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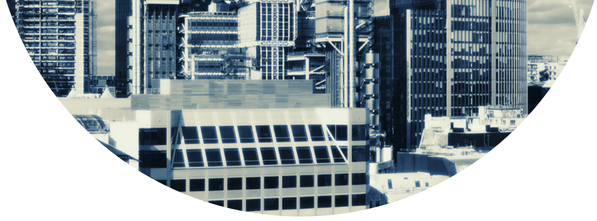
ICBC (London) **Limited**

Report and Financial Statements

ICBC 中国工商银行（伦敦）



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Lili Wang
CHAIRMAN

Chairman's Statement

The markets stabilised a great deal in 2009 but there is still nervousness around and the risk of European markets slipping back into recession remains a real one. Our cautious and prudent approach has enabled us to achieve significantly better results in 2009 than in 2008 when we were affected by the failure of the Icelandic banks. During 2009 we not only rebuilt our capital but we also raised the level of provisions for the non performing Icelandic loans to 95% overall. Further, we had no difficulty in complying with the Regulator's liquidity requirements and other regulatory ratios.

Notwithstanding the continuing market difficulties in 2009 ICBC (London) Limited achieved a profit before tax and provisions of US$19.8m (2008: US$13.9m) and a profit after tax and provisions of US$3.1m (2008: US$0.1m loss). Two other major successes of the Bank during 2009 were the successful migration to a new computer system designed by our parent bank and the opening of a new flagship retail branch in the heart of London's Chinatown district. The new computer system will better enable us to introduce new products and services in the future and the retail branch is a first stage in extending our retail services in the UK which will include the introduction of internet banking in 2010.

"Notwithstanding the continuing market difficulties in 2009 ICBC (London) Limited achieved a profit before tax and provisions of US$19.8m (2008: US$13.9m) and a profit after tax and provisions of US$3.1m (2008: US$0.1m loss)."

During 2009 we also increased the skills base in the Bank by recruiting for a number of new posts in our marketing, credit, retail, compliance and administration functions as a result of the ongoing growth of our business and our ambitious future plans. I am delighted to welcome these staff members into the ICBC community and I would like also to thank my fellow directors, the management team and all of the staff for their important contribution to the Bank during the last year.

Lili Wang
CHAIRMAN

Managing Director's Business Review

INTRODUCTION

The banking sector in 2009 remained under stress: in European domestic markets there was little or no economic growth and the residual concerns regarding the strength of companies and banks led to continuing nervousness in the markets. This, in turn, continued to restrict the amount of credit available, despite the Bank of England's programme of 'quantitative easing'. In contrast to this fall off in World demand, the Chinese economy continued to grow during 2009 mainly as a result of the Chinese Government's stimulus package designed to increase Chinese domestic demand. Overall, China achieved a commendable average growth rate for the year of approximately 8.7%.

Against this background ICBC (London) Ltd had a very successful year in 2009. Our increasing knowledge of the UK marketplace and our extensive knowledge of China and Chinese markets played a major part in this success. We have continued our prudent approach to lending and suffered no default in our non-Icelandic exposures during the year although we did make additional provisions of US$15.2m. US$13m of this total was provided to cover our exposure to the Icelandic Banking sector and this raised our overall provisions for these non-performing loans to 95%. An additional US$2.2m (10%) has also been provided by the Company for a newly considered impaired asset under its lending to an overseas company. Our operating profit before tax and provisions was US$19.6m (2008: US$13.9m) and our profit after tax and provisions was US$3.1m.

SUMMARY OF BUSINESS

Following the very difficult market conditions in 2008 one of our major objectives in 2009 was to continue to grow our asset base in a cautious way that would allow us to re-strengthen our balance sheet whilst retaining strong liquidity and strong capital ratios at all times. Although the continuing nervousness in the markets led to a slight 'reigning back' on booking assets from our original plan we grew our asset base overall by 40% to US$1,216m by December 2009 (US$866m in December 2008). Of these assets approximately US$327m (27% of the total) were in the form of bond securities, an increase of over 200% when compared with 2008 (2008: US$99.6m).

Client deposits have not been a major component of our liabilities and at the end of 2009 our client deposits were US$31.9m (31 December 2008: US$58.7m). This reduction was due to our corporate customers putting their funds to alternative uses: personal deposits remained stable during the year. The majority of our borrowings came from inter-bank placements from major banks from around the world and particularly from our parent bank and other major Chinese banks. The fall in interest rates in the early months of 2009 made it beneficial for us to repay early the medium term club deal we arranged in 2008. Our cost of funds increased marginally during the year with the average interest margin being 158 bps. This represents an increase of 34 bps compared with 2008 but it was in line with our expectations and we had no difficulty in maintaining strong liquidity ratios throughout the year.

We continued to focus our lending on the corporate market, particularly where there is a Chinese connection. Our participation in syndication loans (less impairment) increased to US$750m – a rise of 59% compared with 2008 (31 Dec 2008: US$471m). In this marketplace we have enhanced our role to include active book running, complementing our parent bank's international network in Asia and developing further our risk earning scope.

We also increased our bi-lateral lending to a number of large

Jinlei Xu
MANAGING
DIRECTOR

internationally focused companies where we have been able to add significant value through both the Chinese and the international networks of our parent bank. In addition to developing and building upon these important relationships with large international companies, the Bank also extended loans to a number of publicly owned utility companies.

Further, in conjunction with our parent bank in China, we also participated in a significant aircraft syndication.

In terms of documentary credit and structured trade finance business, strategy implementation during 2009 has included a corporate sector focus, particularly in the commodities and natural resources sector. We also developed a wider suite of products, structuring and international risk mitigation solutions available to both our corporate and institutional client base. We further established and developed relationships with multilateral organizations possessing specific strengths in geographic areas to better support our primarily Chinese and China active international client base.

In October 2009 we opened a dedicated Retail branch on Shaftesbury Avenue in the heart of London's Chinatown. This marked the first stage in our plans to provide better coverage and an enhanced range of products and services to the retail sector. Initially the service offering is unchanged but we will be developing new products and services for the retail sector in the near future.

Managing Director's Business Review (continued)

Our profit for the year before tax and provisions was US$19.8m, an increase of 41% when compared with 2008 (2008: US$13.9m). Net interest income at US$24m was 65% up on 2008 (2008: US$14.5m). The bulk of this income was from loans and Trade Finance, although a significant amount came from our bond portfolio. However, our non-interest income reduced in 2009 to US$3.5m – a fall of 41% compared with 2008 (2008: US$5.2m). A significant amount of this income related to fees on loans and trade finance deals and the main reason for the reduction was a fall that we experienced in trade finance broker deals compared with the prior year. We also benefited from a small contribution (US$0.6m) from foreign exchange gains.

EXPENSES

Our total operating expenses (less impairments) for the year increased by almost US$2m to US$7.8m (2008: $5.8m). A significant proportion of this increase was directly related to business growth: increased office rental costs (40%) and an increase in staff costs (59%) due to both the opening of a branch in Shaftesbury Avenue and the need to expand and enhance our skills base in a number of departments of the Bank.

FUTURE DEVELOPMENTS

Nearly two years into the global credit crunch, the UK banking sector is still a long way from being on a sustainable footing for long-term growth and indeed there remains a significant amount of nervousness in the European economies. The general trend in World economy is perceived to be positive, evidenced by the gains and reduced volatility in stock markets, foreign exchange and commodity markets. Whether it is sustainable on a long term basis is still debatable. Data indicates that several major economies expanded in Q3 2009 but the risk still remains that some of these economies could slide back into recession putting bank lending at further risk.

Two key themes affecting markets in 2010 will be the strong performance of emerging markets and the tightening of global banking regulations. ICBC (London) Limited is in a very strong position to build upon the former theme and cope well with the implications of the latter. In particular, with our strong links to China and other emerging markets, growing links with the Chinese community in Britain – a highly entrepreneurial section of the economy – and, above all, the enormous strength of our parent bank, we are ideally placed to provide assistance to both businesses and individuals. Increased regulation will, of course, be a major factor in 2010, particularly with new liquidity requirements being introduced by the Financial Services Authority. However, we are confident that we will fully comply with all foreseeable new regulatory requirements and our parent bank, ICBC Limited, has pledged its full commitment to support us in this.

Whilst we will build upon our successes and exploit new opportunities we remain cautious and will continue to adopt a prudent approach to managing our assets.

We will continue to build up our syndication capabilities and take a more active role in these transactions, working closely with other members of the ICBC group where appropriate. We will extend our services to UK customers investing in China and to Chinese customers investing in the UK and seek to achieve wide ranging relationships with these companies by offering tailor-made solutions to match their needs and by marketing our extensive and flexible trade services products.

Relations with multilateral organisations, regionally focussed financial institutions and ICBC group affiliates will continue to be expanded to enhance our specific strengths in geographic areas to better support our primarily Chinese and China active international client base. Further, our investment in new processing arrangements during the past 12 months has enabled us to increase our capacity in trade services processing and during 2010 we will sell these services to corporate clients as well as promoting these services to our parent's network. We are happy to consider bank risk in areas of the world where we have strong knowledge and expertise. We will also tailor our trade services solutions to meet customer needs and develop flexible and innovative services.

During 2009 we introduced a new computer system which will afford us the flexibility to develop a wide range of retail products. We will build upon the early successes of our Chinatown branch by expanding our product range to better serve the needs of our customers. Over the coming years we will be rolling out a wide range of new services to the retail sector. In 2010 we intend to offer our customers access to a range of General Insurance products, an internet banking facility and a rapid remittance service for payments to China. We will also sell ancillary services for which there is a demand and which fall within our Regulatory scope of permissions.

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;
- responsibly reward contributions to the Bank's success, and
- seek to retain key staff by adopting 'family friendly' policies and dealing with all staff in a sensitive manner.

Jinlei Xu
MANAGING DIRECTOR

Board of Directors and other information

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

SENIOR MANAGEMENT TEAM

Jinlei Xu (Managing Director)
Jingfen Zhao (Deputy Managing Director)
John Kerr (Deputy General Manager)
Bo Jiang (Deputy General Manager & Head of Marketing)

Directors' Report

The directors present their report and the financial statements of the Company for the year ended 31 December 2009.

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 Business Review.

The financial statements of the Company for the year to 31 December 2009 incorporate the requirements of FRS 29 in disclosing 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 US$3.1m (2008: US$0.1m loss). 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 26 to 30 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
Graham Penny (Non-executives)
Edwin Lacy (Non-executives)

No contracts of significance in relation to the Company's business in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year, within the meaning of Section 413 of the Companies Act 2006.

DONATIONS

During the financial year the Company made no charitable or political donations (in 2008 a donation of US$27,800 was made to the Chinese Red Cross.)

GOING CONCERN

The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as going concern. Therefore, the financial statements continue to be prepared on a going concern basis. ▸

Directors' Report (continued)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for the Director's Report and financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under the law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

DIRECTORS' STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS.

The directors who were members of the board at the time of approving the directors' report are 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 the preparation of their report of which the Company's auditors are unaware; and
- Each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

AUDITORS

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
26 March 2010

Independent auditors' report to the member of ICBC (London) Limited

We have audited the financial statements of ICBC (London) for the year ended 31 December 2009 which comprise the Profit and Loss Account, the Balance Sheet and the Statement of Total Recognised Gains and Losses and the related notes 1 to 31. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND THE AUDITORS

As explained more fully in the Directors' Responsibilities Statement set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2009 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Chairman's statement, Managing Directors' Business Review and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Kenneth Eglinton (SENIOR STATUTORY AUDITOR)

for and on behalf of Ernst & Young LLP,
Statutory Auditor
London
26 March 2010

Profit and loss account

for the year ended 31 December 2009

	Notes	2009 US$000	2008 (restated) US$000
Interest and similar income on other financial assets	2	6,487	3,998
Interest and similar income on loans and advances	2	25,771	38,311
Interest and similar expense	2	(8,213)	(27,788)
Net interest income		**24,045**	**14,521**
Fees and commission income	2	3,177	5,392
Fees and commission expense	2	(312)	(287)
Net gain on financial assets and liabilities designated as fair value through profit or loss	10	61	972
Foreign exchange gain/(loss)		541	(1,114)
Other operating income		23	235
Non-interest income		**3,490**	**5,198**
Total income		**27,535**	**19,719**
Personnel expenses	3	4,810	3,638
Depreciation and amortisation	12	203	172
Impairment losses	9	15,242	14,101
Other operating expenses	5	2,763	1,987
Operating expenses		**23,018**	**19,898**
Profit/(Loss) on ordinary activities before tax		**4,517**	**(179)**
Tax (charge)/credit on profit on ordinary activities	**6**	**(1,400)**	**31**
Profit/(Loss) for the financial year		**3,117**	**(148)**

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

The notes on pages 17 to 50 form part of these financial statements.

Statement of recognised gains and losses

for the year ended 31 December 2009

	2009 US$'000	2008 (restated) US$'000
Profit/(Loss) for the financial year	3,117	(148)
Change in fair value of financial investments available-for-sale	5,447	(6,129)
Reversal of financial investments available-for-sale reserve due to impairment	-	371
Financial investments available-for-sale reserve recycled through profit and loss upon disposal of the investment	1,442	106
Change in fair value of cash flow hedge (Note 10)	(308)	-
Foreign currency translation reserve	(103)	103
Tax (charge)/credit recognised through equity	(1,939)	1,625
Total recognised gains and losses relating to the year and since last annual report	7,656	(4,072)

The notes on pages 17 to 50 form part of these financial statements.

Balance sheet at 31 December 2009

Registered No. 4552753

	Notes	2009 US$000	2008 (restated) US$000
Assets			
Cash and balances at central banks		138	62
Loans and advances to banks	7	278,956	481,704
Loans and advances to customers	8	602,769	276,227
Derivative financial instruments	10	407	57
Financial investments available-for-sale	11	106,945	99,613
Financial investments held-to-maturity	11	219,901	-
Tangible fixed assets	12	1,455	511
Prepayments, accrued income and other assets	13	5,529	7,929
Deferred tax assets	14	178	582
Total assets		**1,216,278**	**866,685**
Liabilities			
Deposits by banks	15	962,553	599,645
Customer accounts	16	31,919	58,761
Derivative financial instruments	10	801	36
Other liabilities		1,444	2,859
Accruals and deferred income	17	8,156	4,579
Corporation tax		2,944	-
Total liabilities		**1,007,817**	**665,880**
Share capital and reserves			
Allotted and called up share capital	18	200,000	200,000
Retained earnings	19	9,915	8,737
Available-for-sale reserve	19	(1,146)	(8,035)
Cash flow hedge reserve	19	(308)	-
Foreign currency translation reserve	19		103
Equity shareholder's funds		**208,461**	**200,805**
Total liabilities and share capital and reserves		**1,216,278**	**866,685**
Memorandum Items			
Contingent liabilities and commitments	**20**	**487,398**	**371,406**

These financial statements were approved by the directors on 26 March 2010 and are signed on their behalf by:

许建雷 赵京门

Jinlei Xu

Jingfen Zhao

The notes on pages 17 to 50 form part of these financial statements.

Notes to the financial statements

at 31 December 2009

1 ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The financial statements of ICBC (London) Limited ("the Company") were approved for issue by the Board of Directors on 26 March 2010.

The financial statements have been prepared in accordance with applicable Accounting Standards in the UK and Companies Act 2006 relating to banking companies. The financial statements are prepared under the historical cost convention modified to include the revaluation of derivatives and other financial instruments.

The Company has restated the 2008 profit and loss account to adjust for the interest receivables and foreign exchange translation differences as a result of the migration to a new IT system (FOVA) during the financial year.

REVIEW OF ACCOUNTING POLICIES

The accounting policies adopted are consistent with those used in the previous financial year with the exception of amendments to FRS29 issued in March 2009 by Accounting Standard Board.

These amendments are to enhance fair value and liquidity disclosures. With respect to fair value, it requires disclosure of a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value and specific disclosures related to the transfers between levels in the hierarchy and detailed disclosures related to level 3 of the fair value hierarchy. In addition, the amendments modify the required liquidity disclosures with respect to derivative transactions and assets used for liquidity management.

FINANCIAL STATEMENTS

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

CASH FLOW STATEMENT

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

INTEREST AND SIMILAR INCOME AND EXPENSE

For all financial instruments measured at amortised cost and interest bearing financial instruments classified as available-for-sale financial 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 AND COMMISSION INCOME ON LOANS AND ADVANCES

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

1 ACCOUNTING POLICIES (CONTINUED)

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.

At the closing of the accounts on 31 December 2009, the Company used the sterling exchange rate of 1.6123.

Non monetary assets and liabilities other than US Dollars are measured in terms of historical cost and translated in US Dollars at their original transaction rate.

TANGIBLE FIXED ASSETS AND DEPRECIATION

Fixed assets are recorded at cost less any accumulated depreciation.

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

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 defined pension scheme. However, the Company has a defined contribution plan for its personal pension schemes of each eligible employee. Contributions are charged to the profit and loss account as incurred.

OPERATING LEASES

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

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. After initial measurement, loan and advances to banks and customers are subsequently measured at amortised cost using the effective interest rate ('EIR') method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortisation is included in 'interest receivable' in the profit and loss account. The losses arising from the impairment are recognised in the profit and loss account.

(ii) Financial 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 than one investment in the same security they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding financial 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) Financial investments held-to-maturity

Financial investments held-to-maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Company has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments (debt securities) are subsequently measured at amortised cost using the EIR, less

1 ACCOUNTING POLICIES (CONTINUED)

impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of EIR. The amortisation is included in 'Interest and similar income on other financial assets' in the profit and loss account. The losses arising from impairment of such investments are recognised in the profit and loss account line 'Impairment losses'.

If the Company were to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity, the entire category would have to be reclassified as available-for-sale on condition that the Company would be prohibited from classifying any financial asset held-to-maturity during the following two years.

(iv) 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.

(v) 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 assesses individually whether objective evidence of impairment exists for financial assets that are individually significant.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the 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.

(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.

(iii) Financial investments held-to-maturity

Financial investments held-to-maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Company has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments (debt securities) are subsequently measured at amortised cost using the EIR, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of EIR.

HEDGE ACCOUNTING

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

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

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

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

Certain derivative transactions, while providing effective economic hedges under the Company's risk management policies, do not qualify for hedge accounting under FRS 26. Changes in the fair value of derivatives that do not qualify for hedge accounting under FRS 26 and those elements of derivatives excluded from the measure of hedge effectiveness are recognised in the Profit and Loss account.

CORRESPONDING AMOUNTS

Certain corresponding amounts have been reclassified to conform to current year's presentation.

2 ANALYSIS OF PROFIT AND LOSS ACCOUNT BY CLASSIFICATION BASIS

2009	Loans and advances	Financial Investments available-for-sale	Financial Investments held-to maturity	Derivative financial instruments at fair value through profit and loss	Deposits by banks and customer accounts	Total
	US$000	*US$000*	*US$000*	*US$000*	*US$000*	*US$000*
Interest receivable from financial investments	-	2,929	3,558	-	-	6,487
Other interest receivable	25,771	-	-	-	-	25,771
Interest payable	-	-	-	(1,042)	(7,171)	(8,213)
Net interest income	**25,771**	**2,929**	**3,558**	**(1,042)**	**(7,171)**	**24,045**
Fees and commissions receivable	3,177					
Fees and commissions expense	(312)					
Net non-interest income	2,865					

2 ANALYSIS OF PROFIT AND LOSS ACCOUNT BY CLASSIFICATION BASIS (CONTINUED)

2008 (as restated)	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
	US$000	*US$000*	*US$000*	*US$000*	*US$000*
Interest receivable from financial investments	-	3,998	-	-	3,998
Other interest receivable	38,265	-	46	-	38,311
Interest payable	-	-	(68)	(27,720)	(27,788)
Net interest income	**38,265**	**3,998**	**(22)**	**(27,720)**	**14,521**
Fees and commissions receivable	5,392				
Fees and commissions payable	(287)				
Net non-interest income	5,105				

3 STAFF COSTS

Staff costs (including directors) comprise the following:

	2009	*2008*
	US$000	*US$000*
Wages and salaries	3,456	2,443
Social security costs	595	468
Pensions costs	102	115
Other costs	657	612
	4,810	3,638

Employees

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

	2009	*2008*
	No.	*No.*
- Retail banking	13	9
- Corporate banking	10	8
- Investment banking	4	3
- Accounts and IT	7	6
- Administration	8	7
	42	33

4 DIRECTORS' EMOLUMENTS

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

	2009 US$000	2008 US$000
Emoluments	671	517

The emoluments of the highest paid director were as follows:

	2009 US$000	2008 US$000
Salary and benefits and performance related bonuses	319	251

One director is employed by a fellow group Company which remunerates them for their services to the group as a whole. There is no appropriate basis for allocating part of this remuneration to their services in this Company.

5 OTHER OPERATING EXPENSES

Other operating expenses include:

	2009 US$000	2008 US$000
Operating lease charge - property	443	578
Auditors' remuneration;		
- Audit of the financial statements	121	111
- Taxation services	4	4

6 TAX ON PROFIT ON ORDINARY ACTIVITIES

The tax (charge)/credit is made up as follows:

	2009 US$000	2008 (Restated) US$000
Current tax:		
UK corporation tax	(1,339)	32
Adjustments in respect of prior years	(63)	-
Total current tax (charge)/credit for the year	(1,402)	32
Deferred tax:		
Origination and reversal of timing differences	(31)	2
Adjustments in respect of prior years	33	(3)
Total deferred tax credit/(charge) for the year	2	(1)
Total (charge)/credit for the year	(1,400)	31

The tax assessed on the profit on ordinary activities for the year is the standard rate of corporation tax in the UK of 28% (2008: 28.5%). The differences are reconciled below:

	2009 US$000	2008 (restated) US$000
Profit/(Loss) on ordinary activities before tax	4,517	(179)
Profit/(Loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2008: 28.5%)	(1,265)	51
Expenses not deductible for tax purposes	(105)	(23)
Capital allowances in excess of depreciation of qualifying assets	31	2
Differences of corporation tax rates	-	2
Adjustments in respect of prior years	(63)	-
Current tax (charge)/credit for year	(1,402)	32

7 LOANS AND ADVANCES TO BANKS

	2009 US$000	2008 US$000
Gross loans and advances to banks	296,109	488,538
Less: Allowance for impairment losses (Note 9)	(17,153)	(6,834)
Net loans and advances to customers	278,956	481,704

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:

	2009 US$000	2008 US$000
Repayable:		
- on demand	21,895	1,279
- three months or less	101,923	235,186
- one year or less but over three months	90,966	173,665
- five years or less but over one year	81,325	78,408
	296,109	488,538

Gross loans and advances to banks by geographical area:

	2009 US$000	2008 US$000
China	92,348	164,056
Egypt	30,000	62
South Africa	30,000	10,382
Qatar	19,500	19,500
Morocco	18,454	-
India	17,753	27,357
Bahrain	17,535	32,241
United Kingdom	10,871	130,533
Others	59,648	104,407
	296,109	488,538

7 LOANS AND ADVANCES TO BANKS (CONTINUED)

	2009 US$000	2008 US$000
Amounts include:		
Due from parent undertaking	63,422	73,851

8 LOANS AND ADVANCES TO CUSTOMERS

	2009 US$000	2008 US$000
Gross loans and advances to customers	604,969	276,227
Less: Allowance for impairment losses (Note 9)	(2,200)	-
Net loans and advances to customers	602,769	276,227

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:

	2009 US$000	2008 US$000
- on demand	-	-
- three months or less	223,748	113,308
- one year or less but over three months	126,806	81,601
- five years or less but over one year	139,632	81,318
- over five years	114,783	-
	604,969	276,227

8 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Gross loans and advances to customers by geographical area:

	2009 US$000	2008 US$000
United Kingdom	117,505	161,086
France	99,362	-
Switzerland	97,356	74,342
Netherlands	89,492	-
Ghana	65,000	-
Belgium	37,640	-
Angola	34,028	-
United States	30,065	31,299
Others	34,521	9,500
	604,969	276,227

9 IMPAIRMENT ALLOWANCE

	Financial investments US$000	Loan and advances - banks US$000	Loan and advances - customers US$000	Total US$000
Balance at 1 January 2008	-	440	699	1,139
Charge for the year	8,406	6,394	(699)	14,101
Balance at 31 December 2008	8,406	6,834	-	15,240
Charge for the year	3,052	9,990	2,200	15,242
Foreign currency translation difference	138	329	-	467
Balance at 31 December 2009	**11,596**	**17,153**	**2,200**	**30,949**

After its yearly assessment, the Company has increased further its provision on impaired Icelandic assets by US$13m to a total of US$28.7m (95%). An additional US$2.2m (10%) has also been provided by the Company for a newly considered impaired asset under its lending to OC Oerlikon, Switzerland.

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. These derivatives must satisfy the conditions under FRS 26 for hedge accounting in determining their designated cash flow.

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

	2009			2008		
	Notional principal amount *US$000*	Positive fair value *US$000*	Negative fair value *US$000*	Notional principal amount *US$000*	Positive fair value *US$000*	Negative fair value *US$000*
Foreign exchange derivatives						
- Forward foreign exchange contracts	6,847	-	-	24,437	57	11
At 31 December	**6,847**	**-**	**-**	**24,437**	**57**	**11**
Interest rate derivatives						
- Swaps	124,503	407	715	916	-	25
- Forward rate agreements	14,414	-	86	-	-	-
At 31 December	**138,917**	**407**	**801**	**916**	**-**	**25**

During the year, the Company has engaged in numerous interest rate swaps against rolling short term funding at a total of US$122.3m and also US16.3m in trade financing. The decrease of US$308,000 in the fair value of the swaps has been recognised in the cash flow hedge reserve (note 19).

11 FINANCIAL INVESTMENTS
FINANCIAL INVESTMENTS: AVAILABLE-FOR-SALE

	2009 US$000	2008 US$000
Balance at 1 January	99,613	126,058
Additions	37,037	-
Disposal	(34,832)	(9,000)
Fair value adjustment	(1,107)	(5,690)
Impairment (Note 9)	(11,596)	(8,406)
Foreign exchange differences	17,830	(3,349)
Balance at 31 December	**106,945**	**99,613**

At 31 December 2009, as part of its fair value adjustment the Company has provided a further 25% impairment provision of US$3m on its impaired Icelandic bonds to increase to a total of US$11.6m (95%). A total disposal notional value of US$34.8m was also made during the financial year, partially as a result of redemption.

	2009 US$000	2008 US$000
Analysed by maturity:		
- due within one year	17,585	11,422
- due after one year	89,360	88,191
Analysed by listing status:		
- listed	106,335	93,344
- unlisted	610	6,269
Analysed by sector:		
- private sector	90,864	99,613
- public sector	16,081	-

11 FINANCIAL INVESTMENTS (CONTINUED)
FINANCIAL INVESTMENTS: HELD-TO-MATURITY

	2009 US$000	2008 US$000
Balance at 1 January	-	-
Additions	219,901	-
Balance at 31 December	**219,901**	**-**

	2009 US$000	2008 US$000
Analysed by maturity:		
- due within one year	47,518	-
- due after one year	172,383	-
Analysed by listing status:		
- listed	219,901	-
- unlisted	-	-
Analysed by sector:		
- private sector	219,901	-
- public sector	-	-

12 TANGIBLE FIXED ASSETS

	Leasehold improvements US$000	*Office furniture and equipment US$000*	*Computers US$000*	*Motor vehicles US$000*	*Total US$000*
Cost:					
At 1 January 2009	699	238	379	89	1,405
Additions	904	153	90	-	1,147
At 31 December 2009	1,603	391	469	89	2,552
Depreciation:					
At 1 January 2009	451	97	262	84	894
Charge for the year	89	38	71	5	203
				-	
At 31 December 2009	540	135	333	89	1,097
Net book amount:					
At 31 December 2009	1,063	256	136	-	1,455
At 31 December 2008	248	141	117	5	511

13 PREPAYMENTS, ACCRUED INCOME AND OTHER ASSETS

	2009 US$000	2008 (restated) US$000
Accrued income	5,122	5,618
Prepayments	321	174
Amount owing from group undertakings	66	16
Corporation tax recoverable	-	2,105
Other assets	20	16
	5,529	7,929

14 DEFERRED TAX ASSETS

	2009 US$000	2008 (restated) US$000
Deferred tax assets included in the balance sheet comprise the following:		
Decelerated capital allowance	49	47
Tax losses carried forward	-	385
Other timing differences	129	150
	178	582

	2009 US$000	2008 US$000
Movement in deferred tax assets during the year is as follows:		
Balance at 1 January	582	220
Deferred tax credited/(charge) to the profit and loss account (note 6)	2	(1)
Deferred tax (charge)/ credited to equity	(406)	363
Balance at 31 December	178	582

15 DEPOSITS BY BANKS

	2009 US$000	2008 US$000
Repayable:		
- on demand	99,894	41,897
- three months or less	675,712	509,125
- one year or less but over three months	186,947	48,623
	962,553	599,645

	2009 US$000	2008 US$000
Amounts include:		
Deposits by parent undertaking	808,642	301,659

16 CUSTOMER ACCOUNTS

	2009 US$000	2008 US$000
Repayable:		
- on demand	7,067	4,910
- three months or less	21,989	47,658
- one year or less but over three months	2,863	6,193
	31,919	58,761

17 ACCRUALS AND DEFERRED INCOME

	2009 US$000	2008 US$000
Accrued interest payable	2,462	3,640
Deferred income	5,694	939
	8,156	4,579

18 SHARE CAPITAL

	2009 US$000	2008 US$000
Authorised share capital, Ordinary shares of US$1 each:		
Balance at 31 December	250,000	250,000
Allotted, called up and fully paid, Ordinary shares of US$1 each:		
Balance at 31 December	200,000	200,000

19 RECONCILIATION OF SHAREHOLDER'S FUNDS

	Share capital US$000	Retained earnings US$000	Available-for-sale reserve US$000	Cash flow hedge reserve US$000	Foreign currency translation reserve US$000	Total share holder's funds US$000
At 1 January 2009	200,000	8,737	(8,035)	-	103	200,805
Profit for the year	-	3,117	-	-	-	3,117
Change in fair value of financial investments available-for-sale	-	-	5,447	-	-	5,447
Tax credit on change in fair value of financial investments available-for-sale	-	(1,533)	-	-	-	(1,533)
Financial investments available-for-sale reserve recycled through profit and loss upon disposal of the investment	-	-	1,442	-	-	1,442
Change in cash flow hedge reserve	-	-	-	(308)	-	(308)
Reversal of foreign currency translation reserve	-	-	-	-	(103)	(103)
Deferred tax asset recognised through equity	-	(406)	-	-	-	(406)
At 31 December 2009	**200,000**	**9,915**	**(1,146)**	**(308)**	**-**	**208,461**

19 RECONCILIATION OF SHAREHOLDER'S FUNDS (CONTINUED)

	Share capital US$000	Retained earnings US$000	Available-for-sale reserve US$000	Cash flow hedge reserve US$000	Foreign currency translation reserve US$000	Total share holder's funds US$000
At 1 January 2008 (as previously reported)	200,000	7,260	(2,383)	-	-	204,877
Profit for the year (as reported)	-	180	-	-	-	180
Prior year adjustment		(259)				(259)
Change in fair value of financial investments available-for-sale	-	-	(6,129)	-	-	(6,129)
Tax credit on change in fair value of financial investments available-for-sale	-	1,294	-	-	-	1,294
Reversal of financial investments available-for-sale reserve due to impairment	-	-	371	-	-	371
Financial investments available-for-sale reserve recycled through profit and loss upon disposal of the investment	-	-	106	-	-	106
Deferred tax asset recognised through equity, (as previously reported)	-	262	-	-	-	262
Foreign currency translation reserve	-	-	-	-	103	103
At 31 December 2008 (as restated)	**200,000**	**8,737**	**(8,035)**	**-**	**103**	**200,805**

20 MEMORANDUM ITEMS – CONTINGENT LIABILITIES AND COMMITMENTS

	2009 *US$000*	*2008* *US$000*
Undrawn documentary credits and short-term trade related transactions	248,249	239,291
Undrawn loans and advances	232,302	107,678
Forward foreign exchange contracts	6,847	24,437
	487,398	371,406

OPERATING LEASE COMMITMENTS

At 31 December 2009, the Company had annual commitments under non-cancellable operating leases as set out below:

	2009 *US$000*	*2008* *US$000*
Within one year	-	-
Within two to five years	282	-
More than five years	652	592

During the financial year the Company acquired additional premises for its retail banking apart from its existing office. The lease agreement is for a period of three years remaining with an annual rental charge of US$282,153.

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. 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 which are publicly available.

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

	2009 *US$000*	*2008* *US$000*
Assets:		
Denominated in US Dollars	874,909	588,430
Denominated in currencies other than US Dollars	341,369	278,255
Total assets	1,216,278	866,685
Liabilities and shareholder's funds:		
Denominated in US Dollars	870,272	555,547
Denominated in currencies other than US Dollars	346,006	311,138
Total liabilities and shareholder's funds	1,216,278	866,685

At 31 December 2009, the closing shareholder's funds which are denominated in US Dollars were US$208m (2008: US$201m).

24 FAIR VALUE OF FINANCIAL INSTRUMENTS

For the determination of fair value of financial instruments the Company uses the following valuation techniques.

DERIVATIVES

Derivatives which are valued using a valuation technique with market observable inputs are mainly interest rate swaps, forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations .The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

FINANCIAL INVESTMENTS – AVAILABLE-FOR-SALE

Available-for-sale financial assets which are valued using a valuation technique or pricing models are primarily consisting of unquoted equities and debt securities.

These assets are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1 – quoted prices in active markets for identical assets or liabilities

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

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

24 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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

2009	*Level 1*	*Level 2*	*Level 3*	*Total*
	US$000	*US$000*	*US$000*	*US$000*
Assets				
Derivative financial instruments:				
Interest rate swaps	-	407	-	407
Financial investments available-for-sale:				
Government debt securities	16,081	-	-	16,081
Other debt securities	90,254	-	610	90,864
	106,335	407	610	107,352
Liabilities				
Derivative financial instruments:				
Interest rate swaps	-	801	-	801
	-	801	-	801

2008	*Level 1*	*Level 2*	*Level 3*	*Total*
	US$000	*US$000*	*US$000*	*US$000*
Assets				
Derivative financial instruments:				
Currency swaps	-	57	-	57
Financial investments available-for-sale:				
Other debt securities	96,026	-	3,587	99,613
	96,026	57	3,587	99,670
Liabilities				
Derivative financial instruments:				
Currency swaps	-	25	-	25
Forward foreign exchange contracts	-	11	-	11
	-	36	-	36

The movement of level 3 debt securities from 2008 to 2009 is due to the additional impairment of US$3.1m during the year.

24 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

FAIR VALUE OF FINANCIAL INVESTMENTS NOT CARRIED AT FAIR VALUE

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and maturity. For quoted debt issued the fair values are determined based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity and credit spreads. For other variable rate instruments an adjustment is also made to reflect the change in required credit spread since the instrument was first recognised.

25 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.

26 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
- Credit policy
- Liquidity policy
- Provisioning policy
- Large exposures policy
- Treasury policy
- Operational risk policy
- Fraud policy

RISK MITIGATION

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.

As part of it's overall risk management, the Company uses derivatives and other instruments to manage exposures resulting from changes in interest rates and foreign currency exposures arising from forecast transactions. In accordance to the Company's policy, the risk profile of the Counterparty is assessed before entering into hedge transactions, which are authorised by the appropriate level of seniority within the Company. The effectiveness of hedges is assessed by the Risk Treasury Department and monitored regularly.

27 CREDIT RISK

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

Counterparty credit risk is assessed by the Company using both quantitative and qualitative analysis. The Company also uses and relies on the credit ratings of three major credit rating agencies, namely Moody's, Standard 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.

The ratings used by the Company for its investment grade financial assets are Standard & Poor, Fitch's BBB- and above, and Moody's Baa3 and above. Others are classified as Sub-investment grade.

Limits for banks have been 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.

Following the failure of the Icelandic banks and the increased uncertainty regarding future economic conditions, the Company has increased its control procedures concerning these areas of risk. In particular:

- We have examined concentrations of risk in geographical areas and business sectors and scaled these down where it was considered prudent to do so;
- We have carried out additional reviews of all banks to which we lend and paid increased attention to their reliance on volatile wholesale markets, their geographical location and concentration, in addition to their credit profile. Our exposure to certain banks has been adjusted accordingly;
- We have also changed our procedures so that credit committee and the board review, more frequently, accounts identified for inclusion on our watch list and assess the appropriateness of allowances for potential credit losses, and
- We are actively pursuing a policy of using collateral to mitigate further credit risk.

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.

MAXIMUM EXPOSURE TO CREDIT RISK

The table below shows maximum exposure to credit risk for the components of the balance sheet. The difference between the gross and net exposure is collateral held and impairment provision made.

27 CREDIT RISK (CONTINUED)

	2009		2008	
	Gross maximum exposure US$000	Net maximum exposure US$000	Gross maximum exposure US$000	Net maximum exposure US$000
Loans and advances to banks	296,109	278,956	488,538	481,704
Loans and advances to customers	604,969	385,051	276,227	162,422
Financial investments available-for-sale	118,542	106,945	108,019	99,613
Financial investments held-to-maturity	219,901	219,901	-	-
	1,239,521	990,853	872,784	743,739
Contingent liabilities	6,847	6,847	54,437	54,437
Commitments	480,551	480,551	316,969	316,969
	487,398	487,398	371,406	371,406
Total credit risk exposure	1,726,919	1,478,251	1,244,190	1,115,145
Impairment provisions	-	30,949	-	15,240

	2009		2008	
	Gross maximum exposure US$000	Net maximum exposure US$000	Gross maximum exposure US$000	Net maximum exposure US$000
Cash collateral:				
Deposits by parent undertaking	217,719	-	113,805	-

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.

27 CREDIT RISK (CONTINUED)

CREDIT QUALITY PER CLASS OF FINANCIAL ASSETS

	2009		2008	
	Current	Overdue	Current	Overdue
	US$000	US$000	US$000	US$000
At 31 December				
Loans and advances to banks				
Investment grade	275,505	-	465,003	-
Sub-investment grade	2,586	865	16,555	146
	278,091	865	481,558	146

	2009		2008	
	Current	Overdue	Current	Overdue
	US$000	US$000	US$000	US$000
At 31 December				
Loans and advances to customers				
Investment grade	363,337	-	240,488	-
Sub-investment grade	239,432	-	35,739	-
	602,769	-	276,227	-

	2009		2008	
	Available for sale	Held to-maturity	Available for sale	Held to-maturity
	US$000	US$000	US$000	US$000
At 31 December				
Financial investments				
Investment grade	106,335	219,901	96,026	-
Sub-investment grade	610	-	3,587	-
	106,945	219,901	99,613	-

27 CREDIT RISK (CONTINUED)

REGIONAL EXPOSURE

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

	2009		2008	
	Exposure	Exposure	Exposure	Exposure
	US$million	%	US$million	%
Asia and pacific	370	21.8	467	37.5
Europe	983	58.0	630	50.7
Middle East	78	4.6	62	5.0
North America	96	5.7	49	3.9
South America	4	0.2	-	-
Africa	165	9.7	36	2.9
Total	1,696	100	1,244	100

28 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.

	2009		2008	
	Contractual cash flow band		Contractual cash flow band	
	Up-to 8 days	Up-to 1 month	Up-to 8 days	Up-to 1 month
	US$000	US$000	US$000	US$000
Cumulative inflows	438,736	834,463	258,950	609,313
Cumulative outflows	(349,306)	(718,033)	(230,128)	(597,689)
Net cash flows	89,430	116,430	28,822	11,624
Total deposits	994,472		658,406	
Liquidity mismatch ratio	8.99 %	11.71 %	4.38 %	1.77 %

28 LIQUIDITY RISK (CONTINUED)

The table below summarises the maturity profile of the Company's financial assets and liabilities with respect to its cash flows and in managing liquidity risk.

2009	*Not more than 1 month US$000*	*More than 1 month but not more than 3 months US$000*	*More than 3 months but not more than 6 months US$000*	*More than 6 months but not more than 1 year US$000*	*More than 1 year but not More than 5 years US$000*	*More than 5 years US$000*	*Total US$000*
Financial Assets							
Cash and balances with central bank	138	-	-	-	-	-	138
Loans and advances							
- to banks	87,117	19,287	36,358	54,607	81,316	-	278,685
- to customers	168,613	39,867	38,481	105,004	176,858	69,320	598,143
Net settled derivative assets	245	133	147	-	-	-	525
Financial investments							
- available-for-sale	5,093	285	7,445	5,000	76,235	9,000	103,058
- held-to-maturity	607	1,884	3,120	44,951	158,190	19,442	228,194
Other financial assets	300,632	-	-	-	-	-	300,632
Total undiscounted financial assets	562,445	61,456	85,551	209,562	492,599	97,762	1,509,375
Financial Liabilities							
Deposits by banks	606,928	170,710	162,240	25,702	-	-	965,580
Customer accounts	11,810	17,304	1,842	1,055	-	-	32,011
Net settled derivative liabilities	366	262	785	-	-	-	1,413
Other financial liabilities	19,998	-	-	-	-	-	19,998
Total undiscounted financial liabilities	639,102	188,276	164,867	26,757	-	-	1,019,002
Net undiscounted financial assets/ (liabilities)	(76,657)	(126,820)	(79,316)	182,805	492,599	97,762	490,373

28 LIQUIDITY RISK (CONTINUED)

2008	Not more than 1 month US$000	More than 1 month but not more than 3 months US$000	More than 3 months but not more than 6 months US$000	More than 6 months but not more than 1 year US$000	More than 1 year but not More than 5 years US$000	More than 5 years US$000	Total US$000
Financial Assets							
Cash and balances with central bank	62	-	-	-	-	-	62
Loans and advances							
- to banks	145,204	97,059	104,381	71,629	78,532	-	496,805
- to customers	66,919	47,508	5,157	77,004	81,318	-	277,906
Financial investments							
- available-for-sale	658	2,416	16,000	-	87,253	-	106,327
Other financial assets	290,000	-	-	-	-	-	290,000
Total undiscounted financial assets	502,843	146,983	125,538	148,633	247,103	-	1,171,100
Financial Liabilities							
Deposits by banks	505,352	79,612	49,222	-	-	-	634,186
Customer accounts	43,339	9,490	2,294	4,127	-	-	59,250
Other financial liabilities	1,149	-	-	-	-	-	1,149
Total undiscounted financial liabilities	549,840	89,102	51,516	4,127	-	-	694,585
Net undiscounted financial assets/(liabilities)	(46,997)	(57,881)	74,022	144,506	247,103	-	476,515

28 LIQUIDITY RISK (CONTINUED)

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

	Contractual expiry band					
	0 - 1 month	2 - 3 months	4 - 6 months	7 - 12 months	1 - 5 years	Total
	US$000	*US$000*	*US$000*	*US$000*	*US$000*	*US$000*
2009						
Contingent liabilities	6,847	-	-	-	-	6,847
Commitments	10,415	81,120	18,949	101,046	269,021	480,551
Total	17,262	81,120	18,949	101,046	269,021	487,398
2008						
Contingent liabilities	30,000	24,437	-	-	-	54,437
Commitments	67,156	55,377	65,803	18,344	110,289	316,969
Total	97,156	79,814	65,803	18,344	110,289	371,406

29 MARKET RISK

Market risk is the risk that the fair value of future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. Market risk arises from both the Company's trading and non-trading activities.

FOREIGN EXCHANGE RISK

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

INTEREST RATE RISK

The interest rate sensitivity exposure of the Company at 31 December 2009 is set out below. Items are allocated to time bands by reference to the earlier of the next contractual interest rate re-pricing date and the maturity date. The sensitivity of the income statement is the effect of the assumed changes in interest rates on the profit or loss for the year, based on the floating rate non-trading financial assets and liabilities held as at 31 December 2009, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing fixed rate available for sale financial assets, including the effect of any associated hedges and swaps designated as cash flow hedges, as 31 December for the effects of the assumed changes in interest rates. The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve.

29 MARKET RISK (CONTINUED)

Interest rate sensitivity table

2009	*Not more than 3 months US$000*	*More than 3 months but not more than 6 months US$000*	*More than 6 months but not more than 1 year US$000*	*More than 1 year but not more than 5 years US$000*	*More than 5 years US$000*	*Non-interest bearing US$000*	*Total US$000*
Assets							
Liquid assets	-	-	-	-	-	138	138
Loans and advances							
- to banks	210,088	38,572	9,859	19,572	-	865	278,956
- to customers	467,938	119,411	15,420	-	-	-	602,769
Financial investments							
- available-for-sale	80,818	-	-	16,081	9,436	610	106,945
- held-to-maturity	120,515	-	-	79,018	20,368	-	219,901
Fixed and other assets	-	-	-	-	-	7,569	7,569
Total assets	879,359	157,983	25,279	114,671	29,804	9,182	1,216,278
Liabilities and shareholder's funds							
Deposits by banks	775,606	161,524	25,423	-	-	-	962,553
Customer accounts	29,057	1,826	1,036	-	-	-	31,919
Other liabilities	-	-	-	-	-	13,345	13,345
Shareholder's funds	-	-	-	-	-	208,461	208,461
Total liabilities and shareholder's funds	804,663	163,350	26,459	-	-	221,806	1,216,278
Off balance sheet	98,615	40,000	-	(110,173)	(28,442)	-	-
Interest rate sensitivity gap	173,311	34,633	(1,180)	4,498	1,362	(212,624)	-
Cumulative gap	173,311	207,944	206,764	211,262	212,624	-	-

29 MARKET RISK (CONTINUED)

The table below shows how interest rate movements affect profit and loss of the Company for 2009:

	Not more than 3 months US$000	More than 3 months but not more than 6 months US$000	More than 6 months but not more than 1 year US$000	More than 1 year but not more than 5 years US$000	More than 5 years US$000	Total US$000
Basis points						
+100	217	43	(3)	90	-	347
+200	433	87	(6)	180	-	694
-100	(217)	(43)	3	(90)	-	(347)
-200	(433)	(87)	6	(180)	-	(694)

For each positive shift in the basis points on its funding rate, the Company can expect the total increase in the amount of its interest income as illustrated. The reverse will be a corresponding same degree of drop in its interest income.

Other than through 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

2008	Not more than 3 months US$000	More than 3 months but not more than 6 months US$000	More than 6 months but not more than 1 year US$000	More than 1 year but not more than 5 years US$000	More than 5 years US$000	Non-interest bearing US$000	Total US$000
Assets							
Liquid assets	-	-	-	-	-	62	62
Loans and advances							
- to banks	360,308	120,250	859	287	-	-	481,704
- to customers	245,502	30,725	-	-	-	-	276,22
Financial investments							
available-for-sale	1,959	5,876	2,087	83,974	4,217	1,500	99,613
Fixed and other assets	-	-	-	-	-	9,079	9,079
Total assets	607,769	156,851	2,946	84,261	4,217	10,641	866,685

29 MARKET RISK (CONTINUED)

Interest rate sensitivity table (continued)

2008	*Not more than 3 months US$000*	*More than 3 months but not more than 6 months US$000*	*More than 6 months but not more than 1 year US$000*	*More than 1 year but not more than 5 years US$000*	*More than 5 years US$000*	*Non-interest bearing US$000*	*Total US$000*
Liabilities and shareholder's funds							
Deposits by banks	551,022	48,623	-	-	-	-	599,645
Customer accounts	52,568	2,232	3,961	-	-	-	58,761
Other liabilities	-	-	-	-	-	7,474	7,474
Shareholder's funds	-	-	-	-	-	200,805	200,805
Total liabilities and shareholder's funds	603,590	50,855	3,961	-	-	208,279	866,685
Off balance sheet	-	916	-	-	-	-	916
Interest rate sensitivity gap	4,179	106,912	(1,015)	84,261	4,217	(197,638)	916
Cumulative gap	4,179	111,091	110,076	194,337	198,554	916	-

The table below shows how interest rate movements affect profit and loss of the Company for 2008:

	Not more than 3 months US$000	*More than 3 months but not more than 6 months US$000*	*More than 6 months but not more than 1 year US$000*	*More than 1 year but not more than 5 years US$000*	*More than 5 years US$000*	*Total US$000*
Basis points						
+100	5	134	(3)	1,685	-	1,821
+200	10	267	(5)	3,370	-	3,642
-100	(5)	(134)	3	(1,685)	-	(1,821)
-200	(10)	(267)	5	(3,370)	-	(3,642)

30 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.

31 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

	2009		2008	
	Actual	Required	Actual	Required
	US$000	US$000	US$000	US$000
Tier 1 capital	208,461	118,380	200,170	79,536
Tier 2 capital	-	-	-	-
Total capital	208,461	118,380	200,170	79,536
Risk weighted assets	897,276		603,726	
Tier 1 capital ratio	23.23 %		33.16 %	
Tier 2 capital ratio	- %		- %	
Total capital ratio	**23.23 %**		**33.16 %**	

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