ICBC (London) Plc

Report and Financial Statements

31 December 2014

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Chairman's Statement

I am delighted to present this, my first annual report as Chairman of ICBC (London) plc ('the Bank'). 2014 was a momentous year for ICBC in the UK, in large part because the UK regulatory authorities granted our parent bank a licence to operate a branch - the first bank branch to be established in the UK by a mainland Chinese bank since the founding of the Peoples Republic of China in 1949. This new branch will complement ICBC (London) plc with both legal entities working together to provide a much enhanced service to the ICBC Group's customers both in the UK and around the world.

In 2014 we saw an 11% increase in our net income to $66.67 million (2013: $60.05 million). However, we increased our provisions for bad and doubtful debts by $14.71 million, a significant increase on 2013 (2013: $0.29 million). Our resultant profit for the year after tax and provisions was $23.92million. In keeping with our prudent approach we have recognised the possible effects of current geo-political uncertainty in some of our markets in which we operate – particularly in Eastern Europe - and added a small number of assets to our Watchlist.

During the year our total operating expenses increased by 69% to $36.15 million (2013: $21.35 million). The most significant factors which led to this increase were additional staff to cope with our increased levels of business and the additional impairment provisions. Our overall staff numbers increased by 12 in 2014 (from 88 to 100) – a rise of 14%. I would like to welcome each new member of staff to ICBC and thank the management team and all staff for their important contribution to the Bank's successful year.

In taking over this role of Chairman of ICBC (London) plc I am very conscious of the precedent set for me by my predecessor Madam Lili Wang who, through her wise Chairmanship, steered the Bank from its inception in 2003 to the successful Bank we have today and I would like to thank her for the enormous contribution she made. There have also been other important changes in the Board composition during the year. In March 2014, Ms Jin Chen was appointed as our new Managing Director and has quickly adapted to the role, leading the Bank with energy and vision during this momentous and successful period. In December 2014, Mr Bo Jiang, who had been with the Bank since its inception, left to take up new duties in China and he was replaced by another colleague from our parent Bank, Dr Shuyi Yuan. I would like to thank Mr Jiang for the contribution he made and welcome Dr Yuan to the Board. I would also like to thank the non executive directors for their continued support and wise counsel during this period of change.

Dr Shu Gu
Chairman

Strategic Report

Introduction

After a long period of downturn, 2014 witnessed UK economic growth of 2.6%, the fastest pace since the 2007 financial crisis and the strongest growth amongst the G7. Whilst this growth is expected to slow a little into 2015, the UK remains the strongest of the large European economies. The global economic recovery, however, appears less robust than it did a year ago, with heightened geopolitical tensions in Russia/Ukraine and the Middle East and the threat of deflation in the Eurozone.

We, at ICBC (London) plc, together with our parent bank in Beijing, have always preferred to view economic trends over the longer term. Our commitment to the UK market is based on cautious long-term optimism.

This approach of cautious optimism resulted again in 2014 in another strong year for ICBC (London) plc. Overall the Bank made a profit before tax of $30.53 million (2013: $38.70 million) and increased total assets to $3.83bn (2013: $3.46bn).

There has been much talk of the slowdown in the Chinese economy, which grew at 7.4% in 2014 (2013: 7.5%). Whilst this is significantly higher than western economies, it was lower than China's own official target of 7.5% and the weakest in 24 years. However, it is worth noting that China's economic size means that slower growth now generates as much additional demand as it did in previous years when growth rates were much higher. Last year, China's growth yielded an extra 4.8 trillion yuan in GDP, almost exactly the same as in 2007, when growth was running at 14.2%. If anything, what we are perhaps witnessing is a more balanced and stable economy.

The year saw further economic collaboration between the British and Chinese governments and the publication of the Prudential Regulation Authority's new approach on regulating branches of international banks. This culminated in our parent bank's successful application to the UK regulators to open a branch in London, the first such international branch to open under the new regulatory regime. ICBC London Branch was granted its banking licence in September 2014, enabling ICBC (London) plc to enhance the quality, scale and flexibility of the services being offered to our clients.

Summary of Business

The Bank made a profit before tax of $30.53 million in 2014. This was below our target of $46 million due mainly to the impaired loan provisions. The majority of credit exposures were of a good quality, with two new impaired assets totalling $30m being recognised in 2014. In addition, the number of 'Watchlist' items rose in the second half of the year as Russian counterparties were downgraded to reflect the deteriorating geopolitical and international sanctions risks within Russia.

Total assets as at 31 December 2014 were $3.83billion, an increase of 11% compared to 2013 (2013: $3.46 billion). This has mainly been driven by the corporate loan book increasing by $305 million to $2.1billion.

Interest income increased by 26% to $89.34 million compared with last year (2013: $71.09 million) and improved for most asset types.

The average return on interest earning assets reached 2.4% in 2014, increasing by 19 basis points from 2013. The average return on corporate loans was 3.3%, increasing by 2 basis points from the previous year. The fastest growth in return came from money market transactions, which increased by 40 basis points compared to the same period last year.

Strategic Report

Our total liabilities grew in 2014 by 10.7% to $3.5 billion led by increases to our client deposits and wholesale borrowing with major international banks continuing to form a significant part of our funding profile. We continue to actively work towards further diversifying our sources of funding.

All capital ratios at the end of the year were well within regulatory requirements with surplus capital being held against Pillar 2 requirements. The year saw important regulatory changes that the Bank has implemented. The Capital Requirements Directive IV (CRD IV) and Capital Requirements Regulation (CRR) came into force in 2014 covering a range of prudential and governance matters, including minimum capital levels and countercyclical buffers through to governance requirements and remuneration rules. The Bank has implemented Common Reporting (COREP) to the regulators with the increases in granularity and numbers of reported data items compared with the previous FSA regime. In addition, new liquidity rules have also been implemented around the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR).

Corporate banking activities increased with an expanding client base. The ICBC London Branch licence has allowed ICBC as a group to provide increased commitments to key clients, as a result of which some relationships have migrated from ICBC (London) plc to ICBC London Branch. Nevertheless, certain business activities will continue to be booked there.

The increasing investment activities of Chinese corporations and institutions in the UK market are providing strong growth opportunities for ICBC's London operations, alongside the important local relationships with major national and multinational companies.

Commercial real estate lending operations have been established, supporting other lending and treasury products areas, where capabilities are also expanding.

Principal risks

The Bank has in place a risk management framework where the Board of Directors, the Senior Management and other employees of the Bank perform their respective duties and responsibilities in supervising and managing various risks at different levels.

The Bank's organisational structure of risk management corresponds to this risk management framework. At the Board level, there is a Risk Committee and an Audit Committee; at the Executive Management level, there is an Asset & Liability Management Committee (ALCO) and a Credit Committee, performing risk management and oversight 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. There are policies in place to guide the Bank's risk management in various business areas.

The major financial risks faced by the Bank include credit risk, liquidity risk, market risk and operational risk. Further information on these risks is included in Notes 27-32.

Departmental policy and procedure manuals are written in accordance with the Bank's approach to the management of these risks. Employees are required to operate within the guidelines set out in bank-wide policies and their own departmental procedures. The Risk, Compliance and Internal Audit departments periodically carry out reviews to assess compliance.

Expenses

Total operating expenses for 2014 were $36.15 million, higher than previous year (2013: $21.35 million). Our staff costs increased by 15% to $14.90 million, reflecting staff increases for new business growth and our enhanced risk focus. Rental and fixed asset depreciation dropped due to the temporary closure of our Chinatown Branch for refurbishment. Our cost income ratio (cost excludes impairment) was 32%, down against 2013 (2013: 35%).

Strategic Report

Future Developments

With the granting of a branch licence from the UK regulators, London is seen as an important financial centre for our parent bank. Further business will develop through both the London subsidiary and branch. Our approach to developing our markets, products and services since the subsidiary's establishment in 2003 has been cautious and gradual. We have ensured that we have built up the appropriate competencies and controls before embarking on new ventures. Our future development will continue in a similar manner.

We will increasingly consider pan-European opportunities, as well as those in emerging markets, notably Africa, working closely with our global network of branches and subsidiaries that have deep expertise in these areas. The treasury trading business will be further developed to offer Renminbi products and play an important role in Renminbi business within Europe. We have established full capacity in providing cash management, deposit, trade settlement and finance, lending and foreign exchange trading services, and other currency and interest rate derivatives in Renminbi. We expect this will further enhance our banking service capability and reputation in the UK and beyond.

Our main focus will remain on wholesale banking. ICBC (London) plc enjoys strong channels into China through our parent bank to bring a high degree of customer service to large corporate customers banking in both China and the UK.

The branch activities will complement those of the subsidiary by further developing the client base, increasing lending commitments and other business activities more in line with ICBC group's domestic operations. Growth is expected in virtually all product areas.

The retail business will take on a more important role for the Bank, given that the granting of a Branch licence precludes any retail business in that entity. The Bank will focus on providing enhanced internet banking, mobile banking and debit card services to service the requirements of our retail customers.

Reputation

The Bank is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority and it is structured in accordance with the principles of good corporate governance consistent with the status of our parent bank. This includes: employing two independent UK based non-executive directors, one of who is the Chair of the Bank's Audit Committee and one of whom is the Chair of our Risk Committee, and one China based non-executive director from our parent bank; operating management level committees to ensure "four eyes" are involved in all major policies and operating decisions; establishing clear policies and decision making procedures; and ensuring effective implementation of operating procedure through regular internal audit reviews. We have further strengthened our conduct risk framework and reporting procedures during the year and fully subscribe to the principle of 'treating customers fairly' to ensure that the trust put in us as bankers is well-founded.

Employees

The number of staff was 100 at the end of 2014, with 88 at the start of the year.

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;

Strategic Report

- 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 ensuring that salaries are competitively bench-marked to the market and career progression encouraged.

The strategic report was approved by the Board on 13 April 2015 and is signed on its behalf by:

Jin Chen

Managing Director

Board of directors and other information

Directors

Lili Wang (Chairman – Resigned on 20 November 2014)
Dr. Shu Gu (Chairman – Appointed on 20 November 2014)
Jin Chen (Managing Director – Appointed on 24 March 2014)
Bo Jiang (Deputy Managing Director – Resigned on 16 December 2014)
Dr. Shuyi Yuan (Deputy Managing Director – Appointed on 16 December 2014)
Graham Penny (Non-Executive Director)
Edwin Lacy (Non-Executive Director)
Lan Li (Non-Executive Director)

Company Secretary

John Kerr

Auditors

Mazars LLP
Tower Bridge House
Saint Katharine's Way
London
E1W 1DD

Registered Office

81 King William Street
London
EC4N 7BG

Management Team

Jin Chen (Managing Director - Appointed on 24 March 2014)
Bo Jiang (Deputy Managing Director – Resigned on 16 December 2014)
Dr Shuyi Yuan (Deputy Managing Director – Appointed on16 December 2014)
Yanming Sun (Deputy General Manager)
Lingyan Kong (Deputy General Manager)
Xiao Lu (Deputy General Manager)
Ke Zhang (Head of Treasury)
Delei Li (Head of Retail)
Qiang Xiao (Head of Financial Control)
Guiqin Li (Head of Risk and ALM)
Robert Clark (Head of Credit)
Qinghui Zeng (Head of Banking)
Peng Guo (Head of IT)
Lisa Belloni (Head of HR)
Asim Siddiqui (Head of Compliance)

Supported By

Farrukh Shaida (Head of Internal Audit)

Directors' report and statement of directors' responsibilities

The directors present their report and the financial statements of the Bank for the year ended 31 December 2014.

Financial statements

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

Matters included within the Strategic Report

Details of business review, future developments indication of financial risk management objectives and policies and the Bank's exposure to market risk, credit risk and liquidity risk have been included in the Strategic Report.

Results and dividends

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

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

The profit of the Bank for the year, after taxation, amounted to US$23.92m (2013: US$28.90m). The credit balance on the Profit and Loss Account is to be carried forward.

Principal activities

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

Events since the balance sheet date

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

Directors and their interests

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

J Lili Wang (Chairman – until 20 November 2014)
Dr Shu Gu (Chairman from 20 November 2014)
Jin Chen (Managing Director- Appointed on 24 March 2014)
Bo Jiang (Deputy Managing Director –Resigned on 16 December 2014)
Dr Shuyi Yuan (Deputy Managing Director- Appointed on 16 December 2014)
Graham Penny (Non-Executive Director)
Edwin Lacy (Non-Executive Director)
Lan Li (Non-Executive Director)

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

Donations

During the financial year the Bank made no political or charitable donations (charitable donations in 2013: $6,382.)

Going Concern

The Bank's directors have made an assessment of the Bank's ability to continue as a going concern..

In assessing going concern, the Directors take account of all information which they are aware of about the future, which is at least, but not limited to, 12 months from the date that the balance sheet is signed. This information includes ICBC (London) plc's results forecasts and projections, estimated capital, funding and liquidity requirements, contingent liabilities, and possible economic, market and product developments. They are satisfied that the Bank has the resources to continue in business for the foreseeable future. Further, the directors are not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern.

Directors' report and statement of directors' responsibilities

The Directors confirm that they are satisfied that ICBC (London) plc has adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt a going concern basis of accounting in preparing the financial statements.

Statement of directors' responsibilities

The directors are responsible for the Strategic Report, the Directors' 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 Bank at the end of the financial year and of the profit or loss of the Bank 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 Bank will continue in business.

The directors are responsible for keeping proper accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank 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 Bank 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 Bank's website.

The Bank has Directors' and Officers Liability Insurance cover. This cover provides indemnity to the individual directors and officers of the bank for an alleged 'Wrongful Act'.

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 Bank'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 Bank'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 Bank's auditors are aware of that information.

Auditors

A resolution to appoint auditor firm for the ensuing year will be proposed at the Annual General Meeting.

By order of the Board

JKerr

John Kerr
Company Secretary
13 April 2015

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 2014 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes. 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).

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit 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. This report is made solely to the Bank'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 Bank'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 Bank and the Bank's members as a body for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's web-site at www.frc.org.uk/auditscopeukprivate.

Opinion on the 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 2014 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 the other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditor's report

to the members of ICBC (London) Plc

Matters on which we are required to report by exception

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

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

Greg Simpson (Senior Statutory Auditor)

for and on behalf of Mazars LLP

Chartered Accountants and Statutory Auditor

Tower Bridge House

St. Katharine's Way

London

E1W 1DD

14 April 2015

Profit and loss account

for the year ended 31 December 2014

	Notes	2014 US$000	2013 US$000
Interest receivable and similar income on other financial assets	2	6,127	4,224
Interest receivable and similar income on loans and advances	2	83,217	66,862
Interest payable and similar expense	2	(39,318)	(27,956)
Net interest income		50,026	43,130
Fees and commission income	2	17,296	21,279
Fees and commission expense	2	(834)	(912)
Revaluation and realised P&L on derivatives	10	(406)	(1,300)
Foreign exchange (loss)/gain		(432)	125
Other operating income		3,497	2,358
Other operating expenditure		(2,482)	(2,029)
Gain/(loss) on disposal of bonds		7	(2,598)
Non-interest income		16,646	16,923
Total income		66,672	60,053
Personnel expenses	3	(14,898)	(12,955)
Depreciation and amortisation	12	(1,980)	(2,422)
Impairment losses	9	(14,710)	(247)
Other operating expenses	5	(4,558)	(5,726)
Operating expenses		(36,146)	(21,350)
Profit on ordinary activities before tax		30,526	38,703
Tax charge on profit on ordinary activities	6	(6,610)	(9,802)
Profit for the financial year		23,916	28,901

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

The notes on pages 14 to 43 form part of these financial statements.

Statement of total recognised gains and losses

for the year ended 31 December 2014

	2014 *US$'000*	*2013* *US$'000*
Profit for the financial year	23,916	28,901
Change in fair value of financial instruments available-for-sale	2,279	(6,402)
Financial instruments available-for-sale reserve recycled through profit and loss upon disposal of the instruments	(61)	2,212
Tax (charge) /credit recognised through equity	(568)	971
Total recognised gains relating to the year	25,566	25,682

The notes on pages 14 to 43 form part of these financial statements.

Balance sheet

at 31 December 2014

Registered No. 4552753

	Notes	2014 US$000	2013 US$000
Assets			
Cash and balances at central banks		243	108
Loans and advances to banks	7	967,756	956,543
Loans and advances to customers	8	2,151,215	1,845,322
Derivative financial instruments	10	40,673	1,455
Financial instruments available-for-sale	11	610,135	597,407
Tangible fixed assets	12	42,850	44,732
Prepayments, accrued income and other assets	13	12,366	16,299
Total assets		3,825,238	3,461,866
Liabilities			
Deposits by banks	15	2,487,979	2,300,836
Customer accounts	16	860,894	742,938
Derivative financial instruments	10	34,706	3,263
Other liabilities		4,265	4,206
Provisions for liabilities	25	440	1,351
Accruals	17	12,212	7,239
Subordinated liability	33	100,000	100,000
Corporation tax		2,135	4,915
Deferred tax liabilities	14	156	233
Total liabilities		3,502,787	3,164,981
Share capital and reserves			
Allotted and called up share capital	18	200,000	200,000
Retained earnings	19	121,620	97,704
Available-for-sale reserve	19	831	(819)
Equity shareholder's funds		322,451	296,885
Total liabilities and share capital and reserves		3,825,238	3,461,866
Memorandum Items			
Contingent liabilities and commitments	20	974,580	1,808,451

These financial statements were approved by the directors on 13 April 2015 and are signed on their behalf by:

Jin Chen　　　　Shuyi Yuan

The notes on pages 14 to 43 form part of these financial statements.

Notes to the financial statements
for the year ended 31 December 2014

1. Accounting policies

Basis of preparation

The financial statements of ICBC (London) plc were approved for issue by the Board of Directors on 27 March 2015.

The financial statements have been prepared in accordance with UK GAAP, the Companies Act 2006 and 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. The financial statements continue to be prepared on a going concern basis. The reasons for this are detailed in the Directors' report.

Review of accounting policies

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

Functional and presentational currency

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

Cash flow statement

The Bank has taken advantage of the exemption from the requirement to prepare a cash flow statement on the grounds that it is a wholly-owned subsidiary and consolidated in the financial statements of The Industrial and Commercial Bank of China, which are publicly available.

Interest and similar income and expense

For all financial instruments measured at amortised cost and interest bearing financial instruments classified as available-for-sale financial instruments, interest income or expense is recorded at the effective interest rate ('EIR'), which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or 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 Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

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

Fee and commission income on loans and advances

The Bank 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, and 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:

Notes to the financial statements

for the year ended 31 December 2014

1. Accounting policies (continued)

- 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.

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

At the closing of the accounts on 31 December 2014, the Bank used the sterling exchange rate of 1.5576 (2013: 1.6557).

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	-	50 years
Refurbishment on building	-	10 years
Leasehold improvements, office furniture and equipment	-	5 years
Motor vehicles	-	5 years
Computer hardware and software	-	3 years

Land is not depreciated

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

Pension costs

The Bank does not operate a defined benefit pension scheme. However, the Bank has a defined contribution plan for its personal pension schemes of each eligible employee. Contributions are charged to the Profit and Loss Account as incurred.

Operating leases

Rentals payable under operating leases are charged to the Profit and Loss Account as incurred.

Financial instruments

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

Notes to the financial statements

for the year ended 31 December 2014

1. Accounting policies (continued)

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.

Repurchase and reverse repurchase agreements

Securities sold subject to repurchase agreements (repos) continue to be recognised on the balance sheet where substantially all of the risks and rewards are retained. Funds received under these arrangements are included in deposits from banks, customer deposits, or trading liabilities. The difference between sale and repurchase price is treated as an interest expense and accrued over the life of the agreements using the effective interest rate method. Securities lent to counterparties are retained in the financial statements. Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the obligation to return them is recorded at fair value as a trading liability.

Conversely, securities purchased under agreements to resell (reverse repos) at a specified future date are not recognised in the balance sheet. The consideration paid, including accrued interest, is recorded in the balance sheet, reflecting the transaction's economic substance as a loan by the Bank. The difference between the purchase and resale prices is recorded as net interest income and is accrued over the life of the agreement using the effective interest rate method.

(i) Loans and advances to banks and customers

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

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

(iii) Reclassification of financial assets

The Bank may reclassify, in certain circumstances, non-derivative financial assets out of the 'Held-to-maturity' category and into the 'available-for-sale' or 'loans and receivables' categories. Reclassifications are recorded at fair value at the date of reclassification.

If the Bank 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 Bank would be prohibited from classifying any financial asset held-to-maturity during the following two years. Upon reclassification from the 'held-to-maturity' category to the 'available-for-sale' category,

Notes to the financial statements

for the year ended 31 December 2014

1. Accounting policies (continued)

the financial assets are re-measured to fair value, with any differences between the carrying amount and the fair value being recognised in the Statement of Total Recognised Gains and Losses.

(iv) Deposits by banks and customer accounts

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

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

Derivatives include interest rate swaps, forward foreign exchange contracts and forward rate agreements. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are taken to the Profit and Loss Account except those derivatives which have been designated as cash flow hedges.

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 Bank assesses individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant, whether there is objective evidence of impairment. For the purpose of collective evaluation of impairment, which is intended to reflect incurred losses that have not yet been specifically identified, financial assets may be grouped on the basis of similar credit risk characteristics (e.g. asset type, industry, geographical risk etc) and should reflect global risk factors that are difficult to quantify.

Objective evidence of impairment may include loss events and other changes such as:

i.) Significant financial difficulty of the borrower or obligor;

ii.) Breach of contractual obligations such as non-payment or partial payment of interest or principal;

iii.) Higher probability that the borrower will enter administration, liquidation or other financial reorganisation;

iv.) Shrinkage or disappearance of an active secondary market for that financial asset;

v.) For collectively-assessed assets, reduced estimates of future cash flows consistent with related observable data such as unemployment, property prices, international sanctions and any other factors indicating a higher probability of default. Changes in historical loss experience should also result in reassessment of collective impairments.

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

All impaired loans are reviewed for changes to the recoverable amount. 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

Notes to the financial statements

for the year ended 31 December 2014

1. Accounting policies (continued)

adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the Profit and Loss Account.

The present value of the estimated cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

(ii) Financial instruments available-for-sale

For financial instruments available-for-sale, the Bank 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

The Bank assesses at each reporting date whether there is objective evidence that a held-to-maturity asset is impaired. A held-to-maturity asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Derivatives and hedge accounting

The Bank makes use of derivative instruments for customer business and manages foreign exchange risk of its own exposures. The Bank does not apply hedge accounting in accordance with FRS 26. Changes in the fair value of derivatives are recognised through the Profit and Loss Account.

Notes to the financial statements

for the year ended 31 December 2014

2. Analysis of profit and loss account by classification basis

2014	Financial instruments Loans and advances	Financial instruments available-for-sale	Interest Rate Swaps FVTPL	Deposits by banks and Customer accounts	Total
	US$000	*US$000*	*US$000*	*US$000*	*US$000*
Interest and other similar income on other financial assets	-	6,127	-	-	6,127
Other interest receivable	83,217	-	150	-	83,367
Interest payable	-	-	-	(39,468)	(39,468)
Net interest income	83,217	6,127	150	(39,468)	50,026
Fees and commissions receivable					17,296
Fees and commissions expense					(834)
Net fee and commissions income					16,462

Interest and other similar income on financial assets include interest income of $75,144 on impaired loans (2013: nil).

2013	Financial instruments Loans and advances	Financial instruments available-for-sale	Interest Rate Swaps FVTPL	Deposits by banks and Customer accounts	Total
	US$000	*US$000*	*US$000*	*US$000*	*US$000*
Interest receivable from financial instruments	-	4,224	-	-	4,224
Other interest receivable	66,862	-	6	-	66,868
Interest payable	-	-	-	(27,962)	(27,962)
Net interest income	66,862	4,224	6	(27,962)	43,130
Fees and commissions receivable					21,279
Fees and commissions expense					(912)
Net fee income					20,367

Notes to the financial statements

for the year ended 31 December 2014

3. Staff costs

Staff costs (including directors) comprise the following:

	2014	*2013*
	US$000	*US$000*
Wages and salaries	9,465	9,008
Social security costs	1,311	1,203
Pensions costs	327	248
Other costs	3,796	2,496
	14,899	12,955

Employees

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

	2014	*2013*
	No.	*No.*
- Senior Management	5	5
- Front Desk	28	26
- PDS	12	11
- Risk Control	15	14
- Supporting Departments	29	27
- Compliance & Internal Audit	7	4
- Company Secretary	1	1
	97	88

4. Directors' emoluments

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

	2014	*2013*
	US$000	*US$000*
Emoluments	800	928

The emoluments of the highest paid director were as follows:

	2014	*2013*
	US$000	*US$000*
Salary and benefits and performance related bonuses	408	465

Notes to the financial statements

for the year ended 31 December 2014

5. Other operating expenses

Other operating expenses include:	2014	2013
	US$000	*US$000*
Operating leases:		
- Operating lease charges	3	317
- (Reversal) to onerous lease	(668)	(548)
Auditor's remuneration:		
- Audit of the financial statements	101	103
- Other services	2	2

6. Tax on profit on ordinary activities

The tax charge is made up as follows:

	2014	*2013*
	US$000	*US$000*
Current tax:		
UK corporation tax	(6,704)	(9,241)
Adjustments in respect of prior years	-	9
Total current tax charge for the year	(6,704)	(9,232)
Deferred tax:		
Origination and reversal of timing differences	146	(114)
Adjustments in respect of prior years	(65)	(429)
Effect of tax rate change on opening balance	13	(27)
Total deferred tax (charge)/credit for the year	94	(570)
Total charge for the year	(6,610)	(9,802)

The tax assessed on the profit on ordinary activities for the year is the standard rate of corporation tax in the UK of 21.5% (2013: 23.25%). The differences are reconciled below:

	2014	*2013*
	US$000	*US$000*
Profit on ordinary activities before tax	30,526	38,703
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 21.5% (2013: 23.25%)	6,563	8,998
Effects of:		
Expenses not deductible for tax purposes	14	68
Capital allowances in excess of depreciation of qualifying assets	127	102
Adjustments in respect of prior years	-	(9)
Foreign exchange differences	-	73
Current tax charge for year	6,704	9,232

Notes to the financial statements

for the year ended 31 December 2014

7. Loans and advances to banks

	2014 *US$000*	*2013* *US$000*
Gross loans and advances to banks	971,004	960,142
Loan fees received in advance	(3,008)	(3,309)
Less: Allowance for impairment losses (Note 9)	(240)	(290)
Net loans and advances to banks	967,756	956,543

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:

	2014 *US$000*	*2013* *US$000*
Repayable:		
- on demand	73,306	24,903
- three months or less	589,027	653,946
- one year or less but over three months	257,242	182,360
- five years or less but over one year	51,429	98,933
	971,004	960,142

Gross loans and advances to banks by geographical area:

	2014 *US$000*	*2013* *US$000*
China	400,541	467,539
United Kingdom	181,484	229,879
United States	158,475	63,942
Turkey	109,186	45,444
Germany	60,429	-
South Africa	51,429	30,000
Hong Kong	5,255	-
Australia	3,220	-
Others	985	123,338
	971,004	960,142

	2014 *US$000*	*2013* *US$000*
Amounts include:		
Due from group entities	104,436	100,774

Notes to the financial statements

for the year ended 31 December 2014

Cash collateral on securities borrowed/lent agreements:

	2014 US$000	*2013* US$000
Liabilities:		
Due to Banks	-	17,053
Fair value of securities under repurchase agreements	-	16,833

The securities lent or sold under agreements to repurchase are transferred to the counterparty and the Bank receives cash in exchange, or other financial assets. These transactions are conducted under terms based on GMRA documentation. The Bank has determined that it retains all the risks and rewards of these securities, which include credit risk and market risk, and therefore it has not derecognised them. In addition, it recognises a financial liability for cash received as collateral.

Similarly, the Bank may sell or re-pledge any securities borrowed or purchase under agreements to resell, but has an obligation to return the securities and the counterparty retains substantially all the risks and rewards of ownership. Consequently, the securities are not recognised by the Bank, which instead record a separate asset for any possible cash collateral provided.

8. Loans and advances to customers

	2014 *US$000*	*2013* *US$000*
Gross loans and advances to customers	2,182,454	1,862,445
Loan fees received in advance	(16,479)	(17,123)
Less: Allowance for impairment losses (Note 9)	(14,760)	-
Net loans and advances to customers	2,151,215	1,845,322

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:

	2014 *US$000*	*2013* *US$000*
Repayable:		
- on demand	5,000	-
- three months or less	77,162	91,800
- one year or less but over three months	779,305	377,116
- five years or less but over one year	1,210,517	1,276,177
- over five years	110,470	117,352
	2,182,454	1,862,445

Notes to the financial statements

for the year ended 31 December 2014

Gross loans and advances to customers by geographical area:

	2014	*2013*
	US$000	*US$000*
United Kingdom	596,655	348,252
Ireland	420,000	420,000
Netherlands	114,754	108,149
Angola	107,294	51,854
Russia	91,176	240,000
Hong Kong	75,812	-
United States	74,198	54,028
Argentina	70,000	70,000
France	67,148	63,830
Switzerland	64,867	40,000
Egypt	64,198	-
Portugal	59,285	67,478
Others	377,067	398,854
	2,182,454	1,862,445

9. Impairment allowance

	Financial Banks	Customers		
	Collectively assessed	Collectively assessed	Individually assessed	Total
	US$000	*US$000*	*US$000*	*US$000*
Balance at 1 January 2013	43	0	-	43
Charge/ (Recovered) for the year	247	0	-	247
Balance at 31 December 2013	290	0	-	290
Balance at 1 January 2014	290	0	-	290
Charge/ (Recovered) for the year	(50)	2,760	12,000	14,710
Balance at 31 December 2014	240	2,760	12,000	15,000

10. Derivative financial instruments

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 Bank in an orderly market transaction at the balance sheet date. The replacement cost is considered to be the same as the positive or negative fair value.

Notes to the financial statements
for the year ended 31 December 2014

	2014			*2013*		
	Notional principal amount	Positive fair value	Negative fair value	Notional principal amount	Positive fair value	Negative fair value
	US$000	*US$000*	*US$000*	*US$000*	*US$000*	*US$000*
Foreign exchange derivatives						
- Forward foreign exchange contracts	1,714,666	29,566	(29,017)	1,047,988	16,058	(15,315)
- Swaps	364,468	6,281	(1,487)	192,071	48	(3,311)
At 31 December	2,079,134	35,847	(30,504)	1,240,059	16,106	(18,626)
Interest rate derivatives						
- Swaps	420,552	4,826	(4,202)	397,356	2,358	(1,646)
At 31 December	420,552	4,826	(4,202)	397,356	2,358	(1,646)

The foreign exchange derivative financial instruments shown in the above table are not designated as cash flow hedges and the fair value gains/losses on these derivatives have been charged to the Profit and Loss account.

11. Financial instruments

Financial instruments: available-for-sale

	2014	*2013*
	US$000	*US$000*
Balance at 31 December	610,135	597,407

	2014	*2013*
	US$000	*US$000*
Analysed by maturity:		
- due within one year	117,013	137,383
- due after one year	493,122	460,024
Analysed by listing status:		
- listed	610,135	597,407
Analysed by sector:		
- private sector-debt securities	273,091	254,549
- government sector	337,044	342,858

Notes to the financial statements

for the year ended 31 December 2014

12. Tangible fixed assets

	Land and buildings	Office furniture and equipment	Computers	Motor Vehicles	Leasehold Improvement	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Cost:						
At 1 January 2014	47,206	1,963	797	49	1,184	51,199
Additions	-	5	93	-	-	98
At 31 December 2014	47,206	1,968	890	49	1,184	51,297
Depreciation:						
At 1 January 2014	3,538	1,140	556	49	1,184	6,467
Charge for the year	1,518	289	173	-	-	1,980
At 31 December 2014	5,056	1,429	729	49	1,184	8,447
Net book value:						
At 31 December 2014	42,150	539	161	-	-	42,850
At 31 December 2013	43,668	833	241	-	-	44,732

There was $90k reclassified from computers to office equipment as at 01/01/2014 due to the nature of the products. The accumulated depreciation and net book value at 2013 has been adjusted accordingly.

13. Prepayments, accrued income and other assets

	2014	*2013*
	US$000	*US$000*
Accrued income	10,128	11,393
Prepayments	543	526
Amount owing from group undertakings	161	63
Other assets	1,534	4,317
	12,366	16,299

Notes to the financial statements

for the year ended 31 December 2014

14. Deferred tax assets/(liabilities)

	2014 *US$000*	*2013* *US$000*
Deferred tax assets/(liabilities) included in the balance sheet comprise the following:		
Accelerated capital allowance	(171)	(265)
Other timing differences	15	32
	(156)	(233)

	2014 *US$000*	*2013* *US$000*
Movement in deferred tax during the year is as follows:		
Balance at 1 January	(233)	357
Deferred tax (charged)/credited to the Profit and Loss Account (Note 6)	94	(570)
Deferred tax charged to equity (Note 19)	(17)	(20)
Balance at 31 December	(156)	(233)

15. Deposits by banks

	2014 *US$000*	*2013* *US$000*
Repayable:		
- on demand	269,152	132,528
- three months or less	165,755	574,363
- one year or less but over three months	1,926,273	1,484,968
- five years or less but over one year	126,799	108,977
	2,487,979	2,300,836

	2014 *US$000*	*2013* *US$000*
Amounts include:		
Deposits by parent undertaking	1,166,492	933,492

The above amounts include repurchase agreements and are reported on a gross basis.

16. Customer accounts

	2014 *US$000*	*2013* *US$000*
Repayable:		
- on demand	161,424	105,946
- three months or less	501,469	442,399
- one year or less but over three months	197,993	194,593
- five years or less but over one year	8	-
	860,894	742,938

Notes to the financial statements

for the year ended 31 December 2014

17. Accruals

	2014	*2013*
	US$000	*US$000*
Accrued interest payable	12,212	7,239
	12,212	7,239

18. Share capital

	2014	*2013*
	US$000	*US$000*
Authorised share capital, Ordinary shares of US$1 each:		
Balance at 31 December	250,000	250,000
Allotted, called up and fully paid, 200,000,000 Ordinary shares of US$1 each:		
Balance at 31 December	200,000	200,000

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

	Share capital	Retained earnings	Available-for-sale reserve	Total share holders' funds
	US$000	*US$000*	*US$000*	*US$000*
At 1 January 2013	200,000	68,803	2,400	271,203
Profit for the year	-	28,901	-	28,901
Change in fair value of financial instruments available-for-sale	-	-	(6,402)	(6,402)
Tax charge on change in fair value of financial instruments available-for-sale	-	-	991	991
Financial instruments available-for-sale reserve recycled through profit and loss upon disposal of the instruments	-	-	2,212	2,212
Change in FVcash flow hedge reserve	-	-	-	-
Deferred tax asset recognised through equity	-	-	(20)	(20)
At 31 December 2013	200,000	97,704	(819)	296,885

Notes to the financial statements

for the year ended 31 December 2014

	Share capital	Retained earnings	Available-for-sale reserve	Total share holders' funds
	US$000	*US$000*	*US$000*	*US$000*
At 1 January 2014	200,000	97,704	(819)	296,885
Profit for the year	-	23,916	-	23,916
Change in fair value of financial instruments available-for-sale	-	-	2,279	2,279
Tax charge on change in fair value of financial instruments available-for-sale	-	-	(551)	(551)
Financial instruments available-for-sale reserve recycled through profit and loss upon disposal of the instruments	-	-	(61)	(61)
Deferred tax asset recognised through equity	-	-	(17)	(17)
At 31 December 2014	200,000	121,620	831	322,451

The tax movements on available-for-sale gains follow the fair value movements and the tax credit is affected accordingly in current year.

20. Memorandum items – contingent liabilities and commitments

	2014	*2013*
	US$000	*US$000*
Undrawn documentary credits and short-term trade related transactions	168,874	449,062
Undrawn loans and advances	805,706	1,359,389
	974,580	1,808,451

The table above discloses the nominal principal amounts of commitments, guarantees and other contingent liabilities. They are mainly credit-related instruments which include both financial and non-financial guarantees and commitments to extend credit. Nominal principal amounts represent the amounts at risk should contracts be fully drawn upon and clients default.

Operating lease commitments

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

	2014	*2013*
	US$000	*US$000*
More than one year and within 5 years	639	679

After yearly assessment, the onerous contract provision has been decreased to $440k. (Note 25)

Notes to the financial statements

for the year ended 31 December 2014

21. Segmental information

The Bank's systems report the financial results as a single segment and hence it is not possible to present segmental information by activity. Segmental information in relation to geographical exposures is given in the applicable notes in the financial statements.

22. Related party transactions

The Bank is a wholly owned subsidiary of The Industrial and Commercial Bank of China Limited. Accordingly, the Bank has applied the exemption in paragraph 3 (c) of the Financial Reporting Standard 8 ("FRS 8"). This exempts the Bank from disclosure of transactions with the parent and other wholly-owned related parties that are included in the consolidated financial statements of The Industrial and Commercial Bank of China which are publicly available.

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

	2014	*2013*
	US$000	*US$000*
Assets:		
Financial assets denominated in US Dollars	2,747,505	2,506,084
Non-financial assets denominated in US Dollars	44,190	44,732
Total assets denominated in US Dollars	2,791,695	2,550,816
Financial assets denominated in currencies other than US Dollars	1,031,996	894,751
Non-financial assets denominated in currencies other than US Dollars	1,547	16,299
Total assets denominated in currencies other than US Dollars	1,033,543	911,050
Total assets	3,825,238	3,461,866
Liabilities and shareholder's funds:		
Financial liabilities denominated in US Dollars	2,707,210	2,361,509
Non-financial liabilities denominated in US Dollars	603	233
Total liabilities denominated in US Dollars	2,707,813	2,361,742
Financial liabilities denominated in currencies other than US Dollars	786,755	785,528
Non-financial liabilities denominated in currencies other than US Dollars	8,219	17,711
Total liabilities denominated in currencies other than US Dollars	794,974	803,239
Total liabilities	3,502,787	3,164,981
Shareholder's funds denominated in US Dollars	322,451	296,885
Total shareholder's funds	322,451	296,885

Notes to the financial statements

for the year ended 31 December 2014

24. Fair values of financial instruments

For the determination of the fair values of financial instruments the Bank 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.

Fair value hierarchy

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

Level 1 – quoted prices in active markets for identical assets or liabilities
Level 2 – other techniques for which all inputs which have a significant effect on the recorded fair value are observable either directly or indirectly
Level 3 – techniques which use inputs which have significant effect on the recorded fair value that are not based on observable market data

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

2014	Level 1	Level 2	Level 3	Total
	US$000	*US$000*	*US$000*	*US$000*
Assets				
Derivative financial instruments:				
Foreign Exchange Forwards	-	29,566	-	29,566
Foreign Exchange Swap	-	6,281	-	6,281
Interest Rate Swap	-	4,826	-	4,826
Financial instruments available-for-sale:				
Government debt securities	337,044	-	-	337,044
Other debt securities	273,091	-	-	273,091
	610,135	40,673	-	650,808
Liabilities				
Derivative financial instruments:				
Foreign Exchange Forward	-	29,017	-	29,017
Foreign Exchange Swaps	-	1,487	-	1,487
Interest Rate Swap	-	4,202	-	4,202
	-	34,706	-	34,706

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for the year ended 31 December 2014

2013	Level 1	Level 2	Level 3	Total
	US$000	*US$000*	*US$000*	*US$000*
Assets				
Derivative financial instruments:				
Forwards	-	743	-	743
Interest Rate Swap	-	712	-	712
Financial instruments available-for-sale:				
Government debt securities	342,858	-	-	342,858
Other debt securities	254,549	-	-	254,549
	597,407	1,455	-	598,862
Liabilities				
Derivative financial instruments:				
Foreign Exchange Forward	-	3,263	-	3,263
Interest rate swaps	-	-	-	-
	-	3,263	-	3,263

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.

Analysis of financial assets and liabilities by measurement basis

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. The following table analyses the carrying amounts of the financial assets and liabilities by category as defined in the Bank's accounting policies and by balance sheet heading. The fair value of all financial instruments not carried at fair value is not considered to be materially different to the carrying value.

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2014

Assets	Fair Value through profit and loss	Available-for-sale securities	Financial assets and liabilities at amortised Cost	Total
	US$000	*US$000*	*US$000*	*US$000*
Cash and balances at central banks	-	-	243	243
Loans and advances to banks	-	-	967,756	967,756
Loans and advances to customers	-	-	2,151,215	2,151,215
Derivative financial instruments	40,673	-	0	40,673
Financial investments available-for-sale	0	610,135	0	610,135
Total assets	40,673	610,135	3,119,214	3,770,022
Liabilities				
Deposits by banks			2,487,979	2,487,979
Customer accounts	-	-	860,894	860,894
Derivative financial instruments	34,706	-	-	34,706
Subordinated liability	-	-	100,000	100,000
Other liabilities	-	-	4,705	4,705
Total liabilities	34,706	0	3,453,578	3,488,284

2013

Assets	Fair Value through profit and loss	Available-for-sale securities	Financial assets and liabilities at amortised Cost	Total
	US$000	*US$000*	*US$000*	*US$000*
Cash and balances at central banks	-	-	108	108
Loans and advances to banks	-	-	956,543	956,543
Loans and advances to customers	-	-	1,845,322	1,845,322
Derivative financial instruments	1,455	-	-	1,455
Financial investments available-for-sale	-	597,407	-	597,407
Total assets	1,455	597,407	2,801,973	3,400,835
Liabilities				
Deposits by banks	-	-	2,300,836	2,300,836
Customer accounts	-	-	742,938	742,938
Derivative financial instruments	3,263	-	-	3,263
Subordinated liability	-	-	100,000	100,000
Other liabilities	-	-	5,557	5,557
Total liabilities	3,263		3,149,331	3,152,594

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25. Onerous lease provision

	2014	*2013*
	US$000	*US$000*
Balance at 1 January	1,351	2,456
Amounts used during the year	(243)	(557)
Provision (reversed) during the year	(668)	(548)
Balance at 31 December	440	1,351

The Bank moved into a new office on King William Street in March 2012. This resulted in the lease on the three floors of the former premises being an onerous lease. The lease expires in April 2018. 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. The Bank expected the cash inflows for ground floor, second floor and fourth floor quarterly as per agreements and 3-year UK government bond yield was used as the discount factor. Following the annual assessment, the onerous contract provision has been decreased to $440k. There is no indication of significant uncertainties about the timing and amount.

26. Ultimate parent company

The ultimate, and intermediate, parent company and controlling party is The Industrial and Commercial Bank of China Limited, which is incorporated in China. The largest and smallest group in which the Bank is consolidated is headed by The Industrial and Commercial Bank of China Limited. Copies of the group financial statements are available from 55, Fuxingmennei Dajie, Beijing, 100140, China (http://www.icbc-ltd.com.cn/icbc).

27. Risk management

The Bank has in place a risk management framework where the Board of Directors, the Senior Management and other employees of the Bank perform their respective duties and responsibilities in supervising and managing various risks at different levels.

The Bank's organisational structure of risk management corresponds to this comprehensive risk management framework. At the Board level, there is an Executive Committee, Risk Committee and an Audit Committee; at the Executive Management level, there is an Asset & Liability Management Committee (ALCO) and a Credit Committee, performing risk management and oversight 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.

The Policies are in place to guide the Bank's risk management in various business areas to address the risks as set out below.

Risk mitigation

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

Departmental policy and procedure manuals are written in accordance with the Bank's approach to the management of these risks. Employees are instructed to operate within the guidelines set out in bank-wide policies and their own departmental procedures and Compliance Department and Internal Audit Department periodically carry out reviews to assess compliance. If any member of staff detects an apparently unidentified risk in their standard operating procedures, they are required to inform their department head immediately who should investigate the risk and enhance controls as necessary.

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As part of its overall market risk management, the Bank sets limits to control risk exposures. In setting a risk appetite and risk tolerance level, the Bank takes all relevant risks to the Bank into account, including those arising from off-balance sheet transactions, as well as being consistent with the Bank's obligation to maintain the risk within the constraints, both explicit and implied by capital and liquidity regulations.

28. Credit risk

The Bank places great emphasis on credit risk management. Credit analysis is performed on all new and existing exposures in order to assess the counterparty's ability to repay. Counterparty credit risk is assessed using quantitative and qualitative analysis, as articulated in the Credit Policy, Credit Manual and other documents. The Bank also uses the credit ratings and reports of two major credit rating agencies, namely Standard & Poor's and Fitch, to evaluate counterparty credit risk. Internal (ICBC Group) rating models, based on the Global Credit Management System, are used for counterparties that are unrated by the three major credit agencies (Moody's, Standard & Poor's and Fitch).

It is the Bank's policy that limits for counterparties, with accompanying credit analysis, are reviewed annually (or more often if required) by the Bank's Credit Committee and Authorised Approvers. Exposures are required to be monitored and controlled against limits set and approved for individual counterparties. The Bank's credit risk policy includes establishing industry sector limits, country limits and regulatory limits.

The general creditworthiness of a corporate customer tends to be the most relevant indicator of the quality of a credit exposure. Collateral provides additional security and the Bank takes collateral whenever possible. It is a requirement that the valuation of collateral is updated when credit risk deteriorates significantly and the customer is monitored more closely.

The largest credit risk mitigation is the master Netting Agreement covering exposures to ICBC entities that have formally acceded to the Agreement, enabling those exposures (the majority of which are short-term trade finance) to be offset by deposits and other funding raised from ICBC Group. The Bank also participates in syndicated structured trade finance transactions including inventory, receivables and other tangible and intangible security. At 31 December 2014, there was one UK commercial real estate transaction, which was fully-secured by a first legal charge over the property (loan-to-value ratio: 48%).

However, the majority of the Bank's credit exposures are unsecured, including syndicated lending facilities, trade finance and interbank lending. Consequently the Bank focuses on the careful assessment of creditworthiness and timely post-lending management and monitoring.

At 31 December 2014, the net carrying amount of impaired loans and advances to corporate customers amounted to $30 million (2013: nil) and the value of identifiable collateral held against those loans was nil.

There were no past due but not impaired loans (2013: none).

The Bank does not undertake lending to retail customers.

Requests for waivers and amendments of existing credit facilities where it is judged that their approval will result in higher credit risk than when the deal was originally sanctioned are submitted to Credit Committee and Authorised Approvers. A written record is maintained of all counterparties for whom forbearance is applied, and material waiver requests are taken into account in the categorisation of asset quality.

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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.

	2014		*2013*	
	Gross maximum exposure *US$000*	Net maximum exposure *US$000*	Gross maximum exposure *US$000*	Net maximum exposure *US$000*
Loans and advances to banks	971,004	967,756	960,142	956,543
Loans and advances to customers	2,182,454	1,176,173	1,862,445	1,239,896
Financial instruments available-for-sale	610,135	610,135	597,407	597,407
	3,763,593	2,754,064	3,419,994	2,793,846
Contingent liabilities and commitments	974,580	974,580	1,808,451	1,808,451
	974,580	974,580	1,808,451	1,808,451
Total credit risk exposure	4,738,173	3,728,644	5,228,445	4,602,297

	2014		*2013*	
	Specific impairments provisions *US$000*	Collective impairments provisions *US$000*	Specific impairments provisions *US$000*	Collective impairments provisions *US$000*
Impairment provisions	12,000	3,000	-	290

The Bank's provisions include specific impairments totalling $12 million (2013: nil) and a collective impairment of $3 million (2013: $290,000). Other than the increase during the period, there were no other provision movements.

	2014		*2013*	
	Gross maximum exposure *US$000*	Net maximum exposure *US$000*	Gross maximum exposure *US$000*	Net maximum exposure *US$000*
Deposits by parent undertaking	975,042	-	605,426	-

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The Bank has in place a master Netting Agreement with its parent bank, effective since 2007, covering credit exposures to ICBC entities that have formally acceded to the Agreement. The Bank offsets those credit exposures (mostly short-term trade finance) against borrowing and funding raised from ICBC Group, and in return pays a marginal deduction of fees and interest. Hence the net exposure to ICBC Group is maintained within the regulatory large exposure threshold.

Credit quality per class of financial assets

	2014		*2013*	
	Current	Overdue	Current	Overdue
At 31 December	*US$000*	*US$000*	*US$000*	*US$000*
Loans and advances to banks				
Investment grade	542,220	-	704,563	-
Sub-investment grade	257,869	-	165,438	-
Unrated	170,915	-	90,141	-
	971,004	-	960,142	-

	2014		*2013*	
	Current	Overdue	Current	Overdue
At 31 December	*US$000*	*US$000*	*US$000*	*US$000*
Loans and advances to customers				
Investment grade	922,945	-	1,134,515	-
Sub-investment grade	478,782	1,000	157,629	-
Unrated	774,727	5,000	570,301	-
	2,176,454	6,000	1,862,445	-

	2014	*2013*
	Available for sale	Available for sale
At 31 December	*US$000*	*US$000*
Financial instruments		
Investment grade	610,135	597,407
Sub-investment grade	-	-
Unrated	-	-
	610,135	597,407

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Regional Exposure

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

	2014		*2013*	
	Exposure *US $million*	Exposure *%*	Exposure *US $million*	Exposure *%*
Asia and Pacific	790	16.7	1,102	21.1
Europe:				
- United Kingdom	1,430	30.2	1,718	32.9
- Other EU	905	19.1	1,104	21.1
- Non EU	340	7.2	330	6.3
Middle East	-	-	-	-
North America	608	12.8	405	7.7
South America	70	1.5	139	2.7
Africa	354	7.5	148	2.8
International Organisations	241	5.0	282	5.4
Total regional exposures	4,738	100	5,228	100

The Bank believes that its main concentration of credit risk is by region rather than by industry sectors.

29. Liquidity risk

Liquidity risk is the inability to meet contractual payments and other financial obligations on their due date, or the inability to fund the asset book, at a reasonable cost, and business needs of the Bank.

The Bank's 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 Bank and to enable the Bank to meet its financial obligations as well as requirements under the PRA guidelines. This is achieved through monitoring capital and levels of liquid assets, and through setting limits to control liquidity risk exposure and vulnerabilities. The Bank's governance structure in respect of liquidity risk management embodies the Board and its ALCO.

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

2014

	Not later than 1 month	*Over 1 month and Not later than 3 months*	*Over 3 months and Not later than 6 months*	*Over 6 months and Not later than 1 year*	*Over 1 year and Not later than 5 years*	*Over 5 years*	*Overdue*	*Total*
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*		*$'000*
Financial assets								
Cash and balances with central banks	243	-	-	-	-	-	-	243
Loans and advances to banks	423,899	239,257	182,209	75,513	52,840	-	-	973,718
Loans and advances to customers	-	77,512	443,007	348,148	1,320,614	154,695	6,000	2,349,976
Derivative financial assets	5,459	7,587	6,018	8,842	12,767	-	-	40,673
Financial instruments-available-for-sale	31,244	20,072	67,212	-	510,319	-	-	628,847
Total undiscounted financial assets	460,845	344,428	698,446	432,503	1,896,540	154,695	6,000	3,993,457

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Financial liabilities								
Deposits by banks	342,727	92,324	842,313	1,100,231	183,326	113,529	-	2,674,450
Customer accounts	449,058	213,972	166,617	31,880	9	-	-	861,536
Derivative financial liabilities	1,335	7,263	5,744	8,429	11,935	-	-	34,706
Total undiscounted financial liabilites	793,120	313,559	1,014,674	1,140,540	195,270	113,529	-	3,570,692
Net undiscounted financial assets/(liabilites)	(332,275)	30,869	(316,228)	(708,037)	1,701,270	41,166	6,000	422,765

The liquidity maturity balances in the above table include interest to maturity in respect of cash flows of assets and liabilities maturity profile.

The Bank has highly liquid assets of $610 million as part of its liquidity assets buffer which can be used in case of any liquidity stress event.

2013	*Not later than 1 month $'000*	*Over 1 month and Not later than 3 months $'000*	*Over 3 months and Not later than 6 months $'000*	*Over 6 months and Not later than 1 year $'000*	*Over 1 year and Not later than 5 years $'000*	*Over 5 years $'000*	*Total $'000*
Financial assets							
Cash and balances with central banks	108	-	-	-	-	-	108
Loans and advances to banks	361,843	323,681	142,676	40,071	98,933	-	967,204
Loans and advances to customers	44,947	53,879	185,029	194,593	1,278,422	117,857	1,874,727
Derivative financial assets	32	47	137	274	965	-	1,455
Financial instruments-available-for-sale	0	97,602	31,277	10,334	464,500	-	603,713
Total undiscounted financial assets	406,930	475,209	359,119	245,272	1,842,820	117,857	3,447,207
Financial liabilities							
Deposits by banks	502,573	206,519	600,254	900,614	211,029	-	2,420,989
Customer accounts	377,294	171,483	193,093	1,519	-	-	743,389
Derivative financial liabilities	349	2,817	97	-	-	-	3,263
Total undiscounted financial liabilities	880,216	380,819	793,444	902,133	211,029	-	3,167,641
Net undiscounted financial assets/(liabilities)	(473,286)	94,390	(434,325)	(656,861)	1,631,791	117,857	279,566

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

	0 - 1 month	2 – 3 months	4-6 months	7-15 months	1 - 5 years	Total Total
2014	*US$000*	*US$000*	*US$000*	*US$000*	*US$000*	*US$000*
Commitments	9,058	40,193	91,324	155,131	678,874	974,580
Total	9,058	40,193	91,324	155,131	678,874	974,580
2013						
Commitments	94,043	257,571	100,591	157,561	1,198,685	1,808,451
Total	94,043	257,571	100,591	157,561	1,198,685	1,808,451

30. Market risk

Market risk is defined as the risk of losses arising from movements in market prices. The risks subject to the market risk measurement frameworks are: 1) Interest rate risk, credit spread and default risk, equity risk, foreign exchange risk and commodities risk for covered instruments; and 2) Foreign exchange risk and commodities risk for banking book instruments. At the moment, the Bank does not trade bonds, credit spread, equity, and commodities. The authorized products the Bank can trade include FX spot, FX forward, FX swap, IRS. As the Bank does not undertake proprietary trading and market making, trading book exposure only results from client servicing. In most cases, client servicing position is back to back squared.

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 Bank during the year, and it is the Bank's policy to keep the net currency exposure below $2 million. The net long currency exposure at 31 December 2014 was $0.56 million (2013: $0.89 million).

31. Interest rate risk in banking book

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair value of financial instruments. The interest rate sensitivity exposure of the Bank at 31 December 2014 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 2014.

Interest rate sensitivity table

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	Not more than 3 months US$000	*More than 3 months but not more than 6 months US$000*	*More than 6 months but not more than 1 year US$000*	*More than 1 year but not more than 5 years US$000*	*More than 5 years US$000*	*Non-interest bearing US$000*	*Total US$000*
Assets							
Liquid assets	-	-	-	-	-	243	243
Loans and advances							
- to banks	817,948	133,542	19,514	-	-	(3,248)	967,756
- to customers	2,102,569	79,885	-	-	-	(31,239)	2,151,215
Financial instruments							
- available-for-sale	51,226	65,787	-	493,122	-	-	610,135
Fixed and other assets	-	-	-	-	-	95,889	95,889
Total assets	2,971,743	279,214	19,514	493,122	-	61,645	3,825,238
Liabilities and shareholder's funds							
Deposits by banks	1,500,409	836,890	161,117	89,563	-	-	2,587,979
Customer accounts	662,866	166,118	31,910	-	-	-	860,894
Other liabilities	-	-	-	-	-	53,914	53,914
Shareholder's funds	-	-	-	-	-	322,451	322,451
Total liabilities and shareholder's funds	2,163,275	1,003,008	193,027	89,563	-	376,365	3,825,238
Off balance sheet	-	-	-	-	-	-	-
Interest rate sensitivity gap	808,468	(723,794)	(173,513)	403,559	-	(314,720)	-
Cumulative gap	808,468	84,674	(88,839)	314,720	314,720	-	-

The table below shows the changes in 2015 projected Profit/(Loss) of the Bank arising from a shift in yield curves:

Basis points shift	*US$000*
+100	2,741
+200	5,481
-100	(2,741)
-200	(5,481)

For each shift in the basis points on its funding rate, the Bank 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.

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	Not more than 3 months US$000	More than 3 months but not more than 6 months US$000	More than 6 months but not more than 1 year US$000	More than 1 year but not more than 5 years US$000	More than 5 years US$000	Non-interest bearing US$000	Total US$000
Assets							
Liquid assets	-	-	-	-	-	108	108
Loans and advances							
- to banks	847,936	97,142	14,774	-	-	(3,309)	956,543
- to customers	1,708,690	106,755	37,000	10,000	-	(17,123)	1,845,322
Financial instruments							
- available-for-sale	96,680	30,527	10,176	460,024	-	-	597,407
Fixed and other assets	-	-	-	-	-	62,486	62,486
Total assets	2,653,306	234,424	61,950	470,024	-	42,162	3,461,866
Liabilities and shareholder's funds							
Deposits by banks	1,595,035	613,801	192,000	-	-	-	2,400,836
Customer accounts	548,345	193,093	1,500	-	-	-	742,938
Other liabilities	-	-	-	-	-	21,207	21,207
Shareholder's funds	-	-	-	-	-	296,885	296,885
Total liabilities and shareholder's funds	2,143,380	806,894	193,500	-	-	318,092	3,461,866
Off balance sheet	-	-	-	-	-	-	-
Interest rate sensitivity gap	509,926	(572,470)	(131,550)	470,024	-	(275,930)	-
Cumulative gap	509,926	(62,544)	(194,094)	275,930	275,930	-	-

The table below shows the changes in 2014 projected Profit/(Loss) of the Bank arising from a shift in yield curves:

Basis points	*US$000*
+100	493
+200	987
-100	(493)
-200	(987)

32. Operational risk

The Bank 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 Bank deals. The Bank's policy is to ensure that the risk of losses from operational failure

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are minimised. To this purpose the Bank 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.

33. Capital

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

There were no breaches in capital requirements reported in the year.

The primary objectives of the Bank's capital management activities are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains sufficient capital ratios in order to support its business and to maximise shareholder value.

The Bank 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 Bank may adjust the amount of dividend payment to shareholder or issue capital securities.

Regulatory capital

	2014 Actual *US$000*	*2013* Actual *US$000*
Common Equity Tier 1 Capital	200,000	200,000
Retained earnings	121,620	97,704
Available-for-sale reserves	831	(819)
Tier 1 Capital	322,451	296,885
Tier 2 Capital	103,000	100,290
Total capital	425,451	397,175

The average interest rate on the subordinated loan in 2014 was 1.53% (2013: 0.92%)

On 28 October 2013, a contract of 10 year subordinated loan was signed between the Parent Bank and the Bank to replace the previous one with the same notional value of $100 million. This subordinated loan is classified as lower tier 2 capital and is subject to amortisation on a straight line basis from October 2018. Interest is charged at a margin of 3 months Libor plus 1.3%.

34. UK Regulatory Pillar 3 disclosures

The UK regulatory Pillar 3 disclosures can be found at the following web address: www.icbclondon.com/about us/about/ICBC(London)plc/Annual Report/Pillar 3 disclosures.