326	40	4,903	-	5,141
-100	64	(163)	(20)	(2,451)	-	(2,570)
-200	128	(326)	(40)	(4,903)	-	(5,141)

Other than the effect on the profit and loss, the management of the Company are of the opinion that interest rate movements have no other significant effect on the equity of the Company.

Interest rate sensitivity table

2006

	Not more than 3 months $000	3 months but not more than 6 months $000	More than 6 months but not more than 1 year $000	More than 1 year but not more than 5 years $000	More than 5 years $000	Non-interest bearing $000	Total $000
Assets							
Liquid assets	-	-	-	-	-	50	50
Loans and advances							
- to banks	135,523	59,953	8,613	1,961	-	(334)	205,716
- to customers	61,279	51,228	16,155	-	-	(628)	128,034
Financial investments available-for-sale	-	-	-	54,694	7,005	-	61,699
Fixed and other assets	-	-	-	-	-	3,262	3,262
Total assets	196,802	111,181	24,768	56,655	7,005	2,350	398,761
Liabilities and shareholder's funds							
Deposits by banks	245,151	27,648	-	-	-	-	272,799
Customer accounts	19,371	1,090	-	-	-	-	20,461
Other liabilities	-	-	-	-	-	3,853	3,853
Shareholder's funds	-	-	-	-	-	101,648	101,648
Total liabilities and shareholder's funds	264,522	28,738	-	-	-	105,501	398,761
Economic hedges	6,750	2,197	-	-	-	-	8,947
Interest rate sensitivity gap	(60,970)	84,640	24,768	56,655	7,005	(103,151)	8,947
Cumulative gap	(60,970)	23,670	48,438	105,093	112,098	8,947	-

Notes to the Financial Statement

at 31 December 2007

28. Market risk (continued)

	Not more than 3 months $000	More than 3 months but not more than 6 months $000	More than 6 months but not more than 1 year $000	More than 1 year but not more than 5 years $000	More than 5 years $000	Total $000
Basis points						
+100	(76)	106	62	1,133	350	1,575
+200	(152)	212	124	2,266	701	3,151
-100	76	(106)	(62)	(1,133)	(350)	(1,575)
-200	152	(212)	(124)	(2,266)	(701)	(3,151)

29. Operational risk

The Company defines operational risks as risks of loss resulting from inadequate or failed internal processes, people and systems or from external events. It is a pervasive risk that involves all aspects of business as well as other people with whom the Company deals. The Company's policy is to ensure that the risk of losses from operational failure are minimised. To this purpose the Company has a variety of control systems and operational procedures are reviewed regularly by Senior Management and Internal Audit, and with a frequency determined by the level of risks involved.

30. Capital

The Company maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Company's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ("BIS rules/ratios") and adopted by the Financial Services Authority in supervising the Company.

During the past year, the Company had complied in full with its externally imposed capital requirements.

The primary objectives of the Company's capital management are to ensure that the Company complies with externally imposed capital requirements and that the Company maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholder's value.

The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend payment to shareholder or issue capital securities.

Regulatory capital

	2007 Actual $000	Required $000	2006 Actual $000	Required $000
Tier 1 capital	199,800	60,267	98,449	36,990
Tier 2 capital	1,140	-	962	-
Total capital	200,940	60,267	99,411	36,990
Risk weighted assets	401,782		246,600	
Tier 1 capital ratio	49.73 %		39.92 %	
Tier 2 capital ratio	0.28 %		0.39 %	
Total capital ratio	50.01 %		40.31 %	