2016

ICBC (London) **plc**

Report and Financial Statements

ICBC 工银伦敦

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ICBC (London) **plc**

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

COMPANY REGISTRATION NO: 4552753

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CHAIRMAN'S STATEMENT

The referendum on the UK's membership of the European Union in the summer of 2016 was a momentous one and, whilst the result did not turn out as forecast, ICBC had planned for possible market disruption and was not materially affected by the subsequent market adjustments. The medium-term effects of the decision to leave the European Community remain uncertain but it is important to emphasise that ICBC remains committed to doing business in the United Kingdom and Brexit will not change the strategy of this Bank or of the Industrial and Commercial Bank of China's branch ("Branch") in London.

Since the opening of the Branch in London in 2014, this Bank and the Branch have operated in tandem in a complementary manner. One result of this is that the assets of ICBC (London) plc have reduced in 2016 as customers' preferences and prudential considerations were overlaid on the Group's business in the UK. The Bank's total assets as at 31 December 2016 were $2.7 billion (31 December 2015: $3.2 billion) whilst the assets of the Branch grew at a fast rate. This readjustment of asset size between the Bank and the Branch means that direct comparisons of our performance in 2016 with previous years are less meaningful. I would like to emphasise however that, going forward, the ICBC Group is totally committed to developing both this Bank and the Branch side by side.

In 2016 our profit before tax was $26.92 million compared with $44.76 million in 2015. This reduction in profits was due to the reduced assets, challenging trading conditions and an increase in our provisions for bad and doubtful debts by $2.94 million (2015: $(921)k). Our total operating income in 2016 was $61.16 million (2015: $70.46 million) and our resultant profit for the year after tax and provisions was $20.81 million (2015: $34.93 million). We will continue to monitor carefully the risks to our portfolio in these challenging times in keeping with our prudent approach.

Our operating expenses in 2016 (excluding provisions) increased by 17.57% to $31.30 million (2015: $26.62 million). Much of this increase was due to taking on additional staff to cope with our increased levels of business across the combined entities. The staff in ICBC (London) plc serve both this Bank and the Branch and the additional staff costs are offset by an increase in the service charge paid by the Branch for use of our resources. At the end of 2016 our staff numbers had increased to 132 (from 112 at the end of 2015) – a rise of 17.86%. I would like to welcome the new staff to the Bank and thank the management team and all staff for their important contribution during the year.

During 2016 Ms Jin Chen, who successfully managed the setting up of the Branch and, as CEO of ICBC (London) plc managed the developing relationship of the two entities, has moved to another important role in Europe and I would like to thank Ms Chen for the enormous contribution she has made to both the Branch and to this Bank. I am delighted to welcome as her replacement, Mr Ruixiang Han. Mr Han has a wealth of experience gained in China and in the international offices of ICBC and I am confident that he will continue to develop ICBC successfully in London. Finally, I would like to thank all of my fellow directors for their support and guidance during the year.

Shu Gu

Shu Gu
Chairman


ICBC

STRATEGIC REPORT

Introduction

2016 was the year global uncertainties came to pass. Few at the start of the year would have predicted the UK voting to leave the European Union or the results of the US presidential elections. Economic forecasting, never an absolute science at the best of times, came in for much introspection. The British economy by the end of 2016 was growing at 2%, better than many had predicted would be the case after Brexit. However, growth forecasts for 2017 and into 2018 are around 1.2%, a near percentage point below what was being forecast pre-Brexit.

Meanwhile, China's economy grew at around 6.7% in 2016, within the Chinese Government's projected range for their GDP growth of 6.5-7.0%. As the second-largest economy in the world and the second-biggest importer of goods and services, this provided welcome stability in an otherwise uncertain global economic environment. It was also welcome to note that the Chinese and UK governments wish to continue to build strong economic co-operation.

Despite challenging macro-economic conditions, ICBC (London) plc had another strong year. Overall the Bank made a profit before tax of $26.92 million (2015: $44.76 million) and with total assets at $2.7 billion (2015: $3.2 billion). This was the second full year of the Subsidiary working alongside the ICBC London Branch. Both entities, whilst separately governed, work very closely together with staff being 'dual-hatted' across both.

Summary of Business

The Bank made a profit before tax of $26.92 million (2015: $44.76 million). The return on equity stood at 5.66% in 2016, which decreased by 4.62% compared to that of 2015. The return on assets was 0.73%, which also decreased by 0.24% compared to that of 2015. The decrease in total assets by 15.26% to $2,722 million at year end 2016 from $3,213 million at year end 2015 led to decrease in the profit of the Bank.

The majority of credit exposures were of a good quality. Credit exposures on the "watch list" category increased by 4.4% from last year end to $237.5m at year end 2016. The increase reflected a mixture of new loans being added to the 'watch list' in 2016, as well as amortisation and full repayment of some loans.

Interest income decreased by 16.2% to $69.48 million compared to last year (2015: $82.92 million). Similarly, interest expenses also decreased by 13.23% to $32 million (2015: $36.88 million) due to decrease in deposits and borrowings.

The other income increased by 42.77% to $18.36 million in 2016 compared to the previous year (2015: $12.86 million) mainly due to increase in fee income from the service level agreement between the Bank and other ICBC entities.

Total assets as at 31 December 2016 were $2.7 billion, a reduction of 15.26% with the previous year (2015: $3.2 billion). This has mainly been driven by a fall in syndicated loans and interbank placements.

The total liabilities fell in 2016 by 17.9% to $2.34 billion due to falls in deposits and interbank borrowing. The Branch's successful listing of a $10 billion MTN programme on the London Stock Exchange in December 2015, raised an additional US$500 million in 2016 bringing total liabilities under the programme to US$800 million. This diversification of the funding base also supports the Subsidiary's funding needs.

All capital ratios at the end of the year were above regulatory requirements with surplus capital being held against Pillar 2 requirements.

The corporate banking activities for ICBC in London are managed through ICBC (London) plc, and separately through its London Branch. Larger commitments are typically booked in the Branch and the trend in this regard has seen fewer loan assets maintained within ICBC (London) plc across all categories.

The lending business continues to be diversified among medium to large corporates, mostly of local and Chinese origin, commodity & structured finance and commercial real estate. ICBC has also recently established an infrastructure financing activity in London.

All business areas are expected to continue benefitting from the increased inward investment and acquisition undertakings from the China mainland. However, the majority of lending is sourced locally, given the importance of London as a major international financial centre.

Expenses

Total operating expenses excluding impairment for 2016 were $31.30 million (2015: $26.62 million). Staff costs increased by 16.34% to $19.53 million in 2016, reflecting staff increases for new business growth in the Bank and London Branch and our enhanced risk focus. All staff are employed by the Bank and also work for the London Branch under the service level agreement between the two entities.

Principal risks

ICBC (London) plc has established a robust enterprise-wide risk management framework to ensure that the risks undertaken are well-managed within the risk appetite established by the Board, which oversees its implementation. The organisational structure is detailed in Note 28.

The Board deems that the risk appetite is appropriate for the Bank's business strategy, financial condition and funding capacity.

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.

In addition to the challenges referred to above, the major risks faced by the Bank include credit risk, liquidity and funding risk, market risk, regulatory risk, geopolitical risk and operational risk. Further information on these risks is included in Notes 28-33 to the financial statements.

In particular, the risks faced by ICBC (London) plc include the following:

- Credit risk arises from exposures to a range of counterparties, industries and countries. Existing governance and risk controls are effective, asset quality is satisfactory and capital adequacy is sufficient to absorb potential credit losses. There is concentration risk across several dimensions including the Chinese and UK economies – reflecting the Bank's business mandate – and sector concentration in banks and non-bank financial institutions (47% of total credit exposures), the largest component being intra-group exposures to other ICBC entities mitigated by the longstanding Netting Agreement between the Bank and acceding parties. Regarding industry concentration, the Bank has a commodity and structured trade finance lending portfolio of 13% of total credit exposures. Global commodity markets weakened considerably from 2013 onwards, with negative consequences for commodity-oriented emerging-market economies, and the 2016 recovery was mixed therefore the Bank has stringent controls to manage and de-risk its portfolio, including minimal direct exposure to troubled regions, countries and industries. There is also a small UK commercial real estate portfolio (4% of total credit exposures), conservatively managed and regularly stress tested both before and after the Brexit vote.
- Liquidity and funding risk remains a key focus of the Bank. We have a very limited Retail deposit base compared to our local competitors. However, we have established long-term funding measures and can collaborate with ICBC London Branch to strengthen our funding capacity; indeed, the Branch is an important funding source for ICBC (London) plc. Appropriate risk measurement, monitoring and reporting systems and internal limits are in place, liquidity stress testing is undertaken against a range of scenarios, and there is a Contingency Funding Plan.
- Financial market volatility increased in 2016. The era of ultra-low interest rates appears to be drawing to a close. But meanwhile pricing remains tight and the Bank's margins are being squeezed therefore the Bank has to carefully consider the risk-adjusted return on assets, while managing our generally low market risk profile (interest rate and FX risk).
- Regulatory risk, the risk of changes in regulations that might affect a business, industry or market, is increasing because of the growing complexity of the Bank's operations as well as the regulatory environment

in the UK, EU and China. The Bank's Compliance & Legal Department effectively manages regulatory change projects as well as business-as-usual reviews and financial crime risk management including anti-money laundering, sanctions monitoring etc.

- Geopolitical risk is rising again. As well as the economic ramifications of the unexpected UK vote for Brexit and the US presidential election outcome, there is a growing security threat of terrorist attacks both inside and beyond the Middle East, with evident instability in countries such as Turkey and Syria. The Bank has in place a Disaster Recovery and Business Continuity Plan and other measures to safeguard our staff, customers and business. The impact of Brexit is also being carefully monitored and integrated into the Bank's strategic plans, notably the impact on market volatility, a weaker sterling and a reduced macro-economic forecast.
- Operational risk losses within the Bank are very low (2016: Nil; 2015: $40k), but inherent risk is increasing, driven by external factors such as greater regulatory complexity and reporting requirements as well as the growing sophistication of the Bank's operations. However, there is a strong governance and risk control framework in place and the overall residual risk profile is low.

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 & ALM and Compliance & Legal departments periodically carry out reviews to assess the compliance, while the Internal Audit department, as the third line of defence, will undertake independent, risk-based reviews of the risks in the various business areas and the related controls in place to mitigate them. The scope of Internal Audit work is agreed by the Audit Committee, which also oversees the results of the reviews undertaken. The head of Internal Audit department reports to the Chairman of the Audit Committee.

Future Developments

The Bank will continue to work alongside the London Branch in increasing the scale and breadth of its lending capability. This will include building up its treasury capabilities and look to create a debt capital markets team. It will continue to extend into new sectors such as UK infrastructure projects.

The approach to developing our markets, products and services since the Bank'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.

Our main focus will remain on wholesale banking. The Bank 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.

Governance

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. The Bank employs two independent UK based non-executive directors, one of whom is the Chair of the Bank's Audit Committee and one of whom is the Chair of our Risk Committee; there is also one UK based non-executive director who chairs the Governance & Compliance Committee; and two China based non-executive directors from our Parent Bank. At an executive level, the Bank operates management level committees to ensure that "four eyes" are involved in all major policies and operating decisions; establishing clear policies and decision making procedures; and ensuring effective implementation of operating procedures. Independent, risk-based internal audit reviews are also undertaken on a regular basis. 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. During the year, the Bank reviewed the impact of the new EU Audit Regulation and Directive. As a result of this review changes were made to the Audit Committee terms of reference and the permitted services that may be provided by the auditors, KPMG. The Bank, therefore, believes that it complies fully with the new requirements.

STRATEGIC REPORT continued

Employees

The number of staff at the end of 2016 was 132 (2015: 112).

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:

- 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;
- Remuneration process designed to reward performance and growth that incorporates sound risk management;
- 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 28 February 2017 and is signed on its behalf by:

Ruixiang Han

Chief Executive Officer

BOARD OF DIRECTORS AND OTHER INFORMATION

Directors
Shu Gu (Chairman)
Jin Chen (Director and Chief Executive Officer – resigned 9 November 2016)
Ruixiang Han (Director – appointed 11 August 2016 and Chief Executive Officer from 9 November 2016)
Shuyi Yuan (Director and Deputy Chief Executive Officer)
Li Lan (Non-Executive Director)
David Newton (Independent Non-Executive Director)
Peter Goshawk (Independent Non-Executive Director)
John Kerr (Non-Executive Director)

Company Secretary
John Kerr

Auditor
KPMG LLP
15 Canada Square
Canary Wharf
London
E14 5GL

Registered Office
81 King William Street
London
EC4N 7BG

Management Team
Ruixiang Han (Chief Executive Officer)
Shuyi Yuan (Deputy Chief Executive Officer)
Xiao Lu (Deputy General Manager)
Robert Clark (Deputy General Manager)
Ying Shi (Deputy General Manager)

DIRECTORS' REPORT

The directors present their report and the financial statements of the Bank for the year ended 31 December 2016.

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$20.81 million (2015: US$34.93 million). The credit balance on the Profit and Loss Account is to be carried forward.

Principal activities

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

Events since the 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:

Shu Gu (Chairman)
Jin Chen (Director and Chief Executive Officer – resigned 9 November 2016)
Ruixiang Han (Appointed Director on 11 August 2016 and Chief Executive Officer on 9 November 2016)
Shuyi Yuan (Director and Deputy Chief Executive Officer)
Lan Li (Non-Executive Director)
David Newton (Independent Non-Executive Director)
Peter Goshawk (Independent Non-Executive Director)
John Kerr (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 donations (2015: Nil).

Going Concern

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

In assessing going concern, the Directors take account of all information which they are aware of about the future, which is at least, but not limited to, 12 months from the date that the balance sheet is signed. This information includes the Bank's forecast results 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.

Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each director has taken all the steps that he/ she ought to have taken as a director to make himself/ herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.'

Auditor

In accordance with section 489 of the Companies Act 2006, a resolution for the reappointment of KPMG as the external auditor is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

John Kerr

Company Secretary

28 February 2017

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland.

Under company law the Directors must not approve the financial statements unless the Directors are satisfied that the financial statements give a true and fair view of the state of affairs of the Bank and of the profit or loss of the Bank for that period. In preparing these financial statements, the directors are required to:

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

The Directors are responsible for keeping adequate 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 enable them to ensure that the financial statements comply with the Companies Act 2006. The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities.

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

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF ICBC (LONDON) PLC

KPMG LLP

15 Canada Square, London
E14 5GL, United Kingdom

We have audited the financial statements of ICBC (London) plc for the year ended 31st December 2016. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland.

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 9, 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

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

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 31st December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports and.
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

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.

Paul Furneaux (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square,

London

E14 5GL


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PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 *$ '000*	2015 *$ '000*
Interest receivable from financial investments	2	5,666	6,490
Other interest receivable	2	63,818	76,429
Interest payable	2	(32,005)	(36,884)
Net interest income		**37,479**	**46,035**
Fees and commissions receivable	2	6,777	13,574
Fees and commissions payable	2	(1,451)	(2,011)
Net fees and commission		**5,326**	**11,563**
Revaluation gain/ (loss) on financial derivatives	11	(792)	(4,512)
Foreign exchange gain/(loss) & realized gain/(loss) on financial derivatives		1,146	3,030
Other operating income	3	18,010	14,340
Gain on sale of tangible assets		1	-
Loss on sale of bonds		(7)	-
Other Income		**18,358**	**12,858**
Total operating income		**61,163**	**70,456**
Personnel expenses	4	(19,533)	(16,789)
Depreciation of tangible fixed assets	13	(1,879)	(1,912)
Amortisation of intangible assets	14	(3)	-
Provisions for bad and doubtful debts	10	(2,941)	921
Other operating expenses	6	(9,885)	(7,921)
Operating expenses		**(34,241)**	**(25,701)**
Profit on ordinary activities before tax		**26,922**	**44,755**
Tax on profit on ordinary activities	7	(6,114)	(9,824)
Profit for the financial year		**20,808**	**34,931**

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

The notes 1 to 37 form part of these financial statements.

STATEMENT OF OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

	2016	2015
	$ '000	*$ '000*
Profit for the financial year	**20,808**	**34,931**
Other Comprehensive Income :		
Amounts that will be reclassified to the income statement		
Change in fair value of available for sale (AFS) financial investments	(86)	480
Fair value of AFS financial investments recycled through profit and loss account at disposal	62	-
Income tax income (expenses) relating to components of other comprehensive income	(12)	(587)
Other comprehensive (loss) for the year, net of income tax	**(36)**	**(107)**
Total comprehensive income for the year	**20,772**	**34,824**

The notes 1 to 37 form part of these financial statements.

BALANCE SHEET
FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 $ '000	2015 $ '000
Assets			
Cash and balances at central banks		145	197
Loans and advances to banks	8	1,171,593	1,289,728
Loans and advances to customers	9	1,024,525	1,347,144
Derivative financial instruments	11	86,329	33,699
Available for sale financial investments	12	388,541	489,848
Tangible fixed assets	13	39,488	41,314
Intangible assets	14	28	-
Prepayments, accrued income and other assets	15	11,616	10,695
Total Assets		**2,722,265**	**3,212,625**
Liabilities			
Deposits by banks	17	1,754,538	2,048,191
Customer accounts	18	391,012	661,083
Derivative financial instruments	11	85,667	32,245
Other liabilities		4,691	4,191
Provision for Liabilities	23	1,135	241
Accruals & deferred income	19	3,658	3,933
Subordinated loan	22	100,000	100,000
Corporation tax		2,357	4,421
Deferred tax liabilities	16	1,160	1,045
Total Liabilities		**2,344,218**	**2,855,350**
Share Capital and Reserves			
Authorised and called up share capital	20	200,000	200,000
Retained earnings	21	177,359	156,551
Available for sale reserve	21	688	724
Total Share Capital and Reserves		**378,047**	**357,275**
Total Liabilities and Share Capital and Reserves		**2,722,265**	**3,212,625**
Memorandum Items			
Contingent liabilities and commitments	24	390,257	830,559

These financial statements were approved by the directors on 28 February 2017 and are signed on their behalf by:

Ruixiang Han
Director

Shuyi Yuan
Director

Company Registration No: 4552753

The notes 1 to 37 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

	Ordinary Share Capital	Retained Earning	Available for Sale Reserve	Total Equity
	$ '000	*$ '000*	*$ '000*	*$ '000*
Balance at 01/01/2015	**200,000**	**121,620**	**831**	**322,451**
Profit for the year	-	34,931	-	34,931
Other comprehensive income	-	-	(107)	(107)
Balance at 31/12/2015	**200,000**	**156,551**	**724**	**357,275**
Balance at 01/01/2016	**200,000**	**156,551**	**724**	**357,275**
Profit for the year	-	20,808	-	**20,808**
Other comprehensive income	-	-	(36)	**(36)**
Balance at 31/12/2016	**200,000**	**177,359**	**688**	**378,047**

The notes 1 to 37 form part of these financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 *$ '000*	2015 *$ '000*
Cash flows from operating activities			
Profit before tax		**26,922**	**44,755**
Adjustments for non- cash items			
Depreciation of tangible fixed assets	13	1,879	1,912
Amortisation of intangible assets	14	3	-
Net impairment on loans and advances	10	2,941	(921)
Interest income	2	(69,484)	(82,919)
Interest expenses	2	32,005	36,884
Gain on disposal of tangible fixed assets		(1)	-
Loss on sale of AFS financial investment		7	-
Exchange gain & loss and accretion of discounts and amortisation of premiums of AFS financial investments		8,834	6,506
Revaluation loss on financial derivatives	11	792	4,512
		(23,024)	**(34,026)**
(Increase)/ decrease in operating assets			
Loans to banks	8	203,049	(353,423)
Loans and advances to customers	9	319,708	804,752
Other assets	15	(538)	(94)
		522,219	**451,235**
(Decrease)/increase in operating liabilities			
Deposits by banks	17	(293,653)	(439,788)
Deposits from customers	18	(270,071)	(199,811)
Other liabilities		1,149	251
		(562,575)	**(639,348)**
Adjustment for cash items			
Interest received		69,101	84,684
Interest paid		(32,035)	(45,687)
Income tax paid		(8,075)	(7,235)
		28,991	**31,762**
Net cash from operating activities		**(7,467)**	**(145,622)**
Cash flow from investing activities			
Matured/Disposal of available for sale investment	12	94,644	115,652
Acquisition of tangible fixed assets	13	(53)	(376)
Disposal of tangible fixed assets	13	1	-
Acquisition of intangible assets	14	(31)	-
Net cash from investing activities		**94,561**	**115,276**
Net cash from financing activities		**-**	**-**
Net increase /(decrease) in cash and cash equivalents		**87,094**	**(30,346)**
Cash and cash equivalents at 1 January	27	**41,812**	**73,549**
Effects of exchange rates on cash and cash equivalents		(2,202)	(1,391)
Cash and cash equivalents at 31 December	27	**126,704**	**41,812**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

1. Accounting policies

I. Corporate information

ICBC (London) plc ('the Bank'), a wholly owned subsidiary of Industrial and Commercial Bank of China Limited, is incorporated and domiciled in England and Wales with its registered office at 81 King William Street, London EC4N 7BG. The Bank is licensed to carry on banking business in the United Kingdom under the regulatory supervision of the Prudential Regulatory Authority (PRA) and Financial Conduct Authority (FCA).

II. Basis of preparation

- *Statement of Compliance*

The financial statements have been prepared in accordance with FRS 102, the Companies Act 2006 and the special provisions of Schedule 2 of Large and Medium-sized Companies and Group (Accounts and Reports) Regulation 2008.

At the time of approval of these financial statements, the Board of Directors of the Bank was satisfied that the capital and liquidity position of the Bank remained satisfactory. Further, the Bank has sufficient capital and liquidity to enable it to meet its obligations for the foreseeable future, including its prospective flow of new business.

The financial statements are prepared on a going concern basis considering the factors mentioned above. The detail of going concern is in the Directors' report and statement of directors' responsibilities.

The financial statements were authorized for issue by the Board of Directors of the Bank on 28 February 2017.

III. Review of accounting policies

The Bank adopted FRS 102 from 01 January 2015 departing from the old UK GAAP. Further, the Bank has chosen to adopt the recognition and measurement provisions of IAS 39 Financial Instruments: Recognition and Measurement (as adopted for use in the EU), the disclosure requirements of Section 11 and 12 and the presentation requirements of paragraph 11.38A or 12.25B of FRS 102 in respect of Financial Instruments.

The Bank made no changes to its accounting policies for the year ended 31 December 2016 nor was it required to adopt any new accounting policies during this period.

IV. Functional and presentational currency

The financial statements are prepared in US Dollars, which is the functional currency of the Bank. Unless otherwise indicated, all the figures are rounded to nearest thousand.

V. Foreign currencies transactions and balances

Transactions in currencies other than US Dollars are translated into US Dollars using the spot exchange rate ruling at the date of the transaction. At the end of each reporting period, monetary assets and liabilities denominated in currencies other than US Dollars are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non- monetary items measured at fair value are measured using the exchange rate when fair value was determined. When FRS 102 requires a gain or loss on non-monetary items to be recognised in other comprehensive income, the Bank recognises any component of that gain or loss in other comprehensive income.

1. Accounting policies (continued)

VI. Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with FRS 102 requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures. Actual results may differ from these estimates.

The key assumptions concerning the future, management judgements and estimations that have a significant risk of causing a material adjustment to the carrying amount of assets or liabilities within the next financial year are as below:

- *Impairment losses on loans and advances*

The Bank determines periodically whether there is any objective evidence that impairment losses have occurred on loans and advances. If any such evidence exists, the Bank assesses the amount of impairment losses. Management's judgement is required to identify whether objective evidence for impairment exists. It also requires significant estimation when determining the present value of the expected future cash flows.

- *Impairment of financial investments*

The Bank reviews its financial investments at each balance sheet date to assess whether they are impaired. This requires similar judgement as applied to the individual assessment of loans and advances.

- *Fair value of financial instruments*

The fair values of financial assets and liabilities recorded on the balance sheet are primarily derived from active markets. In the absence of an active market, the fair value is determined using a variety of valuation techniques that include use of mathematical models. To the extent possible, valuation technique makes maximum use of market inputs. However, when market inputs are not available, management needs to make an estimate of such unobservable inputs.

VII. Exemption under FRS 102

The Bank has taken advantage of the following exemptions under FRS 102:

- **Related Party Disclosure**

The Bank has taken advantage of the exemption, under FRS 102.1.12 (e), to disclose key management personnel compensation in total.

VIII. Significant Accounting Policies

a. 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, when appropriate, a shorter period, to the carrying amount of the financial asset or financial liability. The effective interest rate is determined on the basis of the carrying amount of the financial asset or liability at initial recognition. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate and known credit losses that have been incurred, but not future credit losses not yet incurred. The carrying amount of the financial asset or financial liability is adjusted if the

1. Accounting policies (continued)

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.

b. Fee and commission income

The Bank earns fee and commission income from the services it provides to its customers that are provided over a certain period of time. Fee income is accounted for as follows:

- income earned on the execution of a significant act is recognised as revenue when the act is completed;
- income earned from the provision of services is recognised as revenue as the services are provided; and
- income which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate.

c. Financial instruments

The Bank has chosen to adopt the recognition and measurement provisions of IAS 39 Financial Instruments: Recognition and Measurement (as adopted for use in the EU), the disclosure requirements of Section 11 and 12 and the presentation requirements of paragraph 11.38A or 12.25B of FRS 102 in respect of Financial Instruments.

Financial Assets
The Bank classifies its financial assets in the following categories:

- Financial assets at fair value through profit or loss
- Loans and receivables
- Available for sale financial assets.

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair

value plus, in the case of financial assets and financial liabilities not at fair value through profit or loss, any directly attributable incremental costs of acquisition or issue.

i. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are categorized as:

Financial assets held for trading

A financial asset is classified as held for trading if:

- It is acquired principally for the purposes of selling or repurchasing it in the near term;
- On initial recognition it is part of a portfolio of identified financial assets that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking,
- It is a derivative that is not designated into a qualifying hedge relationship.

Financial Assets designated at fair value through profit or loss

Financial assets may be designated at fair value through profit or loss only if such a designation

1. Accounting policies (continued)

- eliminates or significantly reduces a measurement or recognition inconsistency
- applies to a group of financial assets, financial liabilities, or both that the Bank manages and evaluates on a fair value basis; or
- relates to an instrument that contains an embedded derivative which is not evidently closely related to the host contract.

Financial Assets at fair value through profit or loss are recognised initially at fair value, with transaction costs recognised in the Profit and Loss Account. Subsequent to initial recognition, any gain or loss arising from changes in fair value are recognised in the Profit and Loss Account.

ii. Loans and receivables

Loans and advances are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market and which are not classified upon initial recognition as available for sale or at fair value through profit and loss. 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

iii. Available for sale financial assets

Available for sale assets are non-derivative financial assets including debt securities that are designated as available for sale on initial recognition or are not classified into any of the other categories described above.

At the initial recognition of financial instruments as 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 other comprehensive income- 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.

Interest income is recognised on available-for-sale debt securities using the effective interest rate, calculated over the asset's expected life. Premiums and/or discounts arising on the purchase of investment securities are included in the calculation of their effective interest rates.

If the available for sale financial asset is impaired, the difference between the financial asset's acquisition cost (net of any principal repayments and amortisation) and the current fair value, less any previous impairment loss recognised in the income statement, is removed from other comprehensive income and recognised in the Profit and Loss Account.

Impairment of financial assets

- *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 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:

1. Accounting policies (continued)

- Significant financial difficulty of the borrower or obligor;
- Breach of contractual obligations such as non-payment or partial payment of interest or principal;
- Higher probability that the borrower will enter administration, liquidation or other financial reorganisation;
- Shrinkage or disappearance of an active secondary market for that financial asset;
- 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 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.

- *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.

- *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.

Financial Liabilities

The Bank classifies its financial liabilities in the following categories:

1. Accounting policies (continued)

i. *Financial Liabilities designated at fair value through profit or loss*

Financial assets may be designated at fair value through profit or loss only if such a designation:

- eliminates or significantly reduces a measurement or recognition inconsistency;
- applies to a group of financial assets, financial liabilities, or both which is managed and its performance is evaluated on a fair value basis; or
- the financial instrument contains an embedded derivative which is not evidently closely related to the host contract.

Financial Liabilities at fair value through profit or loss are recognised initially at fair value, with transaction costs recognised in the Profit and Loss Account. Subsequent to initial recognition, any gain or loss arising from changes in fair value are recognised in Profit and Loss Account.

ii. Other Financial Liabilities

All other financial liabilities are measured initially at fair value including transaction costs that are directly attributable to the acquisition or issue of the financial liabilities. Subsequently, they are carried at amortized cost. The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment

Derecognition of Financial Assets and Liabilities

Financial assets are derecognised when:

i. the right to receive cash flows from the assets has expired; or
ii. when the Bank has transferred its contractual right to receive the cash flows of the financial assets, and substantially all the risks and rewards of ownership; or where control is not retained.

Financial liabilities are derecognised when the obligation under the liability is discharged, cancelled or expired.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is presented in the financial statements when the Bank has a current legally enforceable right to set off the recognized amount and the Bank intends either to settle on a net basis, or to realise the financial asset and settle the financial liability simultaneously.

d. Derivatives and credit valuation adjustment

Derivatives are recorded at fair value at trade date and are subsequently recognised at fair value. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are taken to the Profit and Loss Account.

Credit valuation adjustment (CVA) is an adjustment tor the financial derivatives in order to reflect the credit risk of counterparty. The CVA is calculated by applying the probability of default (PD) of the counterparty, conditional on the non-default of the Bank, to the Bank's expected positive exposure to the counterparty and multiplying the result by the loss given default (LGD).

1. Accounting policies (continued)

e. 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.

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. 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.

f. Taxation

Income Tax comprises current and deferred income tax. Tax is recognised in the profit and loss account, except that it relates to items recognised in other comprehensive income or directly in equity, in which case tax is recognised in other comprehensive income.

Current Tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred Tax

Deferred tax shall be recognised in respect of all timing differences at the reporting date. Timing differences are differences between taxable profits and total comprehensive income as stated in the financial statements that arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Unrelieved tax losses and other deferred tax assets shall be recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using the tax rates and legislation enacted, or substantively enacted, by the balance sheet date that are expected to apply when the deferred tax asset is realised or the deferred tax liability is settled.

g. Tangible fixed assets and depreciation

Fixed assets are recorded at cost less accumulated depreciation and any accumulated impairment.

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

1. Accounting policies (continued)

Land is not depreciated

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

h. Intangible Assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period.

Software with the indefinite life is amortized in a straight-line basis over 3 years.

i. Employee Benefits

Short-term employee benefits
Short-term employee benefits such as salaries, paid holiday and sick leave and other benefits etc. are measured on undiscounted basis and recognized as expenses in the period of service rendered. Bonuses are recognised as provision to the extent that the Bank has a present obligation to its employees that can be measured reliably. All expenses related to employee benefits are recognised in Profit and Loss Account in Personal Expenses.

Defined Contribution Pension Plan

The Bank has a defined contribution pension plan for its eligible employees through personal pension schemes. Contributions are charged to the Profit and Loss Account as incurred. The amount recognized in Profit and Loss Account is disclosed in Note 4.

j. Leases

The Bank pays rent under operating leases and these rents are charged to the Profit and Loss Account over the lease term on a straight-line basis.

k. Provision

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a current legal or constructive obligation as a result of past events, and a reliable estimate can be made of the amount of the obligation.

The Bank has made provision for onerous lease contracts as set out at Note 23.

l. Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably. Contingent liabilities are disclosed in the notes to the financial statements. When a change in

1. Accounting policies (continued)

the probability of an outflow occurs so that outflow is probable and can be reliably estimated, it will then be recognised as a provision.

m. Cash and cash items

Cash and cash equivalents comprise cash and balances due from other banks with a maturity period of less than three months.

2. Interest and similar income

2016

	Loans & receivables	Available for-sale	Interest rate swaps FVTPL*	Deposits by bank	Customer accounts	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Interest and similar income						
arising from financial investments	-	5,666	-	-	-	5,666
Other interest and similar income	63,646	-	172	-	-	63,818
Total Interest and similar income	**63,646**	**5,666**	**172**		**-**	**69,484**
Interest expense	-	-	-	(28,797)	(3,208)	(32,005)
Net interest income	**63,646**	**5,666**	**172**	**(28,797)**	**(3,208)**	**37,479**
Fees and commissions income						6,777
Fees and commissions expense						(1,451)
Net fees income						**5,326**

** FVTPL – Fair Value through Profit and Loss Account*

Interest and other similar income on financial assets include interest income of $1,985,745 on impaired loans (2015: $1,622,381).

2015

	Loans & receivables	Available for-sale	Interest rate swaps FVTPL*	Deposits by bank	Customer accounts	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Interest and similar income						
arising from financial investments	-	6,490	-	-	-	6,490
Other interest and similar income	76,271	-	158	-	-	76,429
Total Interest and similar income	**76,271**	**6,490**	**158**	**-**	**-**	**82,919**
Interest expense	-	-	-	(32,031)	(4,853)	(36,884)
Net interest income	**76,271**	**6,490**	**158**	**(32,031)**	**(4,853)**	**46,035**
Fees and commissions income						13,574
Fees and commissions expense						(2,011)
Net fees income						**11,563**

3. Other operating income

	2016	2015
	$'000	*$'000*
Fees earned for service level agreement with related parties	18,010	14,340
	18,010	**14,340**

The Bank earns fee income from service level agreements with the following related parties:

i. Industrial & Commercial Bank of China Ltd, London Branch ("the Branch") - for providing all people functions in order to conduct the commercial banking, treasury and global markets business of the Branch.

ii. Industrial & Commercial Bank of China Ltd - for providing Foreign Exchange, Precious Metal service, fixed income and derivative services, CNY financing services and CNY exchange trading services.

iii. Industrial & Commercial Bank of China Financial Services LLC - for providing human resources and regulatory compliance services.

4. Staff costs

Staff costs (including directors) comprise the following:

	2016	2015
	$'000	*$'000*
Wages and salaries	16,833	14,397
Social security costs	1,626	1,464
Pension costs	538	375
Other costs	536	553
	19,533	**16,789**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 continued

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

	2016	2015
	No	*No*
- Senior Management	6	6
- Corporate Banking	17	10
- Institutional Banking	7	6
- Treasury	10	8
- Retail Banking & Account Service	8	7
- PDS	12	12
- Risk Control	17	15
- Supporting Departments	41	36
- Compliance & Internal Audit	8	6
- Company Secretary	1	1
	127	**107**

5. Directors' emoluments

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

	2016	2015
	$'000	*$'000*
Salary	1,100	1,034
Bonus	188	114
	1,288	**1,148**

The emoluments of the highest paid director were as below:

	2016	2015
	$'000	*$'000*
Salary, benefits & performance related bonus	522	506
	522	**506**

6. Other operating expenses

	2016	2015
	$'000	*$'000*
Administrative expenses	8,407	7,734
Operating leases:		
- Operating lease charges	384	-
- Additional/(Reversal) of provision for onerous lease	884	(41)
Auditor's remuneration:		
- Audit of the financial statements		
Current year	113	94
Previous year	25	-
- Audit related assurance services		
Current year	29	-
Previous year	23	-
- Other services related to taxation	20	134
	9,885	**7,921**

7. Tax on profit on ordinary activities

The tax charge is made up as follows:

	2016	2015
	$'000	*$'000*
Current tax:		
UK corporation tax	(6,367)	(9,175)
Adjustments in respect of prior years	283	278
Total current tax	**(6,084)**	**(8,897)**
Deferred tax:		
Origination and reversal of timing differences	(69)	(179)
Adjustment for prior years	(1)	(548)
Effect of tax rate change on opening balance	40	(200)
Total deferred tax (charge)/credit for the year	**(30)**	**(927)**
Total charge for the year	**(6,114)**	**(9,824)**

The tax assessed on the profit on ordinary activities for the year is the standard rate of corporation tax in the UK of 20 % (2015: 20.25%) and banking surcharge of 8% on profit above USD 16.94 million (i.e. GBP 12.5 million). The differences are reconciled below:

	2016 *$'000*	2015 *$'000*
Profit on ordinary activities before tax	**26,922**	**44,755**
Profit on ordinary activities multiplied by standard rate of corporate tax in the UK of 20 % (2015: 20.25%)	(5,384)	(9,063)
Banking surcharge (8% on profit above USD 16.94 million (GBP 12.5 million)	(831)	-
Effects of:		
Expenses not deductible for tax purposes	(16)	(23)
Capital allowances in excess of depreciation of qualifying assets	(164)	(76)
Other timing differences	27	(13)
Adjustments in respect of prior years	284	278
Current tax charge for the year	**(6,084)**	**(8,897)**

Reduction in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) and to 17% (effective 1 April 2020) were substantively enacted in October 2015 and November 2016 respectively. Further, the banking surcharge of 8 % came into effect from 1 January 2016. Since the Bank is part of the banking group in UK for banking surcharge purpose, the annual surcharge allowance of GBP 25 million is divided equally between the Bank and Industrial and Commercial Bank of China, London Branch.

The deferred tax liability at 31 December 2016 has been calculated at 25% (17 % corporation tax + 8% banking surcharge).

8. Loans and advances to banks

	2016 *$'000*	2015 *$'000*
Gross loans and advances to banks	1,173,940	1,291,630
Loan fees received in advance	(2,317)	(1,902)
Less: Allowance for impairment losses (Note 10)	(30)	-
Net loans and advances to banks	**1,171,593**	**1,289,728**

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:

	2016	2015
	$'000	*$'000*
- on demand	126,559	41,615
- three months or less	727,390	892,440
- one year or less but over three months	178,916	267,575
- five years or less but over one year	141,075	90,000
	1,173,940	**1,291,630**

Gross loans & advances to banks by geographical areas:

	2016	2015
	$'000	*$'000*
Area:		
China	300,945	78,596
United Kingdom	376,006	690,812
United States	122,019	120,978
Turkey	48,883	136,756
Germany	61,209	59,490
South Africa	186,075	40,000
Hong Kong	2,740	6,047
Japan	45	50,375
Others	76,018	108,576
	1,173,940	**1,291,630**

	2016	2015
	$'000	*$'000*
Amounts include:		
Due from group entities	243,633	615,371

9. Loans and advances to customers

	2016	2015
	$'000	*$'000*
Gross loans and advances to customers	1,047,492	1,373,144
Loan fees received in advance	(5,977)	(11,921)
Less: Allowance for impairment losses (Note 10)	(16,990)	(14,079)
Net loans and advances to customers	**1,024,525**	**1,347,144**

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:

	2016	2015
	$'000	*$'000*
- on demand	30,000	5,000
- three months or less	42,533	63,330
- one year or less but over three months	182,464	317,869
- five years or less but over one year	606,792	789,408
- over five years	185,703	197,537
	1,047,492	**1,373,144**

Gross loans and advances to customers by geographical areas:

	2016	2015
	$'000	*$'000*
Area:		
United Kingdom	395,350	318,729
Netherland	105,888	242,334
Russia	98,655	142,055
Hong Kong	-	12,800
United States	10,519	45,624
Argentina	-	12,500
France	11,068	9,284
Switzerland	-	24,818
China	259,586	299,227
Angola	60,343	73,209
Others	106,083	192,564
	1,047,492	**1,373,144**

10. Impairment allowance

	Loan & Advances to Banks (Collective Impairment)	Loan & Advances to Customers (Collective Impairment)	Loan & Advances to Customers (Specific Impairment)	Total
	$'000	*$'000*	*$'000*	*$'000*
Balance at 1 January 2015	**240**	**2,760**	**12,000**	**15,000**
Charge for the year	-	-	-	-
Reversal during the year	(240)	(681)	-	(921)
Balance at 31 December 2015	**-**	**2,079**	**12,000**	**14,079**
Balance at 1 January 2016	**-**	**2,079**	**12,000**	**14,079**
Charge for the year	30	-	3,000	3,030
Reversal during the year	-	(89)	-	(89)
Balance at 31 December 2016	**30**	**1,990**	**15,000**	**17,020**

11. Derivative financial instruments

In the following table, the fair value of a derivative financial instrument represents the positive or negative cash flows which would have occurred had the rights and obligations arising from that instrument been closed out by the Bank in an orderly market transaction at the balance sheet date. The replacement cost is considered to be the same as the positive or negative fair value.

Derivatives are measured at their fair value, which is calculated as the present value of future expected net contracted cash flows at market related rates at balance sheet date.

	2016			**2015**		
	Positive fair value	**Negative fair value**	**Revaluation gain/(loss)**	**Positive fair value**	**Negative fair value**	**Revaluation gain/(loss)**
	$000	*$000*	*$000*	*$000*	*$000*	*$000*
Forward Exchange Contract	82,652	(82,222)	(106)	29,541	(29,005)	(12)
Foreign Exchange Swap	5	(5)	(475)	504	(29)	(4,319)
Interest Rate Swap	3,672	(3,440)	(211)	3,654	(3,211)	(181)
	86,329	**(85,667)**	**(792)**	**33,699**	**(32,245)**	**(4,512)**

The above derivatives were not used for hedging purposes. Hence, the fair value gains/losses on these derivatives have been charged to the Profit and Loss account.

12. Available for sale financial investments

Available for sale financial investments include investment in quoted bonds. The Bank values bonds using the quoted market price at balance sheet date.

	2016 *$'000*	2015 *$'000*
Balance at 1 January 2016	489,848	610,135
Additions	-	-
Disposals/ Matured	(94,651)	(115,652)
Fair value adjustment*	(24)	480
Premium/ Discount amortization	(108)	(1,663)
Foreign exchange difference	(6,524)	(3,452)
	388,541	**489,848**

* Fair value adjustment is net of fair value adjustment recycled though Profit and Loss Account at disposal of AFS Bond. The fair value adjustment recycled through P&L in 2016 is (62k) (2015: Nil).

	2016 *$'000*	2015 *$'000*
Analysed by maturity:		
- due within one year	166,083	74,804
- due after one year	222,458	415,044
Analysed by listing status:		
- listed	388,541	489,848
-unlisted	-	-
Analysed by sector:		
- Government	279,963	284,434
- Other sectors	108,578	205,414

13. Tangible fixed assets

	Land	Building	Office furniture and equipment	Computers	Motor vehicles	Leasehold improvement	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Original cost:							
At 1 January 2016	2,785	44,673	2,035	947	49	1,184	51,673
Additions	-	13	9	31	-	-	53
Disposals	-	-	-	-	(49)	-	(49)
							-
At 31 December 2016	**2,785**	**44,686**	**2,044**	**978**	**-**	**1,184**	**51,677**
Accumulated depreciation:							
At 1 January 2016	-	6,576	1,709	841	49	1,184	10,359
Depreciation for the year	-	1,549	270	60	-	-	1,879
Reversal of Depreciation on disposal	-	-	-	-	(49)	-	(49)
At 31 December 2016	**-**	**8,125**	**1,979**	**901**	**-**	**1,184**	**12,189**
<u>**Net book value:**</u>							
At 31 December 2016	**2,785**	**36,561**	**65**	**77**	**-**	**-**	**39,488**
At 31 December 2015	**2,785**	**38,097**	**326**	**106**	**-**	**-**	**41,314**

The Bank sold fully depreciated vehicle in 2016 at USD 1k.

14. Intangible assets

	2016	2015
	$'000	*$'000*
Original Cost:		
At 1 January 2016	-	-
Additions	31	-
At 31 December 2016	**31**	**-**
Amortization		
At 1 January 2016	-	-
Amortisation for the year	3	-
At 31 December 2016	**3**	**-**
Net book value:		
At 31 December 2016	**28**	**-**
At 31 December 2015	**-**	**-**

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15. Prepayments, accrued income and other assets

	2016	2015
	$'000	*$'000*
Accrued interest receivable	7,371	6,988
Prepayments	655	482
Other assets	372	259
Amount owed by group undertakings	3,218	2,966
	11,616	**10,695**

16. Deferred tax assets/ (liabilities)

	2016	2015
	$'000	*$'000*
Deferred tax liabilities included in the balance sheet comprise the following:		
Accelerated capital allowances	(1,075)	(1,045)
Other timing differences	(85)	-
	(1,160)	**(1,045)**
Movements in deferred tax liabilities during the year were as follows:		
Balance at 1 January	**(1,045)**	**(156)**
Deferred tax (charged)/credited to the profit and loss account	(30)	(927)
Deferred tax credited /(charged) directly to other comprehensive income	(85)	38
Balance at 31 December	**(1,160)**	**(1,045)**

17. Deposits by banks

	2016	2015
	$'000	*$'000*
Repayable:		
- on demand	275,083	503,742
- three months or less	371,400	128,710
- one year or less but over three months	645,272	388,892
- five years or less but over one year	462,783	1,026,847
	1,754,538	**2,048,191**

	2016	2015
	$'000	$'000
Amounts include:		
Deposits by parent undertaking	754,218	1,202,739

18. Customer accounts

	2016	2015
	$'000	$'000
Repayable:		
- on demand	168,138	221,065
- three months or less	113,575	188,455
- one year or less but over three months	109,299	251,563
	391,012	**661,083**

19. Accruals & deferred Income

	2016	2015
	$'000	$'000
Accrued interest payable	3,379	3,409
Deferred income	279	524
	3,658	**3,933**

20. Share capital

	2016	2015
	$'000	$'000
Authorised share capital, ordinary shares of $1 each		
Balance at 31 December	**250,000**	**250,000**
Allotted, called up and fully paid, 200,000,000 ordinary shares of US$1 each:		
Balance at 31 December	**200,000**	**200,000**

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

	Share capital *$'000*	Retained earning *$'000*	Available for sale reserve *$'000*	Total shareholder's fund *$'000*
At 1 January 2015	**200,000**	**121,620**	**831**	**322,451**
Profit for the year	-	34,931	-	34,931
Change in fair value of Available for sale(AFS) financial investments	-	-	480	480
Tax charge on change in fair value of AFS financial investments	-	-	(625)	(625)
Deferred tax asset recognised through equity			38	38
At 31 December 2015	**200,000**	**156,551**	**724**	**357,275**
At 1 January 2016	**200,000**	**156,551**	**724**	**357,275**
Profit for the year	-	20,808	-	20,808
Change in fair value of Available for sale (AFS) financial investments	-	-	(86)	(86)
Fair value of AFS financial investments recycled through profit & loss account at disposal	-	-	62	62
Tax charge on change in fair value of AFS financial investments	-	-	73	73
Deferred tax liability recognised through equity	-	-	(85)	(85)
At 31 December 2016	**200,000**	**177,359**	**688**	**378,047**

22. Subordinated Loan

	2016 *$'000*	**2015** *$'000*
USD Floating rate note (Libor plus 1.3 %)	100,000	100,000
	100,000	**100,000**

On 28 October 2013, a 10 year subordinated loan was raised from the Parent Bank. Interest is charged at a margin of 3 months Libor plus 1.3%. The subordinated loan will only be redeemed at maturity.

23. Provision for Liabilities

	2016 *$'000*			2015 *$'000*		
	36 King Street	***81-85 Shaftesbury Avenue***	***Total***	***36 King Street***	***81-85 Shaftesbury Avenue***	***Total***
Balance at 01 January	**241**	**-**	**241**	**440**	**-**	**440**
Addition/(Reversal) during the year	(15)	909	**894**	(199)	-	(199)
Balance at 31 December	**226**	**909**	**1,135**	**241**	**-**	**241**

a. **36 King Street**

The Bank moved into a new office at King William Street in March 2012. This resulted in the lease on the two floors of the former premises becoming 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. Following the annual assessment, the onerous contract provision has been decreased to $226,000.

b. 81-85 Shaftesbury Avenue

The Bank leased premises in 81-85 Shaftesbury Avenue in April 2016 in order to open a branch. However, in November 2016 the Bank decided not to open the branch leading the premises in 81-85 Shaftesbury Avenue to be an onerous lease. The lease will expire in April 2033 with an option to terminate early in April 2026. The Bank is planning to terminate the lease in April 2026 and is also in the process of subletting the premises. The onerous lease provision is computed as the expected shortfall in cash flow between the rental cost and rental income from subletting, discounted by the 10-year UK Government bond yield. The onerous contract provision is estimated to be $909,000.

24. Memorandum items – contingent liabilities and commitments

	2016 *$'000*	**2015** *$'000*
Undrawn documentary credits and short-term trade related transactions	42,646	127,959
Undrawn loans & advances	347,611	702,600
Balance at 31 December	**390,257**	**830,559**

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.

Operating lease commitments

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

	2016	2015
	$'000	*$'000*
Not later than 1 year	846	605
Above 1 year but less than 5 years	1,484	605
5 years and above	1,697	-

25. Related Party

Ultimate Controlling Company

The Bank is a wholly-owned subsidiary of Industrial and Commercial Bank of China Limited, into which the financial statements of the Bank are consolidated. Copies of the group financial statements are available from 55, Fuxingmennei Dajie, Beijing, 100140, China (http://www.icbc-ltd.com/ICBCLtd/en).

Outstanding balance of related party transactions

As per section 33.1A of FRS 102, the outstanding balance of transactions with the related parties not wholly owned by ICBC Group has been disclosed below:

	2016	2015
	$'000	*$'000*
Balance sheet		
Derivative financial Instruments (Assets)	896	1,362
Loans and advances to banks	136,475	40,000
Derivative financial Instruments (Liabilities)	(41,705)	(3,794)
Deposit by bank	103	-
Other Liabilities	100	363
Notional amount of FX derivatives outstanding	331,809	343,690
Profit and loss account		
Interest receivable from financial investments	1,843	632
Revaluation loss on Financial Derivatives	(40,809)	(2,432)
Fees and commission receivable/(paid)	144	(363)

The above transactions were with the following group entities:

i. ICBC Standard Bank Plc, 68 % owned subsidiary of Industrial and Commercial Bank of China Limited.

ii. Industrial and Commercial Bank of China (Argentina) Limited, 80 % owned subsidiary of Industrial and Commercial Bank of China Limited.

iii. Industrial and Commercial Bank of China (Turkey) Limited, 92.82 % owned subsidiary of Industrial and Commercial Bank of China Limited.

iv. Industrial and Commercial Bank of China (Canada) Limited, 80 % owned subsidiary of Industrial and Commercial Bank of China Limited.

v. Standard Bank Group Limited SA, 20 % owned associate of Industrial and Commercial Bank of China Limited.

26. 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.

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

2016	**Level 1**	**Level 2**	**Level 3**	**Total**
	$'000	*$'000*	*$'000*	*$'000*
Assets				
Derivative financial instruments:				
Foreign Exchange Forwards	-	82,652	-	**82,652**
Foreign Exchange Swaps	-	5	-	**5**
Interest Rate Swaps	-	3,672	-	**3,672**
Available for sale financial investments:				
Government debt securities	279,963	-	-	**279,963**
Other debt securities	94,131	14,447	-	**108,578**
	374,094	**100,776**	**-**	**474,870**
Liabilities				
Derivative financial instruments:				
Foreign Exchange Forwards		82,222		**82,222**
Foreign Exchange Swaps		5		**5**
Interest Rate Swaps		3440		**3,440**
		85,667		**85,667**

2015	**Level 1**	**Level 2**	**Level 3**	**Total**
	$'000	*$'000*	*$'000*	*$'000*
Assets				
Derivative financial instruments:				
Foreign Exchange Forwards	-	29,541	-	**29,541**
Foreign Exchange Swaps	-	504	-	**504**
Interest Rate Swaps	-	3,654	-	**3,654**
Available for sale financial investments:				
Government debt securities	284,434	-	-	**284,434**
Other debt securities	189,758	15,656	-	**205,414**
	474,192	**49,355**	**-**	**523,547**
Liabilities				
Derivative financial instruments:				
Foreign Exchange Forwards	-	29,005	-	**29,005**

Foreign Exchange Swaps	-	29	-	**29**
Interest Rate Swaps	-	3,211	-	**3,211**
	-	**32,245**	**-**	**32,245**

The fair value of financial instruments not carried at fair value incorporates the Bank's estimate of the amount at which it would be able to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date. It does not reflect the costs / benefits that the Bank expects to measure on the flows generated over the expected life of the instrument.

Analysis of financial assets and liabilities by measurement basis

Financial assets and financial liabilities are measured on an on-going basis either at fair value or at amortised cost.
The following table analyses the carrying amounts of the financial assets and liabilities by category as defined in the Bank's accounting policies and by balance sheet heading.

2016

	Fair Value through profit and loss	**Available for sale Financial Investment**	**Financial assets and liabilities at amortised cost**	**Total**
	$'000	*$'000*	*$'000*	*$'000*
Assets				
Cash and balances at central banks	-	-	145	145
Loans and advances to banks	-	-	1,171,593	1,171,593
Loans and advances to customers	-	-	1,024,525	1,024,525
Derivative financial instruments	86,329	-	-	86,329
Available for sale financial Investments	-	388,541	-	388,541
Total assets	**86,329**	**388,541**	**2,196,263**	**2,671,133**
Liabilities				
Deposits by banks	-	-	1,754,538	1,754,538
Customer accounts	-	-	391,012	391,012
Derivative financial instruments	85,667	-	-	85,667
Subordinated Loan	-	-	100,000	100,000
Total liabilities	**85,667**	**-**	**2,245,550**	**2,331,217**

2015

	Fair Value through profit and loss	Available for sale Financial Investment	Financial assets and liabilities at amortised cost	Total
	$'000	*$'000*	*$'000*	*$'000*
Assets				
Cash and balances at central banks	-	-	197	197
Loans and advances to banks	-	-	1,289,728	1,289,728
Loans and advances to customers	-	-	1,347,144	1,347,144
Derivative financial instruments	33,699	-	-	33,699
Available for sale financial Investments	-	489,848	-	489,848
Total assets	**33,699**	**489,848**	**2,637,069**	**3,160,616**
Liabilities				
Deposits by banks	-	-	2,048,191	2,048,191
Customer accounts	-	-	661,083	661,083
Derivative financial instruments	32,245	-	-	32,245
Subordinated Loan	-	-	100,000	100,000
Total liabilities	**32,245**	**-**	**2,809,274**	**2,841,519**

7. Cash and cash equivalents

	2016	2015
	$'000	*$'000*
Cash balance	145	197
Balance with other banks	126,559	41,615
	126,704	**41,812**

28. Risk management

The Board has ultimate responsibility for setting the Bank's strategy, risk appetite and control framework; and measures performance against targets. To assist it in discharging these responsibilities, the Board has instituted a number of high level committees governed by clear terms of reference. The principal Board level committees are Audit Committee, Governance and Compliance Committee and Risk Committee. At the Executive level there are four major committees concerned with risk management issues: Executive Committee, Asset and Liability Committee, Credit Committee and Financial Crime Risk Committee.

The Bank has established an Enterprise-Wide Risk Management framework to strengthen its risk management practices, to ensure that the risks undertaken are managed within the Bank's risk appetite. 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 a combination of quantitative and qualitative analysis.

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. The Compliance & Legal and Risk & ALM Departments periodically carry out reviews to assess compliance. The Internal Audit department, as the third line of defence, will also undertake independent, risk-based reviews of the risks in the various business areas and the related controls in place to mitigate them.

As part of its Enterprise-Wide Risk Management, the Bank sets limits to control risk exposures. In setting a risk appetite and risk tolerance level, the Bank takes all material risks 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.

29. Credit risk

Credit risk exposes the Bank to losses caused by financial or other problems experienced by its clients. Credit risk is defined as the risk arising from an obligor's (typically a company, financial institution or issuer of financial instrument) failure to meet the terms of any agreement and obligations. Credit risk arises when funds are extended, committed, invested or otherwise exposed through contractual agreements, whether reflected on-or off-balance sheet. Credit and counterparty risk arises primarily from three types of transactions:

- Lending transactions through loans and advances to banks and customers creates the risk that an obligor will be unable or unwilling to repay capital and/or interest on loans and advances granted to them.
- Issuer risk on financial instruments where payments due from the issuer of a financial instrument will not be received.
- Trading transactions, giving rise to settlement risk; this refers mainly to short term trade finance transactions.

Credit risks can be impacted by country risk where cross border transactions are undertaken. This can include geopolitical risks, transfer and convertibility risks, sanctions imposed on sovereigns and the impact on the borrower's credit profile due to local economic and political conditions.

Fundamental principles used by the Bank in the management and measurement of credit risk are:

- A clear view of the target market.
- Use of quantitative and qualitative methods to assess counterparty credit worthiness.

- Analysis and monitoring of risks, including concentration risk by asset class, industry, and geography.
- Post-lending management involving monitoring and review of exposures once facilities have been disbursed.

The Bank places great emphasis on credit risk management and recognises it as a key risk in the operation of the Bank, therefore the objective is to avoid and minimise losses. Credit analysis is performed on all new and existing counterparties and related exposures in order to assess each counterparty's risk profile and their ability to repay. Counterparty credit risk is assessed using quantitative and qualitative analysis, as articulated in the Bank's Credit Policy, Credit Manual and other documents. Assessment of the clients includes consideration of their character and integrity, core competencies, track record and financial strength. A strong emphasis is placed on the historic and on-going stability of income and cash flow streams generated by the clients. The primary assessment method is therefore the ability of the client to meet their payment obligations.

It is the Bank's policy that credit limits for counterparties, with accompanying credit analysis, are reviewed at least annually. Exposures are monitored and controlled against limits set and approved for individual counterparties. The Bank's credit risk policy includes establishing industry sector limits, country limits and regulatory limits in addition to counterparty limits.

Credit risk mitigation

Collateral provides additional security and aids recovery of loans in the event of default and the Bank takes collateral whenever it is required. It is a requirement that the valuation of collateral is updated on a regular basis and more so when credit risk deteriorates significantly and the customer is monitored more closely.

The Bank considers credit risk mitigation techniques as part of the credit assessment of a potential client or business proposal and not as a separate consideration of mitigation of risk. Credit risk mitigants include any collateral item over which the Bank has a pledge of security, first charge on property, netting agreements, cash, or terms and conditions imposed on a borrower with the aim of reducing the credit risk inherent to that transaction.

The principal credit risk mitigation tool is on balance sheet netting agreement between the Bank and ICBC Ltd, with total value of $220.5 million as at 31 December 2016 .The on-balance sheet netting agreement is an eligible form of credit risk mitigation in compliance with CRR regulation. The netting agreement restricts the netting to the mutual claims between an institution and its counterparty for the same currency on balance sheet loan and deposit, meaning that the Bank is entitled to set off loan and deposits denominated in the same currencies. The total value of exposure of $220.5 million was offset against equivalent amount of deposits in the same currencies as at 31 December 2016.

Commercial real estate lending activities in the UK are collateralised by mortgages or charges over property. The following characteristics of the property are considered: the type of property, its location, tenant mix, sponsor and the ease with which the property could be re-let and/or re-sold. Commercial real estate lending generally takes the form of good quality property underpinned by strong third party leases. Commercial property valuations will continue to form part of the Bank's on-going focus on collateral assessment. It is the Bank's policy to obtain a formal valuation before advancing funds.

Exposure to the property market is well diversified with a strong bias towards prime locations and a focus on quality of tenants for commercial assets. Quality of collateral is important but the primary consideration in all commercial real estate deals is debt serviceability, which is stress-tested across various dimensions. Loan to value ratio, interest cover ratio and debt service ratio are the main parameters set to assess risks in commercial real estate lending. All commercial real estate transactions are located in the UK and particularly in London.

In addition, the Bank has taken collateral in the form of standby letters of credit and guarantees issued by insurance companies and financial institutions. The Bank held guarantee worth $86.9 million as collateral as at 31 December 2016. The Bank does not rely on credit derivatives in its credit risk mitigation techniques.

In the Commodity and Structured Finance portfolio, some of the loan transactions are collateralised by assignment of inventory and receivables and by cash paid into a collection account by the borrowers.

The majority of the Bank's credit exposures are unsecured, including syndicated lending facilities, trade finance and interbank lending. Consequently the Bank has put in place a stringent credit assessment process to consider counterparties' creditworthiness.

The Bank does not undertake lending to retail customers.

Requests for waivers and amendments of existing credit facilities are submitted to credit committee and authorised approvers.

Maximum exposure to credit risk

The table below shows maximum exposure to credit risk for the relevant components of the Bank's balance sheet. The difference between the gross and net exposure is the eligible credit risk mitigation and impairment provision.

	2016		**2015**	
	Gross Maximum Exposure	**Net Maximum Exposure**	**Gross Maximum Exposure**	**Net Maximum Exposure**
	$'000	*$'000*	*$'000*	*$'000*
Loans and advances to banks	1,173,940	953,448	1,291,630	696,259
Loans and advances to customers	1,047,492	1,030,502	1,373,144	1,029,143
Available for sale financial investments	388,541	388,541	489,848	489,848
	2,609,973	**2,372,491**	**3,154,622**	**2,215,250**
Contingent Liabilities & Commitment	390,257	390,257	830,559	784,918
Total credit risk exposure	**3,000,230**	**2,762,748**	**3,985,181**	**3,000,168**

Past Due but not impaired loans

Contractual payments of either principal or interest being past due up to 89 days are defined as past due but not impaired. As at 31 December 2016 past due but not impaired loans was nil (2015: Nil).

Specific impairment and collective impairment

Past due and impaired loans

According to the Bank's impairment policy, a financial asset or group of assets is impaired and impairment losses are recognised only if there is objective evidence as a result of one or more events that occurred after the initial recognition of the assets. At each balance sheet date an assessment is made of whether there is objective evidence of impairment in the book. If evidence exists, a detailed impairment calculation is performed to determine if an impairment loss should be recognised. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated cash flows discounted at the financial asset's original effective interest rate.

Objective evidence of impairment includes the following:

- Significant financial difficulty of the issuer or obligor.
- Breach of contract such as clear evidence of event of default.
- Payments of either principal or interest exceeding 90 days or more have not been received.
- The issuer or obligor will enter bankruptcy proceedings.
- The primary sources of repayment are insufficient to service the remaining contractual principal and interest amounts, and the Bank has to rely on secondary sources for repayment.
- The asset is no longer traded publicly or there is no market to trade the assets.
- Clear evidence of measurable data indicating that actual and future cash flow will be insufficient to service interest and principal.

At 31 December 2016, the gross principal amount of impaired loans and advances to customers amounted to $30 million (2015: $30 million) and the value of identifiable collateral held against those loans was nil. Specific impairment provision was increased from $12 million in 2015 to $15 million in 2016.

The test for impairment is based either on specific financial assets or collectively on a portfolio of similar, homogeneous assets. Over and above specific impairment raised, the Bank recognises a collective impairment allowance at portfolio level. Third party measures of probability of default (PD) are applied to the Bank's credit exposures. Where there are collateral and credit risk mitigants, appropriate adjustment is made to arrive at net exposure. In the absence of a third party PD, ICBC Group's internal Global Credit Risk Management (GCMS) rating are sourced and converted to a PD corresponding to the PD table of Standard & Poor's.

Using the above methodology, a collective impairment of $2.02 million was carried as at 31 December 2016 (2015: $2.079 million).

	2016		**2015**	
	Specific Impairment Provision	**Collective Impairment Provision**	**Specific Impairment Provision**	**Collective Impairment Provision**
	$'000	***$'000***	***$'000***	***$'000***
Impairment Provisions	**15,000**	**2,020**	**12,000**	**2,079**

The Bank uses external 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 major credit agencies. The criteria and long term credit ratings of the rating agencies are used to differentiate and distinguish the credit quality of loans from investment grades (AAA to BBB- by S&P/Fitch) and sub-investment grades (BB+ downwards to B-).

Although some of the counterparties in the book have no external credit rating, the internal ICBC Group rating model is used to assess the counterparties and their credit worthiness. Unrated counterparties include credit exposures to commercial real estate in the UK, which are collateralised and underpinned by the property assets in prime locations.

Credit quality per class of financial assets

	2016	2015
	Available for sale	Available for sale
	$000	*$000*
Investment grade		
AAA to AA-	361,155	458,748
A+ to A-	27,386	31,100
Total	**388,541**	**489,848**

	2016		2015	
	Loans and advances	Loans and advances	Loans and advances	Loans and advances
	Current	Past Due and Impaired	Current	Past Due and Impaired
	$000	*$000*	*$000*	*$000*
Loans and advances to banks				
Investment grade	1,153,886	-	1,230,287	-
Sub investment grade	20,000	-	32,971	-
Unrated	54	-	28,372	-
Total	**1,173,940**	**-**	**1,291,630**	**-**
Loans and advances to customers				
Investment grade	259,586	-	299,227	-
Sub investment grade	179,178	-	370,065	-
Unrated	578,728	30,000	685,852	18,000
Total	**1,017,492**	**30,000**	**1,355,144**	**18,000**

Regional Exposure

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

	2016		2015	
	$000	%	*$000*	%
Asia and Pacific (including China)	664,123	22.14	639,675	16.05
Europe:				
UK	1,061,614	35.38	1,571,310	39.43
Other EU	265,570	8.85	476,710	11.96
Non-EU	281,659	9.39	472,692	11.86
North America	387,099	12.90	424,772	10.66
South America	-	-	32,500	0.82
Africa	246,418	8.21	113,209	2.84
International Organization*	93,747	3.14	254,313	6.38
Total regional exposure	**3,000,230**	**100**	**3,985,181**	**100**

* International Organization comprises multilateral organizations including Multilateral Development Banks.

30. 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 increases in assets of the Bank. Like all major banks, the Bank is dependent on confidence in the short and long-term wholesale funding markets.

The Bank identifies, measures, manages and monitors liquidity and funding risks across different time horizons; conducts stress scenarios through articulated and documented policies and procedures; clearly allocates responsibilities; and maintains sound systems to ensure that both the liquidity and funding profile are at all times consistent with the risk appetite established by the Board.

The table below summarises the maturity profile of the Bank's financial liabilities with respect to its undiscounted cash flows.

2016

US$ '000	1 Month and less	Over 1 month to 3 Months	Over 3 months to 6 months	Over 6 months to 1 Year	Above 1 year to 5 years	Over 5 Years	Contractual Cash flow	Carrying Amount
Non Derivatives Liabilities								
Deposits by banks	535,348	111,918	625,989	22,942	472,575	-	**1,768,772**	**1,754,538**
Customer accounts	194,262	87,710	102,985	7,077	-	-	**392,034**	**391,012**
Subordinated Loan	-	-	-	-		100,395	**100,395**	**100,000**
Derivative Financial Liabilities								**85,667**
Cash Inflow	(144,676)	(43,667)	(52,353)	(137,647)	(392,389)	-	**(770,732)**	**-**
Cash Outflow	146,579	49,899	62,078	165,405	465,287	-	**889,248**	**-**
	731,513	**205,860**	**738,699**	**57,777**	**545,473**	**100,395**	**2,379,717**	**2,331,217**

Undrawn Documentary credits	-	8,054	5,812	13,623	15,157	-	**42,646**	**42,646**
Undrawn Loan Commitment	-	2,222	258	69,743	260,825	14,563	**347,611**	**347,611**
	731,513	**216,136**	**744,769**	**141,143**	**821,455**	**114,958**	**2,769,974**	**2,721,474**

2015

US$ '000	**1 Month and less**	**Over 1 month to 3 Months**	**Over 3 months to 6 months**	**Over 6 months to 1 Year**	**Above 1 year to 5 years**	**Over 5 Years**	**Contractual Cash flow**	**Carrying Amount**
Non Derivatives Liabilities								
Deposits by banks	532,507	100,719	275,041	115,075	1,045,643	-	**2,068,985**	**2,048,191**
Customer accounts	341,932	67,925	233,617	19,577	-	-	**663,051**	**661,083**
Subordinated Loan	-	-	-	-	-	100,293	**100,293**	**100,000**
Derivative Financial Liabilities								**32,245**
Cash Inflow	(174,447)	(98,396)	(36,238)	(136,619)	(332,316)	-	**(778,016)**	**-**
Cash Outflow	176,082	106,090	38,812	141,879	345,173	-	**808,036**	**-**
	876,074	**176,338**	**511,232**	**139,912**	**1,058,500**	**100,293**	**2,862,349**	**2,841,519**
Undrawn Documentary credits	21,795	40,144	4,875	11,786	49,359	-	**127,959**	**127,959**
Undrawn Loan Commitment	-	17,752	184,705	101,863	319,670	78,610	**702,600**	**702,600**
	897,869	**234,234**	**700,812**	**253,561**	**1,427,529**	**178,903**	**3,692,908**	**3,672,078**

At 31 December 2016, the Bank held highly liquid assets comprising an available for sale bonds of $360 million. These can be used in the event of any liquidity stress event. At the end of 2016, liquidity coverage ratio was 188%.

Encumbered assets

The Bank may pledge its assets as collateral to secure liabilities under repurchase agreements or credit-enhance any on-balance-sheet or off-balance-sheet transactions. The Bank pledged USD 173k as collateral for the derivative clearing as at 31 December 2016 (2015: Nil).

31. Market risk

Market risk is defined as the risk of losses arising from movements in market prices. The Bank is exposed to few market risks. The principal risk is Foreign Exchange (FX) risk arising both from the banking book and trading book. As the Bank does not undertake proprietary trading and market making, trading book exposure only arises from client servicing. In the banking book, there are positions arising from interest income, financial and tax expenses, and impairment provisions. Another potential market risk is position risk arising from trading products: FX forward, FX swaps and Interest Rate Swaps (IRS). Due to the Bank's back-to-back trading strategy, there is no material market risk arising from these trading products.

Foreign exchange risk

The Bank's framework for managing market risk is based on there being clear segregation between risk takers and the management and control functions. Portfolio FX exposure limits are set to control foreign exchange risk, and are monitored on a daily basis. Throughout 2016, the foreign currency exposure was within limits at all times. At 31 December 2016, FX overnight exposure was $(909k) (2015: $1.47 million).

FX Sensitivity Analysis

The table below shows the impact on the profit of the Bank due to a shift in the USD exchange rate equally against all other currencies by various basis points as below.

Movement in USD Exchange Rate	2016 ($)	2015 ($)
USD appreciates 200 basis points	12,573	20,302
USD appreciates 400 basis points	25,143	40,605
USD appreciates 800 basis points	50,275	81,210
USD depreciates 200 basis points	(12,575)	(20,302)
USD depreciates 400 basis points	(25,153)	(40,605)
USD depreciates 800 basis points	(50,317)	(81,210)

Monitoring and management of risk

The Bank sets market risk limits to control market risk. These limits are monitored by the Risk & Asset Liability Management (ALM) Department, which is independent from the Treasury Department. The Risk & ALM Department submits regular reports to the Bank's Asset and Liability Committee and Risk Committee. These committees review major market risk indicators and take any necessary decisions. Risk & ALM Department also submits monthly reports on foreign currency exposures and trading products to the Parent Bank, which in turn provides the Bank with regular guidance on market risk management.

32. Interest rate risk in banking book

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair value of financial instruments. The primary form of interest rate risk is re-pricing risk which arises from timing differences in the maturity (for fixed-rate instruments) and re-pricing (for floating-rate instruments) of the Bank's assets, liabilities and Off Balance Sheet positions.

The interest rate re-pricing gap of the Bank at 31 December 2016 is set out below. Items are allocated to time bands by reference to the earlier of the next contractual interest rate re-pricing date and the maturity date.

Interest rate sensitivity table

2016

US$ '000	Not more than 3 months	Over 3 months to 6 months	Over 6 months to 1 Year	Above 1 year to 5 years	Above 5 years	Non-Interest bearing	Total
Assets							
Liquid assets	-	-	-	-	-	145	**145**
Loans and advances to banks	1,046,676	102,213	22,704	-	-	-	**1,171,593**
Loans and advances to customers	989,339	33,797	1,389	-	-	-	**1,024,525**
AFS financial investments	57,360	40,019	68,703	222,459	-	-	**388,541**
Fixed and other assets	-	-	-	-	-	137,461	**137,461**
Total assets	**2,093,375**	**176,029**	**92,796**	**222,459**	**-**	**137,606**	**2,722,265**
Liabilities							
Deposits by banks	1,658,506	73,330	22,702	-	-	-	**1,754,538**
Customer accounts	281,713	102,308	6,991	-	-	-	**391,012**
Other liabilities	-	-	-	-	-	98,668	**98,668**
Subordinated loan	100,000	-	-	-	-	-	**100,000**

Shareholders' funds	-	-	-	-	-	378,047	**378,047**
Total liabilities & Shareholders' fund	**2,040,219**	**175,638**	**29,693**	**-**	**-**	**476,715**	**2,722,265**
Interest rate sensitivity gap	**53,156**	**391**	**63,103**	**222,459**	**-**	**(339,109)**	
Cumulative gap	**53,156**	**53,547**	**116,650**	**339,109**	**339,109**	**-**	**-**

The following table shows the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Bank's net interest income. The effect of the net interest income is the effect of the assumed changes in interest rates on the net interest income arising from the financial assets and liabilities held at year end that are subject to re-pricing within the coming year.

Basis points shift	US$000
+100	625
+200	1,251
-100	(625)
-200	(1,251)

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

2015

US$ '000	**Not more than 3 months**	**Over 3 months to 6 months**	**Over 6 months to 1 Year**	**Above 1 year to 5 years**	**Above 5 years**	**Non-Interest bearing**	**Total**
Assets							
Liquid assets	-	-	-	-	-	197	**197**
Loans and advances to banks	1,097,761	127,904	64,063	-	-	-	**1,289,728**
Loans and advances to customers	1,165,332	153,580	28,232	-	-	-	**1,347,144**
AFS financial investments	-	34,758	40,046	415,044	-	-	**489,848**
Fixed and other assets	-	-	-	-	-	85,708	**85,708**
Total assets	**2,263,093**	**316,242**	**132,341**	**415,044**	**-**	**85,905**	**3,212,625**
Liabilities							
Deposits by banks	1,639,298	294,373	114,520	-	-	-	**2,048,191**
Customer accounts	409,520	232,307	19,256	-	-	-	**661,083**
Other liabilities	-	-	-	-	-	46,076	**46,076**
Subordinated loan	100,000	-	-	-	-	-	**100,000**
Shareholders' funds	-	-	-	-	-	357,275	**357,275**
Total liabilities & Shareholders' fund	**2,148,818**	**526,680**	**133,776**	**-**	**-**	**403,351**	**3,212,625**
Interest rate sensitivity gap	**114,275**	**(210,438)**	**(1,435)**	**415,044**	**-**	**(317,446)**	
Cumulative gap	**114,275**	**(96,163)**	**(97,598)**	**317,446**	**317,446**	**-**	**-**

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

Basis points shift	US$000
+100	(319)
+200	(638)
-100	319
-200	638

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 re-pricing periods within one year shows a net profit and a net loss respectively to a positive and negative shift in the basis points.

33. Country by country reporting

The following Country by country reporting disclosure is made according **to Capital Requirement Regulations 2013**:

2016

United Kingdom	Business	Turnover *US$ '000*	Average employees	Profit before tax *US$ '000*	Tax on profit *US$ '000*	Public subsidies received
ICBC (London) plc	Banking	61,163	127	26,922	(6,114)	-

2015

United Kingdom	Business	Turnover *US$ '000*	Average employees	Profit before tax *US$ '000*	Tax on profit *US$ '000*	Public subsidies received
ICBC (London) plc	Banking	70,456	107	44,755	(9,824)	-

34. Operational risk (Unaudited)

The Bank defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It is a pervasive risk that involves all aspects of business as well as other people with whom the Bank deals. The nature of the Bank's operational risk exposures is more likely to involve 'high-frequency/low-impact' events. The main drivers of operational risk are processes, people and systems.

The objective of operational risk management is not to remove operational risk altogether but to manage and control operational risk in a cost-effective manner consistent with the Bank's risk appetite. The Bank has control systems and procedures in place to ensure that operational losses are minimized. As part of the Bank's risk appetite, an operational loss ratio is set, monitored and reported to Senior Management and the Board. In 2016, the operational loss was nil (2015: $40k).

35. Capital (Unaudited)

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 objective of the Bank's capital management activities is to ensure that the Bank complies with internal and external capital requirements. The Bank maintains sufficient capital ratios in order to support its business and to maximize shareholder's value.

The Bank manages and adjusts its capital structure in the light of changes in economic conditions and the risk characteristics of its activities.

Regulatory capital

	2016	**2015**
	US$ '000	*US$ '000*
Share capital	200,000	200,000
Retained earning	177,359	156,551
Available for sale reserves	688	724
Total Tier 1 Capital	**378,047**	**357,275**
Subordinated loan	100,000	100,000
Collective impairment provision	2,020	2,079
Total Tier 2 Capital	102,020	102,079
Total Capital	**480,067**	**459,354**

On 28 October 2013, 10 year subordinated loan was granted by the Parent Bank to the Bank to replace the previous loan 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%.

36. UK Regulatory Pillar 3 disclosures (Unaudited)

The UK regulatory Pillar 3 disclosures can be found at the following web address:

www.icbclondon.com.

37. Events after the balance sheet date

There have been no adjustable events after the balance sheet date.

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