ICBC

工银伦敦

ICBC (London) plc

Report & Financial Statements

2011

Cover Picture
Entrance to our new headquarters building at 81 King William Street.

ICBC

ICBC (London) plc
Report and Financial Statements
for the year ended 31 December

2011

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/ Chairman's statement

“I believe we can now see some encouraging signs for the UK economy and we remain confident that our prudent approach to banking services will lead to another successful year in 2012.”

Lili Wang, Chairman

In my statement last year I remarked upon the cautious recovery we had seen in Europe in 2010 following the turmoil of the previous two years. Few of us could have seen then that the recovery would be so slow and that the threat of a further recession would continue throughout 2011. By contrast the Chinese economy has continued to perform well in the last two years with growth of the order of 10%. ICBC (London) plc's focus on trade between China and the West – predominantly the UK has continued to serve us well: our customer base has remained relatively buoyant and we have been successful in steering our way through a difficult marketplace in 2011 to a point where we have not incurred any losses on our loan book during the year.

Our profit before tax and provisions in 2011 was US$ 24.75 million, approximately the same as 2010 (2010 – US$ 24.71 million) and after tax and provisions the profit is U$ 17.94 million – an increase of 1.33% compared with 2010 (US$ 17.7 million). As business expanded during the year we have increased our staff numbers by 33% to 75 staff to cope with both the increased business volumes and increased regulatory requirements. I would like to take this opportunity to welcome the new members of staff to ICBC.

Looking forward, I believe we can now see some encouraging signs for the UK economy and we remain confident that our prudent approach to banking services will lead to another successful year in 2012. In March 2012 the Bank will move to our new Headquarters building in the City thus emphasising the commitment that ICBC has to the London market. This move will also pave the way for further expansion by the Bank in the UK.

Lili Wang
Chairman

ICBC is uniquely positioned to assist in these mutually beneficial developments between China's growing financial sector and the City of London as a western hemisphere regional financial centre."

Jinlei Xu, Managing Director

Introduction

In 2011 the UK economy saw only patchy growth. A partial recovery in early 2011 stalled due to a variety of factors including a tightening fiscal stance to reduce public debt as the Government's key policy priority. Muted UK trade with its main export markets in the EU due to the deterioration in Euro zone performance also suppressed growth recovery. Even Europe's strongest economy Germany saw slowing exports by late 2011. Despite relaxation of UK monetary policy with quantitative easing, a return to a technical recession in early 2012 is forecast by some commentators. The London summer Olympics in 2012 will have a beneficial impact on UK economic activity and sentiment echoing the great success of the Beijing 2008 games. Beyond this, a protracted failure to achieve adequate growth risks a downgrade of UK rating if indebtedness is seen as structurally entrenched as this lessens the credit risk insulation the UK enjoys from long average public debt renewal tenors compared with its EU peers. A rise in UK borrowing yields on top of weak growth would make debt reduction targets by the next general election very challenging. So the UK outlook remains uncertain.

China maintained its impressive rebound from the global down-turn in 2009 with growth of 10.3% in 2011, staying in double digits for a second successive year. The country is successfully rebalancing its growth drivers to address regional and sector development policies whilst containing pockets of inflationary pressures. In 2012 the country expects to see growth in excess of 7.5% led by internal investment and a growing domestic demand. International trade contribution is likely to fall as a proportion of GDP growth given the patchy performance in the EU and USA. China's economic growth will continue to provide trade and investment opportunities with the UK. Notable opportunities are the policy decision of the People's Republic of China (PRC) to support the UK as the second Chinese currency settlement centre after Hong Kong for the internationalisation of the Renminbi (RMB) and dialogue on investment in the UK's infrastructure. ICBC is uniquely positioned to assist in these mutually beneficial developments between China's growing financial sector and the City of London as a western hemisphere regional financial centre.

Elsewhere amongst OECD economies the US displayed signs of a sustained modest upturn by end of 2011 despite its credit downgrade in 2011 and frustrated political resolve to successfully reduce its fiscal deficit. Japan is also expected to bounce back in 2012 from a pronounced economic contraction following the earthquake and flood damage along with disruption of its export manufacturing supply chains in mid 2011. Economic growth in developing markets led the global economy for another year, although the disruptive political situation in much of the Middle East meant the global growth driver was Asia followed by Latin America and Africa.

Notable opportunities include the policy decision of the People's Republic of China (PRC) to support the UK as the second Chinese currency settlement centre after Hong Kong for the internationalisation of the Renminbi (RMB)."

Large UK companies with international activities and exports, particularly with Asia, performed relatively well in the domestic UK economy. The high proportion of international natural resource companies listed on UK stock markets also helped maintain equity returns and general debt capital and loan markets activities. Yields on corporate/financial institutional lending were on a falling trend initially in 2011 but then crept up as uncertainty increased. A key driver was the uncertainty regarding the Eurozone's support of its weaker highly indebted members. This led to growing large secondary discounts in the Euro sovereign debt of weaker members. The resultant higher funding costs

ICBC

for some of the largest Euro zone banks with large holdings of such EU debt led to a retrenchment of these banks, reducing their new commitments in new loan markets from mid 2011. This gave Chinese banks selective opportunities to develop and enhance client relations across Europe and in emerging markets that had been historically financed by European banks. Attractive secondary yields were available in late 2011 as European banks de-leveraged selling good quality liquid debt assets. ICBC took some higher profile roles in selective loan syndications for both European and emerging market names in 2011. The ICBC Group also opened several new branches/subsidiaries in Europe in 2011, giving ICBC more options for cooperation and coverage.

“Our consistent prudent approach to asset and relationship selection historically led to only a modest general provision being taken in 2011 despite the volatility and uncertainty in global financial markets.”

Against this background ICBC achieved a further year of significant increase in profit and improved capital and performance ratios. Our balance sheet was grown cautiously through selective quality corporate assets, predominantly trade related financial institution exposure and use of structured secured trade related lending and syndication. New relationships were developed with large corporates that offered multiple product engagement. These were productive combining loan market arranging and agency debt product offerings with the customer's China trade finance needs and provision of ICBC's expanding treasury services. Our consistent prudent approach to asset and relationship selection historically led to only a modest general provision being taken in 2011 despite the volatility and uncertainty in global financial markets.

Our principal focus remained trade with China. Commercial lending was spread across Chinese trade flows with Europe, Africa and Latin America: we lent to the stronger industrial sectors such as international natural resources especially where purchases were being made by China and to selective stronger UK sectors from manufacturing to fashion, particularly those trading with China. Syndication developed further with several lead roles in syndicated loans, largely stand alone but selectively in cooperation with our parent bank and its African associate where there were larger underwriting requirements. All sell down targets were achieved within time lines sanctioned. This continues to enhance ICBC's market arranging profile, client relations and development of lower risk fee income streams associated with loan agency, collection accounts for structured trade linked loans and short dated bridge finance. New sources of wholesale funding were developed with a broadening corporate franchise. This improved considerably our liquidity and helped to maintain competitive funding costs. Our Chinatown branch that provides retail services gained more customer accounts (up 28%) and extended its service by introducing an internet banking platform which will enable us to launch new products such as precious metals trading to our customers over the coming months.

Summary of Business

By the end of 2011 our asset base had grown by 39.83% to US$ 2.51bn (31 December 2010 – $1.795bn). Of these assets, total loans to customers increased by US$ 33 million (4.70%) whilst our investment in bonds dropped by US$ 41 million (10.09%) as we reduced our higher risk exposures to Eurozone countries.

Client deposits rose to US$ 831million by year-end an increase of over 377% (31 December 2010 – US$ 220m) with an average maturity of between 1 and 2 months. Traditional interbank sources including other Chinese banks saw lines increase by over US$ 200m with 6 new counterparties and average borrowing of US$150m. The debut 2010 one year bank syndicated $200m club loan was renewed at $330m for a further 12 months to August 2012, with a larger group of non-Chinese relationship banks. With further extension options available, this facility is expected to be a regular renewing diversification of ICBC's funding profile. A further diversification of funding was achieved with a debut multi-currency CD Programme, guaranteed by our Parent. This was established in July 2011 for up to $300m and up to 3-year tenor. The issue was well received by the market with sales exceeding US$ 200million on 31 December 2011. Our Treasury flow business was also enhanced during the year including managing our Parent's precious metals book during London business hours thus helping to give The Industrial and Commercial Bank of China Limited 24 hour coverage around the World.

Our average yield on assets saw a small increase during the year. However the cost of interest bearing funds for in 2011 was 83 basis points p.a. compared with 71 basis points p.a. in 2010 in a largely unchanged US Libor market. Lending margins generally held up in 2011 being little changed from 2010 but nevertheless creating a robust profit performance.

A main focus of income remained business between China and the UK, Europe and emerging markets (Commonwealth of Independent States, Africa, Latin America). ICBC is well positioned to develop this business. This reflects our strong relations with trade letter of credit issuing offices of Chinese mainland banks (including ICBC), direct client dialogue and framework agreements with corporates exporting to China, and in-depth knowledge of Sino trade terms and counterparty risk. Our trade finance exceeded US$ 4.5bn transacted value in 2011. The extant deals on 31 December at US$ 673 million were 206% up on 2010 (31 December 2010 – US$ 326 million). New master agreements for trade payment risk cooperation were signed with 8 financial institutions and with 4 corporate clients for Chinese payment confirmation business in 2011.

Expenses

Total operating expenses for 2011 were US$ 19.1 million, an increase of 213% compared with 2010 (31 December 2010 – $6.1m). This increase is largely due to increased costs resulting from our business growth: the number of staff in the Bank rose by 13 during the year to 72, an increase of 18.1% (31 December 2010 – 59). Our cost income ratio at 38.25% is slightly higher than the previous year (2010 – 34.1%) but is at a relatively low level compared with local competitors.

Future Developments

In 2010 we purchased the freehold of a landmark office building in King William Street in the heart of the City of London and following the completion of an extensive refurbishment programme we will move all of our central operations to the new building in March 2012. This move emphasises the commitment of ICBC Group to the UK market and to London as a major financial centre and it will aid the material expansion our business during the coming years. In recognition of our commitment to the UK we were delighted when in 2011, ICBC was awarded the 2011 Inward Investment award from the 48 Group Club, the pre-eminent independent business network promoting British commercial relations with the People's Republic of China since the early 1950s.

“A main focus of income remained business between China and the UK, Europe and emerging markets (Commonwealth of Independent States, Africa, Latin America). ICBC is well positioned to develop this business.”

Continued steady growth is anticipated in 2012 within a cautious balance sheet framework with proactive asset and liability management. Whilst we will consider opportunities for appropriate

acquisitions should these arise, our growth for the foreseeable future will remain organic and will be within the framework of prudent banking that we have already established. Our parent bank is also expanding its network of offices in Europe, Latin America and the Middle East, bringing greater scope for ICBC to provide a conduit for the Group in accessing the services and product skills of the City as a major financial centre.

Our main focus will remain China related business. Origination and distribution of loan asset risk and agency services to the Group are both expected to grow. ICBC will continue to develop its product ability to meet client needs as the use of RMB denominated trade and investment flows develops. During 2012 we will seek to consolidate our existing corporate relationships and we will search for new opportunities to assist UK and non-UK companies and individuals building sustainable business with China. ICBC has a deep network of financial institutions and corporate contacts in China. This will be deployed to help international enterprises trading with and operating in China, as well as Chinese exporters and outward investment. With our growing resources, broader product and risk solutions and expanding financial counterparty network, we are confident ICBC can continue to contribute positively to the development of business by the wider global market with China.

> “During 2012 we will seek to consolidate our existing corporate relationships and we will search for new opportunities to assist UK and non-UK companies and individuals building sustainable business with China.”

Our Trade Services business has underpinned our success in recent years with high levels of expertise and customer service. A full range of trade related service will continue to be offered including traditional trade finance, documentary credits, confirmation and discounting services, as well as more advanced counterparty payment risk, forfaiting, supplier and buyer credits. Trade services are supported by ‘around the clock’ seven days a week support from our parent bank’s Bills Processing Centre and through the Chinese and international networks of our parent bank. Through our ability to introduce our clients who trade with China to other companies within The Industrial and Commercial Bank of China Limited Group we are able to help them gain access to an industry leading breadth of group lines. Significant cross border flows between natural resource producers and China secured against bank risk will continue to form a significant proportion of this part of our portfolio.

Over recent years we have built up a strong expertise in both bilateral lending and syndicated lending in a number of industry sectors and we will continue to focus principally on those business sectors where our customer relationships can grow from bilateral and syndicated lending into ancillary trade finance, multi-currency deposits,structured finance and investment related business. We will also seek to grow the proportion of primary business and origination of syndicated mandates in our lending portfolio. To optimise our asset management we will also continue to source and sell assets in the secondary market.

We will continue to leverage off our support networks in China in helping customers to develop their cross border trading links. Through our networks we will help our customers to gain access to ICBC’s broader capabilities in China and in other overseas markets within the retail, corporate and investment banking arenas. For example, many companies can benefit from adopting the bank’s cash management facilities in China or, increasingly, we arrange cross-border Renminbi/Yuan settlement facilities with The Industrial and Commercial Bank of China Limited.

The two UK retail branches of ICBC in the City and West End will build upon the enhanced systems platform introduced in recent years by launching new products to meet customer demands. Following the successful launch of internet banking and debit cards we will launch a credit card product in 2012 and, regulatory considerations allowing, we also intend to offer a range of non-advised investment products in 2012. We will also expand our offering of RMB denominated accounts to commercial clients undertaking business with China and to personal customers.

Our cooperation with other offshore offices of ICBC in Europe and emerging markets will be increased to allow more effective market profile and critical mass when arranging syndicated facilities and corporate relationships. Referral of business to our group’s Hong Kong based investment bank has resulted in debt and equity capital markets mandates for the Group. A proactive role is anticipated in rolling our CNH (offshore Renminbi/Yuan bond market) currency services in the London market. In addition to DimSum capital market bonds, bilateral and syndicated CNH floating and fixed rate facilities are expected to become more widespread in 2012 as CNH becomes a more common currency of trade with China and develops some reserve currency facets.

Liability Management

Reliance on our parent bank for funding has reduced significantly during recent years and in 2011 we had considerable success in further diversifying our sources of funding. In 2012 we will continue to diversify these and in particular, we will seek to expand our corporate term deposits. Other sources for new liabilities will include: agency accounts holding export receivables for loans jointly arranged with our parent bank; the club loan from six leading international banks and our new CD programme.

Reputation

The bank is authorised and regulated by the Financial Services Authority and structured in accordance with the principles of good corporate governance consistent with the status of our parent group. This includes: employing independent non-executive Directors; operating committees to ensure that adequate controls are employed in making all major policy and operating decisions; establishing clear policies and decision making processes and ensuring robust effectiveness of operating procedures through regular internal audit tests.

Employees

We aim to maintain a highly skilled work force to meet the challenges and opportunities 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 our organisation.
+ Supplement the skills of existing staff by recruiting suitably qualified new staff as appropriate.
+ Value diversity and promote a sensible work/ life balance.
+ Responsibly and appropriately reward contributions to our long term success.
+ Seek to retain staff through our “family friendly” policies dealing with all staff in a sensitive and pragmatic manner.

Jinlei Xu
Managing Director

Directors

+ **Lili Wang** (Chairman)
+ **Jinlei Xu**
+ **Jingfen Zhao** until 30 November 2011
+ **Bo Jiang** from 30 November 2011
+ **Graham Penny**
+ **Edwin Lacy**

Management team

+ **Jinlei Xu** (Managing Director)
+ **Bo Jiang** (Deputy Managing Director & Head of Marketing)
+ **John Kerr** (Deputy General Manager)
+ **Yamming Sun** (Deputy General Manager)
+ **Lingyan Kong** (Deputy General Manager)
+ **Qiang Xiao** (Head of Financial Control)
+ **Robert Clark** (Head of Credit)
+ **Qinghui Zeng** (Head of Banking)
+ **Peng Guo** (Head of IT)
+ **Guiqin Li** (Head of Treasury)

Secretary

+ **John Kerr**

Auditors

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

Registered office

+ 81 King William Street
  London
  EC4N 7BG

The directors present their report and the financial statements of the Company for the year ended 31 December 2011.

Company status

On 26 May 2011 ICBC (London) Limited re-registered as ICBC (London) plc. The change in status was made to facilitate the issue of non-equity securities in the company and the company remains a private company wholly owned by The Industrial and Commercial Bank of China Limited.

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 2011 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$17.94m (2010: US$17.70m). 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** (Resigned 30 November 2011)
+ **Bo Jiang** (elected to the board 30 November 2011)
+ **Graham Penny** (Non-executive)
+ **Edwin Lacy** (Non-executive)

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.

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Donations

During the financial year the Company made no charitable or political donations (in 2010 – Nil).

Going concern

The Company's management has made an assessment of the Company's ability to continue as a going concern. From their assessment of the business, there are four considerations which are the principal indicators of the Company's ability to continue as a going concern, being:

+ sufficient capital resources to sustain the Bank's existing and planned business activities and, at the same time, maintain compliance with regulatory requirements;

+ adequate liquidity to fund the Bank's ongoing lending activities and to satisfy regulatory requirements;

+ a credit portfolio of sufficient quality such that the level of losses is unlikely to threaten the capital adequacy of the Bank; and

+ the ability of the Bank to conduct its business and generate sufficient revenues to support its business.

Having carefully examined the Bank's projected business against each of these considerations the directors are satisfied that the Company has the resources to continue in business for the foreseeable future. Further, 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.

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.

By order of the board

John Kerr
Company Secretary
28 February 2012.

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

We have audited the financial statements of ICBC (London) plc for the year ended 31 December 2011 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes 1 to 33. 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 13 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 and express an opinion on 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. In addition, we read all the financial and non-financial information in the Report and Financial Statement to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2011 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 matter prescribed by the Companies Act 2006

In our opinion the information given in the Chairman's Statement, Managing Director's business review and the 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.
+ 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.

Ernst & Young LLP

Kenneth Eglinton
Senior Statutory Auditor For and on behalf of
Ernst & Young LLP, Statutory Auditor
London
Date: 22 March 2012

ICBC

Financial Statements

Unless otherwise specified, all figures in these Financial Statements and their notes are in US$000.

	Notes	2011	2010
Interest and similar income on loans and advances	2	46,991	31,328
Interest and similar income on other financial assets	2	11,406	10,369
Interest and similar expense	2	(20,890)	(14,528)
Net interest income		**37,507**	**27,169**
Fees and commission income	2	5,968	3,479
Fees and commission expense	2	(400)	(337)
Foreign exchange gain		595	316
Other operating income		1,759	438
Other operating expenditure		(1,586)	(246)
Non-interest income		**6,336**	**3,650**
Total income		**43,843**	**30,819**
Personnel expenses	3	9,261	6,362
Depreciation and amortisation	12	842	596
Impairment losses/(reversal)	9	297	(4,586)
Other operating expenses	5	8,694	3,733
Operating expenses		**19,094**	**6,105**
Profit on ordinary activities before tax		24,749	24,714
Tax charge on profit on ordinary activities	6	(6,810)	(7,011)
Profit for the financial year		**17,939**	**17,703**

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

The notes on pages 23 to 58 form part of these financial statements.

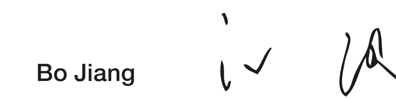
	2011	2010
Profit for the financial year	17,939	17,703
Change in fair value of financial instruments available-for-sale	1,135	1,829
Financial instruments available-for-sale reserve recycled through profit and loss upon disposal of the instruments	(351)	230
Change in fair value of cash flow hedge (Note 10)	(1,046)	(7,037)
Tax credit recognised through equity	584	1,403
Total recognised gains relating to the year	**18,261**	**14,128**

The notes on pages 23 to 58 form part of these financial statements.

	Notes	2011	2010
Assets			
Cash and balances at central banks		154	155
Loans and advances to banks	7	1,358,669	639,758
Loans and advances to customers	8	732,337	698,745
Derivative financial instruments	10	1,497	
Financial instruments available-for-sale	11	72,450	88,618
Financial instruments held-to-maturity	11	295,119	320,204
Tangible fixed assets	12	37,378	28,751
Prepayments, accrued income and other assets	13	12,305	8,817
Deferred tax assets	14	2,727	2,044
Total assets		**2,512,636**	**1,787,092**
Liabilities			
Deposits by banks	15	1,316,880	1,226,187
Customer accounts	16	831,368	219,866
Derivative financial instruments	24	8,805	7,345
Other liabilities	25	4,679	1,585
Accruals	17	6,433	5,373
Subordinated liability	32	100,000	100,000
Corporation tax		3,621	4,147
Total liabilities		**2,271,786**	**1,564,503**
Share capital and reserves			
Allotted and called up share capital	18	200,000	200,000
Retained earnings	19	44,950	27,038
Available-for-sale reserve	19	1,697	913
Cash flow hedge reserve	19	(5,797)	(5,362)
Equity shareholder's funds		**240,850**	**222,589**
Total liabilities and share capital and reserves		**2,512,636**	**1,787,092**
Memorandum Items			
Contingent liabilities and commitments	20	1,266,421	589,854

These financial statements were approved by the directors on 20 March 2012 and are signed on their behalf by:

Jinlei Xu

Bo Jiang 

The notes on pages 23 to 58 form part of these financial statements.

Notes to the financial statements

ICBC

1 Accounting policies

Basis of preparation

The financial statements of ICBC (London) plc ("the Company") were approved for issue by the Board of Directors on 20 March 2012.

The financial statements have been prepared in accordance with the special provisions of Schedule 2 of Large and Medium-sized Companies and Group (Accounts and Reports) Regulation 2008. The financial statements are prepared under the historical cost convention modified to include the revaluation of derivatives and other financial instruments.

Review of accounting policies

The accounting policies adopted are consistent with those used in the previous financial year.

Functional currency

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 Limited, 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 instruments, 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.

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 2011, the Company used the sterling exchange rate of 1.55365.

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:

+ Building (Land is not depreciable) 50 years

+ 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 benefit 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.

Onerous Lease provision

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The Company used the 7-year UK government bond yield as a discount factor. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

The Company is moving into a new office in March 2012 and leaving the three floors on the King Street building, the lease on which will then become onerous. The onerous contract provision represents the estimated expected shortfall in cash flows between the rental cost and the possible inflows resulting from a planned subleasing.

Financial instruments

Purchases or sales of financial assets that require delivery of assets within the timeframe 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.

Repo – Sale and repurchase agreements

Securities sold subject to repurchase agreements (repos) continue to be recognised on the balance sheet where substantially all of the risks and rewards are retained. Funds received under these arrangements are included in deposits by banks.

Conversely, securities purchased under agreements to resell (reverse repos), where the company does not acquire substantially all of the risks and rewards of ownership, are recorded as loans and advances.

The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

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.

Financial instruments available-for-sale

Financial instruments 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 instruments available-for-sale, all financial instruments are to be carried at fair value. After initial measurement, financial instruments 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

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in the same security they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding financial instruments available-for-sale is reported as interest income using the effective interest rate. The losses arising from impairment of such instruments are recognised in the profit and loss account and removed from the available-for-sale reserve.

Financial instruments held-to-maturity

Financial instruments 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 instruments (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. 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 instruments 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 instruments 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.

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.

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 assets' 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 instruments available-for-sale

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

Impairment is assessed based on the same criteria as financial assets carried at amortised cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of 'interest receivable'. 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 instruments held-to-maturity

Financial instruments 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 instruments (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. Any 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 is 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

	Loans and advances	Financial instruments available-for-sale	Financial instruments held-to maturity	Derivative financial instruments at fair value through profit and loss	Deposits by banks and customer accounts	**Total**
2011						
Interest receivable from financial instruments	–	1,497	9,909	–	–	11,406
Other interest receivable	46,991	–	–	–	–	46,991
Interest payable	–	–	–	(3,260)	(17,630)	(20,890)
Net interest income	**46,991**	**1,497**	**9,909**	**(3,260)**	**(17,630)**	**37,507**
Fees and commissions receivable	5,968					
Fees and commissions expense	(400)					
Net fee income	**5,568**					
2010						
Interest receivable from financial instruments	–	1,490	8,879	–	–	10,369
Other interest receivable	31,328	–	–	–	–	31,328
Interest payable	–	–	–	(3,546)	(10,982)	(14,528)
Net interest income	**31,328**	**1,490**	**8,879**	**(3,546)**	**(10,982)**	**27,169**
Fees and commissions receivable	3,479					
Fees and commissions expense	(337)					
Net fee income	**3,142**					

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3. Staff costs

Staff costs (including directors) comprise the following:

	2011	2010
Wages and salaries	5,695	4,412
Social security costs	810	791
Pensions costs	184	165
Other costs	2,572	994
	9,261	**6,362**

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

	2011 No.	2010 No.
Retail banking	17	15
Corporate banking	13	11
Investment banking	6	4
Accounts and IT	9	8
Administration	11	9
Other	6	3
	62	**50**

4. Directors' emoluments

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

	2011	2010
Emoluments	832	937

The emoluments of the highest paid director were as follows:

	2011	2010
Salary and benefits and performance related bonuses	425	457

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

5. Other operating expenses

Other operating expenses include:

	2011	2010
Operating lease charges – property	1,272	1,205
Auditors' remuneration:		
• Audit of the financial statements	135	110
• Taxation services	30	10

6. Tax on profit on ordinary activities

The tax charge is made up as follows:

	2011	2010
Current tax:		
UK corporation tax	(6,874)	(7,039)
Adjustments in respect of prior years	(35)	120
Total current tax charge for the year	**(6,909)**	**(6,919)**
Deferred tax:		
Origination and reversal of timing differences	(11)	(47)
Adjustments in respect of prior years	110	(45)
Total deferred tax credit/(charge) for the year	**99**	**(92)**
Total charge for the year	**(6,810)**	**(7,011)**

The tax assessed on the profit on ordinary activities for the year is the standard rate of corporation tax in the UK of 26.5% (2010: 28%). The differences are reconciled below:

	2011	2010
Profit on ordinary activities before tax	24,749	24,714
Profit/(Loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 26.5% (2010: 28%)	6,558	6,920
Effects of:		
Expenses not deductible for tax purposes	327	166
Capital allowances in excess of depreciation of qualifying assets	(11)	(47)
Adjustments in respect of prior years	35	(120)
Current tax charge for year	**6,909**	**6,919**

7. Loans and advances to banks

	Notes	2011	2010
Gross loans and advances to banks		1,360,738	641,039
Loan fees received in advance and unamortised discount on bills		(1,773)	(1,281)
Less: Allowance for impairment losses	9	(296)	–
Net loans and advances to customers		**1,358,669**	**639,758**

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:

	2011	2010
Repayable:		
• on demand	360,628	5,625
• three months or less	775,588	421,353
• one year or less but over three months	159,522	70,875
• five years or less but over one year	65,000	143,186
	1,360,738	**641,039**

Gross loans and advances to banks by geographical area:

	2011	2010
China	656,684	282,708
United States	350,458	68,064
United Kingdom	131,750	124,024
Egypt	60,000	25,000
Luxembourg	45,442	–
Turkey	39,236	–
South Africa	30,000	30,000
Qatar	19,500	36,000
Morocco	16,615	17,170
Italy	6,492	6,709
Others	4,561	51,364
	1,360,738	**641,039**
Amounts include:		
Due from parent undertaking	**382,104**	**304,017**

8. Loans and advances to customers

	Notes	2011	2010
Gross loans and advances to customers		740,330	707,206
Loan fees received in advance and unamortised discount on bills		(5,766)	(6,234)
Less: Allowance for impairment losses	9	(2,227)	(2,227)
Net loans and advances to customers		**732,337**	**698,745**

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:

	2011	2010
• on demand	–	–
• three months or less	409,174	237,563
• one year or less but over three months	34,937	128,923
• five years or less but over one year	200,861	210,707
• over five years	95,358	130,013
	740,330	**707,206**

Gross loans and advances to customers by geographical area:

	2011	2010
United Kingdom	155,778	97,718
Switzerland	104,818	61,952
Netherland	93,513	113,469
United States	90,434	25,054
France	82,390	91,067
Ireland	70,000	70,000
Cyprus	30,736	–
Singapore	29,720	28,406
Venezuela	20,000	30,000
Hong Kong	20,000	–
Ghana	17,000	86,500
Bermuda	12,650	5,322
Others	13,291	97,718
	740,330	**707,206**

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9. Impairment allowance

	Financial instruments available-for-sale	Loan and advances – banks	Loan and advances – customers	**Total**
Balance at 1 January 2010	11,596	17,153	2,200	30,949
Charge for the year	–	–	27	27
Amounts reversed on disposal	(11,123)	15,966)	–	(27,089)
Foreign currency translation difference	(473)	(1,187)	–	(1,660)
Balance at 31 December 2010	**–**	**–**	**2,227**	**2,227**
Charge for the year	–	296	–	296
Amounts reversed on disposal	–	–	–	–
Foreign currency translation difference	–	–	–	–
Balance at 31 December 2011	**–**	**296**	**2,227**	**2,523**

After its yearly assessment, the Company has remained its provision level on the individual impaired asset. Due to the Eurozone crisis, the Company has carefully considered its exposure to the European banks and has established an impairment provision of $296k.

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 similarly hedged with currency swaps.

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.

	2011			2010		
	Notional principal amount	Positive fair value	Negative fair value	Notional principal amount	Positive fair value	Negative fair value
Foreign exchange derivatives						
• Forward foreign exchange contracts	6,596	52	–	–	–	–
• Swaps	70,327	1,445	(414)	–	–	–
At 31 December	**76,923**	**1,497**	**(414)**	**–**	**–**	**–**
Interest rate derivatives						
• Swaps	180,221	–	(8,391)	182,415	–	(7,345)
• Forward rate agreements	–	–	–	–	–	–
At 31 December	**180,221**	**–**	**(8,391)**	**182,415**	**–**	**(7,345)**

During the year, the Company has remained same level of interest rate swaps against rolling short term funding. The decrease of US$ 1.046 million in the fair value of the swaps has been recognised in the cash flow hedge reserve (Note 19).

11. Financial instruments

Financial instruments: available-for-sale

	Notes	2011	2010
Balance at 1 January		88,618	106,945
Additions		12,429	–
Disposals		(28,580)	(21,709)
Fair value adjustment		1,397	(1,953)
Impairment reversal/(charge)	9	–	11,123
Foreign exchange differences		(1,414)	(5,788)
Balance at 31 December		**72,450**	**88,618**
Analysed by maturity:			
• due within one year		33,771	28,929
• due after one year		38,679	59,689
Analysed by listing status:			
• listed		72,450	88,618
Analysed by sector:			
• private sector		56,568	72,316
• public sector		15,882	16,302

11. Financial instruments (continued)

Financial instruments: held-to-maturity

	2011	2010
Balance at 1 January	320,204	219,901
Additions	44,783	153,354
Redemptions	(70,896)	(44,986)
Premium and discount amortisation	880	535
Foreign exchange difference	148	(8,600)
Balance at 31 December	**295,119**	**320,204**
Analysed by maturity:		
• due within one year	35,774	57,720
• due after one year	259,345	262,484
Analysed by listing status:		
• listed	295,119	320,204
Analysed by sector:		
• private sector	284,518	309,101
• public sector	10,601	11,103

Included in the amounts reported above are assets subject to repurchase agreements with a carrying value of £34.9 million (2010: nil); the value of the related liability is £34.7 million (2010: nil).

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12. Tangible fixed assets

	Land and buildings	Construction In Progress	Office furniture and equipment	Computers	Motor Vehicles	Leasehold Improvement	**Total**
Cost:							
At 1 January 2011	27,855	–	411	486	89	1,567	30,408
Additions	–	9,414	26	50	–	–	9,490
Disposals	–	–	–	–	(40)	(440)	(480)
At 31 December 2011	**27,855**	**9,414**	**437**	**536**	**49**	**1,127**	**39,418**
Depreciation:							
At 1 January 2011	220	–	199	413	89	757	1,678
Charge for the year	479	–	74	60	–	229	842
Disposal	–	-	-	-	(40)	(440)	(480)
At 31 December 2011	**699**	**-**	**273**	**473**	**49**	**546**	**2,040**
Net book value:							
At 31 December 2011	**27,156**	**9,414**	**164**	**63**	**–**	**581**	**37,378**
At 31 December 2010	**27,635**	**–**	**212**	**73**	**–**	**831**	**28,730**

13. Prepayments, accrued income and other assets

	2011	2010
Accrued income	11,170	8,054
Prepayments	652	404
Amount owing from group undertakings	87	52
Other assets	396	307
	12,305	**8,817**

14. Deferred tax assets

	2011	2010
Deferred tax assets included in the balance sheet comprise the following:		
Decelerated/(Accelerated) capital allowance	56	(43)
Other timing differences	2,671	2,087
	2,727	**2,044**

Movement in deferred tax assets during the year is as follows:		
Balance at 1 January	2,044	178
Deferred tax credited/(charged) to the profit and loss account (Note 6)	99	(92)
Deferred tax credited to equity	584	1,958
Balance at 31 December	**2,727**	**2,044**

The Finance Act 2011 includes legislation to reduce the main rate of corporation tax to 25% from 1 April 2012.

Further reductions to the main rate are proposed to reduce the rate by 1% per year to 23% by 1 April 2014. These changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements. In the Directors' opinion, these changes will not have a significant impact on the deferred tax balances.

15. Deposits by banks

	2011	2010
Repayable:		
• on demand	71,550	65,015
• three months or less	406,017	552,402
• one year or less but over three months	808,313	527,770
• five years or less but over one year	31,000	81,000
	1,316,880	**1,226,187**
Amounts include:		
Deposits by parent undertaking	629,595	705,920

Included in the amounts reported above are assets subject to repurchase agreements with a carrying value of £34.9 million (2010: nil); the value of the related liability is £34.7 million (2010: nil).

16. Customer accounts

	2011	2010
Repayable:		
• on demand	277,282	72,096
• three months or less	352,146	91,444
• one year or less but over three months	201,940	56,326
	831,368	**219,866**

17. Accruals

	2011	2010
Accrued interest payable	6,433	5,373
	6,433	**5,373**

18. Share capital

	2011	2010
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**

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

	Share capital	Retained earnings	Available-for-sale reserve	Cash flow hedge reserve	Total share holder's funds
At 1 January 2010	200,000	9,915	(1,146)	(308)	208,461
Profit for the year	–	17,703	–	–	17,703
Change in fair value of financial instruments available-for-sale	–	–	1,829	–	1,829
Tax charge on change in fair value of financial instruments available-for-sale	–	(555)	–	–	(555)
Financial instruments available-for-sale reserve recycled through profit and loss upon disposal of the instruments	–	–	230	–	230
Change in cash flow hedge reserve	–	–	–	(7,037)	(7,037)
Deferred tax asset recognised through equity	–	(25)	–	1,983	1,958
At 31 December 2010	**200,000**	**27,038**	**913**	**(5,362)**	**222,589**
At 1 January 2011	200,000	27,038	913	(5,362)	222,589
Profit for the year	–	17,939	–	–	17,939
Change in fair value of financial instruments available-for-sale	–	–	1,135	–	1,135
Tax charge on change in fair value of financial instruments available-for-sale	–	–	–	–	–
Financial instruments available-for-sale reserve recycled through profit and loss upon disposal of the instruments	–	–	(351)	–	(351)
Change in FVcash flow hedge reserve	–	–	–	(1,046)	(1,046)
Deferred tax asset recognised through equity	–	(27)	–	611	584
At 31 December 2011	**200,000**	**44,950**	**1,697**	**(5,797)**	**240,850**

20. Contingent liabilities and commitments

	2011	2010
Undrawn documentary credits and short-term trade related transactions	293,702	169,039
Undrawn loans and advances	972,719	420,815
	1,266,421	**589,854**

Operating lease commitments

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

	2011	2010
Within one year	272	–
Within two to five years	–	274
More than five years	628	633

The Company is moving into a new office in March 2012 and leaving three floors of the King Street premises vacant. An onerous lease provision of $2.1m has been established (note 25).

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 is a wholly owned subsidiary of The Industrial and Commercial Bank of China Limited. 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 Limited which are publicly available.

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

	2011	2010
Assets:		
Denominated in US Dollars	2,018,599	1,399,418
Denominated in currencies other than US Dollars	494,037	387,674
Total assets	**2,512,636**	**1,787,092**
Liabilities and shareholder’s funds:		
Denominated in US Dollars	1,844,508	1,178,087
Denominated in currencies other than US Dollars	427,278	386,416
Total liabilities	**2,271,786**	**1,564,503**
Denominated in US Dollars	240,850	222,589
Total shareholder’s funds	**240,850**	**222,589**

24. Fair values of financial instruments

For the determination of the fair values 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 and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Financial instruments – available-for-sale

Fair values of instruments listed in active markets are based on bid prices at the balance sheet date. A gain of US$ 351,444 was recycled to other operating income as a result of redemptions of available for sale financial instruments during the year.

Fair value hierarchy

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 values of financial instruments (continued)

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

2011	Level 1	Level 2	Level 3	**Total**
Assets				
Derivative financial instruments:				
• Forwards	–	1,497	–	1,497
Financial instrumentss available-for-sale:				
• Government debt securities	15,882	–	–	15,882
• Other debt securities	56,568	–	–	56,568
	72,450	**1,497**	**–**	**73,947**
Liabilities				
Derivative financial instruments:				
• Foreign Exchange Forwards	–	414	–	414
• Interest rate swaps	–	8,391	–	8,391
	–	**8,805**	**–**	**8,805**

2010	Level 1	Level 2	Level 3	**Total**
Assets				
Financial instruments available-for-sale:				
• Government debt securities	16,302	–	–	16,302
• Other debt securities	72,316	–	–	72,316
	88,618	**–**	**–**	**88,618**
Liabilities				
Derivative financial instruments:				
• Interest rate swaps	–	7,345	–	7,345
	–	**7,345**	**–**	**7,345**

24. Fair values of financial instruments (continued)

Fair value of financial instruments 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 loans and receivables and deposits, the carrying amounts are not significantly different from their fair value.

25. Other Liabilities

Included in other liabilities is an onerous lease provision of $2,102,000 as described in note 20.

	2011	2010
Onerous lease provision	**2,102**	**–**

26. Ultimate parent company

The ultimate parent company and controlling party is The Industrial and Commercial Bank of China Limited, 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 Limited are available from 55, Fuxingmennei Dajie, Beijing, 100140, China.

27. Risk management

The Company adopts a comprehensive risk management system where the Board of Directors, the Senior Management and other employees of the Company perform their respective duties and responsibilities in supervising and managing various risks at different levels.

The Company's organisational structure of risk management corresponds to this comprehensive risk management system. At the Board level, there is a Risk Oversight Committee and an Audit Committee; at the Executive Management level, there is a Risk Management Committee and a Credit Committee, performing risk management responsibilities.

The principles of risk management include a fine balance of risks and returns, and internal checks and balances with regards to efficiency, risk diversification, and combination of quantitative and qualitative analysis.

Adequate policies are in place to guide the Company's risk management in various business areas. The major policies are:

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

Risk mitigation

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

Departmental policy and procedure manuals are written in accordance with the Company's approach to the management of these risks. 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 its overall market risk management, the Company uses derivatives and other financial instruments to manage risk exposures against interest rate and exchange rate changes. In accordance with 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 Treasury Department and monitored regularly.

28. 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 & Poor's and Fitch in the exercise of evaluating credit risk and building a risk profile of the counterparty.

The Company uses an internal scoring model to grade corporates that are not rated by the three external credit rating 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 and sub-investment grade financial assets are by Moody's, Standard & Poor's and Fitch's. In the absence of a rating by Moody's, Standard & Poor's or Fitch, customers are categorised as unrated (although the Company assigns internal ratings as part of the credit assessment).

Limits for banks have been reviewed and approved annually by the Credit Committee and the 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. Credit, Marketing and Treasury Departments operate within the limits approved.

Counterparty credit risk in our debt securities is based on policy guidelines relying on credit analysis and credit ratings by Moody's, Standard & Poor's or Fitch. Acquisition of debt securities by Treasury is carried out in accordance with Company policy (subject to Credit Committee and Board approval) to ensure that only securities judged to be of investment grade are acquired.

28. Credit risk (continued)

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.

	2011		2010	
	Gross maximum exposure	Net maximum exposure	Gross maximum exposure	Net maximum exposure
Loans and advances to banks	1,360,738	1,360,442	641,039	641,039
Loans and advances to customers	740,330	525,253	707,206	574,967
Financial instruments available-for-sale	72,450	72,450	88,618	88,618
Financial instruments held-to-maturity	295,119	295,119	320,204	320,204
	2,468,637	**2,253,264**	**1,757,067**	**1,624,828**
Contingent liabilities	–	–	–	–
Commitments	1,266,421	1,266,421	589,854	589,854
	1,266,421	**1,266,421**	**589,854**	**589,854**
Total credit risk exposure	**3,735,058**	**3,519,685**	**2,346,921**	**2,214,682**
Impairment provisions	–	2,523	–	2,227
Deposits by parent undertaking	**212,850**	**–**	**130,013**	**–**

The Company has funded some of its syndicated loans portfolio by way of the master netting agreement with its parent undertaking effective in 2007. 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 will only be released when corresponding loans participations are fully repaid.

28. Credit risk (continued)

Credit quality per class of financial assets

At 31 December	2011 Current	2011 Overdue	2010 Current	2010 Overdue
Loans and advances to banks				
Investment grade	1,249,174	–	607,226	–
Sub-investment grade	75,881	–	–	–
Unrated	35,683	–	33,813	–
	1,360,738	**–**	**641,039**	**–**

At 31 December	2011 Current	2011 Overdue	2010 Current	2010 Overdue
Loans and advances to customers				
Investment grade	326,226	–	304,313	–
Sub-investment grade	97,998	–	30,000	–
Unrated	316,106	–	70,666	–
	740,330	**–**	**704,979**	**–**

At 31 December	2011 Available for sale	2011 Held to-maturity	2010 Available for sale	2010 Held to-maturity
Financial instruments				
Investment grade	72,419	295,119	88,588	310,424
Sub-investment grade	–	–	–	9,780
Unrated	31	–	30	–
	72,450	**295,119**	**88,618**	**320,204**

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28. Credit risk (continued)

Regional Exposure

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

	2011 Exposure US $million	2011 Exposure %	2010 Exposure US$million	2010 Exposure %
Asia and Pacific	1,077	28.8	576	24.5
Europe:				
• United Kingdom	721	20.4	516	22.0
• Other EU	831	21.8	529	22.5
• Non EU	255	6.7	166	7.1
Middle East	80	2.1	82	3.5
North America	570	15.0	174	7.4
South America	51	1.3	120	5.1
Africa	150	3.9	184	7.9
Total regional exposures	**3,735**	**100**	**2,347**	**100**

29. 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.

	2011		2010	
	Contractual cash flow band		Contractual cash flow band	
	Up-to 8 days	Up-to 1 month	Up-to 8 days	Up-to 1 month
At 31 December				
Cumulative inflows	828,494	1,217,208	567,136	799,966
Cumulative outflows	(655,811)	(910,657)	(259,609)	(503,302)
Net cash inflows	**172,683**	**306,551**	**307,527**	**296,664**
Total deposits	**2,214,753**		**1,546,053**	
Liquidity mismatch ratio	**7.80 %**	**13.84 %**	**19.89 %**	**19.19 %**

29. 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.

2011	Not more than 1 month	More than 1 month but 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	**Total**
Financial assets							
Cash and balances with central bank	154	–	–	–	–	–	154
Loans and advances:							
• to banks	585,592	555,381	71,944	88,863	65,359	–	1,367,139
• to customers	312,409	97,623	–	35,047	202,522	96,170	743,771
Net settled derivative assets	23,411	24,508	371	35,047	–	–	83,337
Financial instruments:							
• available-for-sale	–	7,789	–	26,095	39,347	31	73,262
• held-to-maturity	7,784	23,403	5,076	–	264,062	–	300,325
Total undiscounted financial assets	**929,350**	**708,704**	**77,391**	**185,052**	**571,290**	**96,201**	**2,567,988**
Financial liabilities							
Deposits by banks	256,896	222,473	482,741	330,663	131,480	–	1,424,253
Customer accounts	510,114	120,086	195,925	7,842	–	–	833,967
Net settled derivative liabilities	22,005	25,266	2,938	34,560	–	–	84,769
Total undiscounted financial liabilities	**789,015**	**367,825**	**681,604**	**373,065**	**131,480**	–	**2,342,989**
Net undiscounted financial assets/ (liabilities)	**140,335**	**340,879**	**(604,213)**	**(188,013)**	**439,810**	**96,201**	**224,999**

29. 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.

	Not more than 1 month	More than 1 month but 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	Total
2010							
Financial assets							
Cash and balances with central bank	155	–	–	–	–	–	155
Loans and advances:							
• to banks	247,430	180,236	42,997	29,133	143,765	–	643,561
• to customers	193,248	49,165	15,186	150,640	222,398	80,642	711,279
Net settled derivative assets	320	1,071	332	–	–	–	1,723
Financial instruments:							
• available-for-sale	9,390	6,726	–	12,888	60,305	30	89,339
• held-to-maturity	–	28,885	8,592	21,305	267,304	–	326,086
Total undiscounted financial assets	**450,543**	**266,083**	**67,107**	**213,966**	**693,772**	**80,672**	**1,772,143**
Financial liabilities							
Deposits by banks	318,580	301,146	329,746	200,450	186,307	–	1,336,229
Customer accounts	103,237	60,464	54,975	1,590	–	–	220,266
Net settled derivative liabilities	382	1,454	2,999	–	–	–	4,835
Total undiscounted financial liabilities	**422,199**	**363,064**	**387,720**	**202,040**	**186,307**	**–**	**1,561,330**
Net undiscounted financial assets/ (liabilities)	**28,344**	**(96,981)**	**(320,613)**	**11,926**	**507,465**	**80,672**	**210,813**

/ Notes to the financial statements
at 31 December 2011

29. 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
2011						
Commitments	199,042	37,967	124,590	228,357	676,465	1,266,421
Total	**199,042**	**37,967**	**124,950**	**228,357**	**676,465**	**1,266,421**
2010						
Commitments	69,378	42,236	64,004	49,036	365,200	589,854
Total	**69,378**	**42,236**	**64,004**	**365,200**	**365,200**	**589,854**

30. 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 minimal.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair value of financial instruments. The interest rate sensitivity exposure of the Company at 31 December 2011 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 profit and loss account 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 2011, including the effect of hedging instruments.

30. Market risk (continued)

Interest rate sensitivity table

2011	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
Assets							
Liquid assets	–	–	–	–	–	154	154
Loans and advances:							
• to banks	1,247,699	61,987	51,052	–	–	(2,069)	1,358,669
• to customers	686,208	51,895	–	–	–	(5,766)	732,337
Financial instruments:							
• available-for-sale	33,771	–	–	38,648	_	31	72,450
• held-to-maturity	144,256	–	–	150,863	–	–	295,119
Fixed and other assets	–	–	–	–	–	53,907	53,907
Total assets	**2,111,934**	**113,882**	**51,052**	**189,511**	**–**	**46,257**	**2,512,636**
Liabilities and shareholder's funds							
Deposits by banks	987,315	429,565	–	–	–	–	1,416,880
Customer accounts	629,428	194,233	7,707	–	–	–	831,368
Other liabilities	–	–	–	–	–	23,538	23,538
Shareholder's funds	–	–	–	–		240,850	240,850
Total liabilities and shareholder's funds	**1,616,743**	**623,798**	**7,707**	**–**	**–**	**264,388**	**2,512,636**
Off balance sheet	140,221	40,000	–	(180,221)	–	–	–
Interest rate sensitivity gap	**635,412**	**(469,916)**	**43,345**	**9,290**	**–**	**(218,131)**	**–**
Cumulative gap	**635,412**	**165,496**	**208,841**	**218,131**	**218,131**	**–**	**–**

The table below shows how interest rate movements affect profit and loss of the Company for 2011:

Basis points							
+ 100	794	(587)	108	186	–	–	501
+ 200	1,589	(1,175)	217	372	–	–	1,003
- 100	(794)	587	(108)	(186)	–	–	(501)
- 200	(1,589)	1,175	(217)	(372)	–	–	(1,003)

For each shift in the basis points on its funding rate, the Company can expect the change in the amount of its profit or loss as illustrated. The impact on the repricing periods shows a net profit and a net loss respectively to a positive and negative shift in the basis points.

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30. Market risk (continued)

Interest rate sensitivity table

2010	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
Assets							
Liquid assets	–	–	–	–	–	155	155
Loans and advances:							
• to banks	560,494	35,011	28,364	17,170	–	(1,281)	639,758
• to customers	598,902	106,077	–	–	–	(6,234)	698,745
Financial instruments:							
• available-for-sale	62,616	–	–	25,972	–	30	88,618
• held-to-maturity	165,692	8,283	–	146,229	–	–	320,204
Fixed and other assets	–	–	–	–	–	39,612	39,612
Total assets	**1,387,704**	**149,371**	**28,364**	**189,371**	**–**	**32,282**	**1,787,092**
Liabilities and shareholder's funds							
Deposits by banks	917,417	327,770	–	81,000	–	–	1,326,187
Customer accounts	163,539	54,757	1,570	–	–	–	219,866
Other liabilities	–	–	–	–	–	18,450	25,965
Shareholder's funds	–	–	–	–	–	222,589	222,589
Total liabilities and shareholder's funds	**1,080,956**	**382,527**	**1,570**	**81,000**	**–**	**241,039**	**1,787,092**
Off balance sheet	142,415	40,000	–	(182,415)	–	–	–
Interest rate sensitivity gap	**449,163**	**(193,156)**	**26,794**	**(74,044)**	**–**	**(208,757)**	**–**
Cumulative gap	**449,163**	**256,007**	**282,801**	**208,757**	**208,757**	**–**	**–**

The table below shows how interest rate movements affect profit and loss of the Company for 2010:

Basis points							
+ 100	561	(241)	67	(1,481)	–	–	(1,094)
+ 200	1,123	(483)	134	(2,962)	–	–	(2,188)
- 100	(561)	241	(67)	1,481	–	–	1,094
- 200	(1,123)	483	(134)	2,962	–	–	2,188

For each shift in the basis points on its funding rate, the Company can expect the change in the amount of its profit or loss as illustrated. The impact on the repricing periods within one year shows a net profit and a net loss respectively to a positive and negative shift in the basis points. However, for the repricing periods exceeding one year, even though it shows a reverse effect, the directors are confident of being able to manage the situation to avoid a negative impact on the profit and loss account.

31. 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. Operational procedures are reviewed regularly by Senior Management and Internal Audit, and with a frequency determined by the level of risks involved.

32. 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 healthy capital ratios in order to support its business and to maximise shareholder 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.

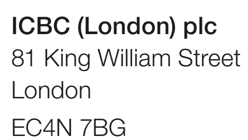
Regulatory capital	2011		2010	
	Actual	Required	Actual	Required
Tier 1 capital	240,850	192,532	222,589	137,926
Tier 2 capital	80,296	–	100,000	–
Total capital	**321,146**	**192,532**	**322,589**	**137,926**
Risk weighted assets	1,457,991		1,040,219	
Tier 1 capital ratio	16.52%		21.4%	
Tier 2 capital ratio	5.51%		9.61%	
Total capital ratio	**22.03%**		**31.01%**	

In 2009 the Company has entered into an agreement with its parent in order to secure a subordinated loan for the purpose of strengthening its capital. A 5-year loan of US$100 million to mature on 20 February 2015 was later agreed during the year. The interest payment will carry a margin of 0.5% plus a Libor rate which is to be fixed on a quarterly basis.

33. FSA Pillar 3 disclosures

The FSA's Pillar 3 disclosures can be found at the following web address: www.icbclondon.com

Design & Production
Sotomayor Designers Ltd
www.sotomayor.co.uk
www.sotomayormac.com



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