



中國銀行(英國)有限公司
BANK OF CHINA (UK) LIMITED



Bank of China (UK) Limited

Bank of China (UK) Limited

Bank of China (UK) Limited (“BOCUK” or the “bank”) was incorporated in England and Wales as a private company with limited liability on 29 March 2007 and is authorised and regulated by the Financial Services Authority (the “FSA”) in the United Kingdom (the “UK”). BOCUK is a full-service bank offering retail banking, corporate banking and trade finance services, and is a wholly-owned subsidiary of Bank of China Limited, Beijing (“BOC”), one of China’s leading commercial banks.

History of BOCUK

Although BOC has been active in the UK since November 1929 through its London Branch, the European Union (the “EU”) Financial Groups Directive, implemented into the UK regulatory framework in January 2005, necessitated establishing a UK-authorized bank in order to continue providing a full range of services to BOC customers in the UK and to support expansion within the European Economic Area (the “EEA”) from London. London is not only the premier financial centre of Europe, through which a large proportion of the global trade in financial products is transacted, but there are also a great many Chinese companies listed on the London Stock Exchange: a significant factor in selecting London as the hub of the BOC Group’s European aspirations.

The Financial Groups Directive required non-EEA banking groups operating in the EEA to be subject to “equivalent” worldwide supervision by their home country supervisor. In order to meet this requirement, the Board of Directors of BOC approved an arrangement whereby BOCUK would be established, whilst retaining a parallel operation via London Branch. The retail banking business of London Branch was transferred to BOCUK along with some wholesale business, subject to FSA capital adequacy requirements, and BOCUK opened for business on 15 October 2007. London Branch retained the larger wholesale banking business and BOC Group function.

BOCUK is managed by the same general management team as London Branch. This arrangement has ensured from the very beginning that BOCUK has been managed by a team rich in UK experience and with extensive knowledge of the UK financial sector.

Strategic Aims and Target Markets

BOCUK has taken advantage of BOC’s strong international brand image and its positive relationships with its domestic customer base in order to assist Chinese corporate customers to raise corporate and project finance for UK and overseas investments, as well as providing trade-related services. Many Chinese corporations are turning global and look to BOC for a global presence: BOCUK is providing that worldwide access in Europe. BOCUK provides services to retail and corporate customers with trading and/or personal links with China: a key target market is individuals and corporate customers of Chinese origin or with links into China, either operating in the UK or Europe or having some aspect of their operations in the EEA. BOCUK has proved an attractive choice for these customers because of its ability to take advantage of its Chinese links for its international operations, strong links to the Chinese domestic banking sector and access to the Chinese currency markets.

Similarly for global companies wishing to transact business in China, most prefer a local bank with a global presence to service their banking requirements in a seamless manner. BOCUK has provided such support for UK-based Chinese corporate customers and individuals, facilitating the China-based transactions of these UK-based corporate customers and providing access to the strengths and advantages of the BOC Group. BOCUK has also strengthened the BOC Group’s international network, contributing to the growth of its domestic business.

BOCUK Subsidiaries

During 2008, BOCUK established and acquired its own subsidiary companies within the UK and Europe. These subsidiary companies are:

- Bank of China (Suisse) S.A.
- BOC (Suisse) Fund Management S.A.
- China Visa Services Limited

Bank of China (Suisse) S.A. (“BOCS”) is a wholly-owned private banking subsidiary and is the first private banking entity in Switzerland that is part of a Chinese banking group. It opened for business in December 2008 with a highly experienced management team, which has long-standing established links to the Chinese business community in Europe and in China, and is expected to make a significant contribution to BOCUK future earnings.

BOC (Suisse) Fund Management S.A. (“BOCSFM”) is a majority-owned funds management company that offers fund management products to local clients and BOC Group clients in China and elsewhere. It was acquired in December 2008 and has already attracted major Chinese and EEA-based corporate investors to its funds.

The establishment of these entities in Switzerland marks an important milestone in BOC Group’s strategic aim to provide international private banking products and services to meet the needs and aspirations of its increasingly affluent international customer base.

China Visa Services Limited (“CVSL”) is a wholly-owned subsidiary, set up with the assistance of the Ministry of Foreign Affairs of the People’s Republic of China (the “PRC”). The first visa centre was opened for business in London in June 2008 and more centres are planned. CVSL has provided warm and efficient services which facilitate the clients, and received favourable comments since establishment.



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Global Vision



Chairman's Statement

This is the first full term Report of Bank of China (UK) Limited ("BOCUK" or the "bank"), which was authorised by the Financial Services Authority (the "FSA") in September 2007 and commenced operations on 15 October 2007. Although Bank of China Limited (the "BOC Group") has been active in the United Kingdom (the "UK") since 1929, through its London Branch, the establishment of this UK subsidiary was an important step in the Group's plans for its representation in the European Union (the "EU").

The period under review in this report, from 1 October 2007 to 31 December 2008, has been an eventful time for BOCUK. During the period we have experienced arguably the greatest global financial crisis in more than 70 years, which presented many unforeseen challenges to banks, including those operating in the UK. This crisis has not only generated a very hostile business environment but it is expected to bring about a significant increase in regulatory scrutiny on the banks and to raise the regulators' expectations of senior management in this key aspect of their responsibilities.

Against this backdrop, BOCUK achieved an after-tax profit of £3,012,000 which, although below the expectations of the Board of Directors (the "Board"), represents an acceptable performance in view of market circumstances.

Our corporate banking business, which forms a major part of the bank's activities in the UK performed extremely well, in spite of the restrictions imposed by the current financial turmoil and the bank's need to adopt a prudent market profile.

During this period, we made substantial progress in the strategic transformation of our UK retail banking services, enhancing customer focused services through the delivery of new internet banking products. Considerable resources were successfully committed to ensuring that the bank's retail services were in full compliance with regulatory developments, including the FSA's Treating Customers Fairly initiative.

BOCUK's first non-banking subsidiary China Visa Services Limited opened for business on 26 June 2008, followed by the establishment and acquisition of its first overseas entities, Bank of China (Suisse) S.A. and BOC (Suisse) Fund Management S.A., in December 2008. There are already positive signs that these important developments will generate long-term financial benefits for BOCUK and the BOC Group.

In support of sustainable growth, during the period under review we further improved our risk management capabilities and received FSA approval for the bank's Internal Capital Adequacy Assessment Process ("ICAAP") statement in compliance with Basel II. In this area, BOCUK has acted as a proxy for the wider BOC Group making the relevant knowledge and experience of this project available to other BOC units.

Equally as important to the bank's long-term growth prospects and operational stability, we have continued to improve our corporate governance structure to reflect best practice and to ensure appropriate transparency and accountability in the bank's decision-making structures. We set up three Board-level committees comprising the Board Credit Committee, the Audit Committee and the Remuneration Committee, all of which are chaired by non-executive directors, enhancing the supervision capabilities of the Board, and providing appropriate support to the bank's senior management. We have further strengthened our senior management team through the hiring of experienced staff which will also support the bank's commitment to effective succession planning.



This has been my first full term as Chairman of BOCUK and it has been a great pleasure to work with an ambitious and forward-looking management team whose energy has ensured that the bank was successfully established and continues to grow. I would like to express my gratitude to the directors for their outstanding guidance and contribution to BOCUK throughout the period under review. My thanks also go to all members of our staff, who have worked so hard for the success of BOCUK in very difficult and challenging market conditions.

In 2009, although we can expect that the global economic climate will continue to pose significant uncertainties and difficulties, I am confident that BOCUK's management will successfully meet those challenges, as other representatives of BOC Group have done in the UK over the past 80 years.

Mrs. Yanling Zhang
Chairman of the Board of Directors

Chief Executive Officer's Statement

Bank of China (UK) Limited ("BOCUK" or the "bank") delivered a resilient financial performance during the period under review in very difficult market conditions, in which management felt it necessary to put in place prudent measures to minimise the bank's exposure to the declining corporate and financial institution sectors. Nonetheless, the bank was able to achieve a positive after tax performance of £3,012,000 for the period ending 31 December 2008.

A priority for the bank during this period was the further improvement of its risk management capabilities and additional resources were deployed in the areas of credit risk, operational risk and legal and compliance. In accordance with United Kingdom (the "UK") regulations, the bank established its compliance with the Basel II capital adequacy regime with effect from 1 January 2008 which included the submission to and approval by the Financial Services Authority ("FSA") of the bank's Internal Capital Adequacy Assessment Process ("ICAAP").

Although the financial performance for the period was not in line with management expectations, the underlying performance of individual business lines within the bank was extremely positive and significant progress was made in establishing the bank's presence in these markets.

In corporate banking, despite the extremely hostile economic environment, the three constituent business areas, bilateral, syndications and trade finance were able to achieve significant outperformance, contributing net revenues of over £20 million, substantially in excess of budget.

This achievement was largely due to the great efforts made in the early part of the period and included participation in a number of the major Merger and Acquisition ("M&A") deals such as Carlsberg's purchase of the British brewer Scottish and Newcastle, Imperial Tobacco's purchase of Spanish tobacco company Altadis and Lafarge of France's purchase of Orascom of Egypt. Through these deals, the bank was able to raise its profile in this important market sector.

During the period, corporate banking also continued its building of committed lending relationships with major blue chip companies based in the European Union (the "EU") that have substantial and growing operations in the People's Republic of China (the "PRC"). These marketing efforts further consolidated the success of the bank's earlier conference in the UK, entitled "Bridge to China", which established the bank as an effective conduit into the PRC for companies in the EU.

In the trade finance area, we were able to take full advantage of opportunities to provide short-term facilities in the PRC with the result that net earnings from this activity were substantially ahead of budget.

In retail banking, the bank was able to increase its customer base not only because UK customers increasingly appreciate the strength of the BOCUK brand in the current difficult markets but also because of the enhancements we have made to our products and services. These include an internet banking service for personal customers launched in May and the "YINGFENG" Hong Kong Stock Exchange facility launched in October which allows BOCUK customers to use the funds in their UK accounts to trade directly in real-time on the Hong Kong Stock Exchange.

As part of Bank of China Group's ("BOC Group") global efforts to enhance its corporate image and reinforce its worldwide brand, we have undertaken a substantial branch refurbishment programme in the UK through which we are also transforming the way in which we deliver customer products and services.



The period under review also presented us with an opportunity to develop our non-banking service sector through cooperation with the Ministry of Foreign Affairs of the PRC. China Visa Services Limited was set up as a wholly-owned subsidiary of BOCUK and opened for business on 26 June 2008 to undertake the processing of visa applications for entry into the PRC and is expected in the future to provide opportunities to cross-sell our banking products and services.

One of the key strategic achievements during the period was the successful establishment of a private banking subsidiary and the acquisition of an institutional asset management company in Geneva, Switzerland. A wholly-owned subsidiary of BOCUK, Bank of China (Suisse) S.A. ("BOCS") was established with a capital base of CHF 50 million (approximately £28 million) and opened for business on 1 December 2008. The asset management company's name was changed on 9 December 2008 to BOC (Suisse) Fund Management S.A.

This is an opportune time for the bank to be entering the market for wealth management products and services and we are confident that the highly experienced management teams we have recruited to run these two operations will be very successful. This development marks an important milestone in BOC Group's strategic plan to provide international private banking products and services to meet the future needs and aspirations of its increasingly affluent customers.

We have further strengthened our internal control environment by building on the "Three Lines of Defence" model, reinforcing each area of control in the bank and especially enhancing our oversight in key areas of risk such as the anti-money laundering risks associated with correspondent banking, our measures to prevent fraud and financial crime and our governance policies and procedures around insider dealing and market abuse.

We have continued to invest in our people. A new Training and Development Policy has been implemented to cover all members of staff and additional resources have been committed to specific job-related training to improve staff competence.

We have further enhanced our human resource management policies towards a more market-oriented model, aided by the introduction of a new internal grading structure including a 360 Degree Feedback model and improved performance contracts. Management is keen to sustain a corporate culture in the bank that places emphasis on honesty, integrity, creativity, compliance and harmony.

This has been a challenging period for both the management and staff of the bank. Operating as a UK-authorized subsidiary of the BOC Group has required not only the implementation of new policies and procedures but also a culture of greater independence. I feel justifiably proud of my team's dedication to our customers and the underlying performances of all our business lines, despite the difficulties caused by the current market circumstances.

At this time of less than benign economic and financial circumstances, it is even more important to be clear and confident about overall strategy. The key strategic objective of BOCUK is to achieve steady growth through prudent management of its wholesale and retail businesses whilst positioning the bank as the "bank of choice" for companies based in the EU, with business interests in the PRC.

Although all the indicators suggest that the current economic downturn will continue throughout 2009, I am confident that we can manage the challenge of the coming year and ensure that BOCUK will continue to develop successfully.

Dr. Kenneth Q. Ge
Chief Executive Officer
Board Director





Global Collaboration



Directors

*Working Experience
and Other Positions
Held by Directors*



ZHANG, Yanling,
Chairman

has served as Chairman of the Board of Directors of Bank of China (UK) Limited since 20 September 2007. Mrs. Zhang joined Head Office in 1977, holding various responsibilities, including Risk Management, Asset Recovery, Corporate Banking, Legal & Compliance, Audit and Inspection. Since 2002, she has served as Executive Vice President with responsibility for Overseas Business Management, International Settlements, Investment Banking and Chief Legal Advisor. She also serves as Chairman of BOC Hungary, Vice-Chairman of BOCI Holdings Limited, Director of BOC Hong Kong (Holdings) Limited, and Director of BOC (Hong Kong) Limited. She is a member of many prestigious trade commissions in China, and author of marketing and settlement guides, articles and textbooks. She received a Bachelor of Literature degree from Liaoning University and a Master of Economics degree from Wuhan University. She is also a guest professor at the People's University.



GE, Kenneth Q.,
*Executive Director and Chief
 Executive Officer*

has served as Executive Director and Chief Executive Officer of Bank of China (UK) Limited since 25 July 2007. Mr. Ge joined New York Branch in 1993 where he served in various roles, including Deputy General Manager and Head of Economic Research. He joined London Branch in 2004 as General Manager and continues in this role. He is also Chairman of BOC (Suisse) S.A., a Director of BOCI (UK), a Director of the Association of Foreign Banks in the UK, and an active member of the Guild of International Bankers and a member of the prestigious EU Advisory Group. He received a PhD in Economics from the New School for Social Research, a Masters Degree in Economics from the University of Missouri-Kansas City and a BA degree majoring in Economics from Fudan University. He also spent several years at Drew University as an Assistant Professor in International Economics, as a Visiting Fellow of Economics at Yale University, and as a Research Fellow at the Institute of World Economy, Shanghai Academy of Social Sciences.



FANG, Wenjian,
*Executive Director and Chief
 Risk Officer*

has served as Executive Director and Chief Risk Officer of Bank of China (UK) Limited since 25 July 2007. Mr. Fang joined Head Office in 1996 as a Project Manager in the Credit Business Department. In 1999 he became Deputy Chief of Business Division 3 in the Corporate Banking Department, and in 2002 became Chief of Business Division 3. He joined London Branch in 2004 as Deputy General Manager and continues in this role. He holds responsibility for the Risk Management functions of the Bank in the UK, including credit, market and operational risks, and also holds direct responsibility for the Risk Management Department and Treasury Middle Office. He is also Chairman of the Credit Risk Policy Committee, the Credit and Loan Approval Team and the Operational Risk Committee. He received a BA degree, majoring in English language and culture, and an MA degree in American Studies from the Beijing Foreign Studies University, an MBA with Distinction degree from the University of Hertfordshire, and he is also a CFA Charter holder and a member of the CFA Society of the UK.



HINDS, Stephen,
*Executive Director and Chief
 Operating Officer*

has served as Executive Director and Chief Operating Officer of Bank of China (UK) Limited since 25 July 2007. Mr. Hinds has had a distinguished career in international banking, with previous responsibilities in Operations, Internal Audit, Human Resources, Compliance and Corporate Governance. He has also set up London branches and subsidiaries for several major international banks, including BCI (1970), NMB (1980), ABC (1982) and the Islamic Bank of Britain (2003) – the first Islamic Bank in the UK. He joined London Branch in 2005 as Head of Regulatory Compliance and was appointed Deputy General Manager in 2006, a position he still holds. Current responsibilities include all administrative, operational support, compliance and transaction processing functions. He is Chairman of the following bank committees; Compliance, Executive Technology and Business Continuity Planning, and is a member of the Audit Committee. He is also a Director of BOC (Suisse) Fund Management S.A., an Associate of the Institute of Bankers, and member of the Guild of International Bankers.

HUANG, Yangxin,
Non-Executive Director

has served as a Non-Executive Director of Bank of China (UK) Limited since 20 September 2007. Mr. Huang joined Head Office in 1976 in the International Department and has served in locations all around the world, including the Americas and Hong Kong. Within Head Office, he has served as General Manager of International, Financial Institutions and Trade Settlement departments, and the Asia-Pacific Audit Centre. He currently serves as Chairman of BOC (Luxembourg) S.A., and as an Arbitrator at the China International Economic and Trade Arbitration Commission. He studied International Trade and Finance at the University of International Business and Economics, Settlements, Finance and Accounting at the Tianjin Finance College, and the Financing of International Trade at the City University. He achieved the prestigious British Government FCO China Senior Fellowship award in 1996, and received a Masters degree in Financial Law from the University of London.



WORKMAN, Donald,
Non-Executive Director

has served as a Non-Executive Director of Bank of China (UK) Limited since 20 September 2007. Mr. Workman has a wealth of experience within the international banking industry, most recently with Royal Bank of Scotland, where he is Chief Executive Officer of Global Banking and Markets for ABN AMRO Bank NV. He previously was responsible for the development and management of the Corporate Markets strategic partnership with Bank of China. In addition to his role as Non-Executive Director of Bank of China (UK) Limited, he is a Director of several other companies, both within the financial services sector and other general business sectors. He received an MA degree from Magdalen College Oxford, and is a fellow of the Chartered Institute of Bankers in Scotland. He is also Chairman of the Board of Governors of Edinburgh College of Art and a member of Court Edinburgh Academy. He also acted as co-Chairman of the International Monetary Fund (IMF) Conferences in Beijing (2005) and Washington (2006).



FITZGIBBON, Christopher,
Non-Executive Director

has served as a Non-Executive Director of Bank of China (UK) Limited since 20 September 2007. Mr. Fitzgibbon has a wealth of experience of the international financial services industry, and of China particularly, having served as Chairman of the China Desk for Deloitte UK for many years, and more recently as a Board member and Chairman of the Audit Committee of the Great Britain China Centre. He is an expert on Chinese business and has published several articles and reports on technical aspects of UK and international tax law, and guides for Chinese businesses investing in the UK. He has also co-authored a book on Taxation and Banking. He has contributed as a member of several trade agencies, including the Taiwan Britain Business Council, the Professional Firms and Inward Investment Agencies Committee, and the China Britain Business Council. He received a BA degree in Classics and Law from Oxford University, and is a qualified Barrister and Chartered Accountant (FCA).

Senior Management



GE, Kenneth Q.,
*Executive Director and Chief
Executive Officer*

Please refer to the section
“Directors”.

LI, Chuang-Fei,
Chief Lending Officer

has served as Chief Lending Officer of Bank of China (UK) Limited since September 2007, and as Deputy General Manager of London Branch since 1993. Mr. Li joined London Branch in 1978 as a researcher. He has held various responsibilities, including European Financial Institutions and Corporate Lending, Bullion Trading, Aircraft Financing and Advisory Services, and also set up the first SWIFT operating unit within a Chinese bank. In 1993, he joined General Management, with responsibility for Investment Banking and large lending. Under his leadership, London Branch obtained an investment banking license in the UK, and he set up the first Investment Banking business unit, which later became BOC International, and the first Syndications and Financial Institutions unit in the Group. Current responsibilities include the European African Syndication Centre, Corporate Banking, Trade Finance, and Financial Institutions business units. Mr. Li was a Fellow of the Asia Centre, Harvard University.

FANG, Wenjian,
*Executive Director and Chief
Risk Officer*

Please refer to the section
“Directors”.



SUN, Xixu,
Chief Retail Banking Officer

has served as Chief Retail Banking Officer of Bank of China (UK) Limited since September 2007, and as Deputy General Manager of London Branch since June 2006. Mr Sun joined Shandong Branch in 1989 and served as Assistant Manager, Deputy Manager and Manager of the International Settlement, Foreign Exchange and Treasury departments, including two secondments to Italian Banks in 1993 and 1995. Between 1997 and 2001, he served as Senior Manager of BOC Group Investment Limited, Vice President of BOC International Investment Limited, and Senior Manager of BOC Hong Kong & Macao Regional Headquarters. In 2005, he worked in the Asset & Liability Management and Global Financial Market departments of Head Office. He also serves as Chairman of China Visa Services Limited, and as Director of BOC (Suisse) S.A. Mr Sun is an Arbitrator at Qingdao Municipal Arbitration Commission and also spent two years teaching at Tianjin University. He holds a BA degree and Postgraduate diploma from Tianjin University, as well as an EMBA degree from CASS Business School, City University, London.



HINDS, Stephen,
Executive Director and Chief Operating Officer

Please refer to the section "Directors".



TRUSSLER, Stewart,
Chief Financial Officer

has served as Chief Financial Officer of Bank of China (UK) Limited since August 2008, and as Assistant General Manager of London Branch since 2008. Mr. Trussler joined London Branch in 2005 as Financial Controller with responsibility for all financial and regulatory reporting, capital planning, corporate tax issues, and liaison with the Bank's external auditors, including direct responsibility for the Accounts Department and the Treasury function. He also serves as Chairman of the Bank's Bulk Purchase Committee of the Asset and Liability Committee, and is a member of the Executive Technology Steering Committee. He is a qualified accountant, having achieved the Association of Chartered Certified Accountants (ACCA) qualification in 1993, being admitted as a Fellow of the ACCA in 1998. Prior to joining the Bank, he worked as a Financial Director in the media and broadcasting sector and held various senior positions in other financial institutions.



中國銀行

BANK OF CHINA



Global **Opportunities**



Report of the Directors

Principal Activities

Bank of China (UK) Limited ("BOCUK" or the "bank") is a full service bank offering retail, corporate, and trade finance services in the United Kingdom (the "UK"). The bank is a wholly-owned subsidiary of Bank of China Limited, Beijing ("BOC"). The bank is authorised and regulated by the Financial Services Authority (the "FSA").

BOCUK was incorporated in England and Wales as a private company with limited liability on 29 March 2007.

Following authorisation of the bank by the FSA on 24 September 2007, we took the decision to amend our annual reporting date to 30 September 2007 and reported the bank's pre trading activities to that date. Subsequent to that date the annual reporting date was amended to 31 December. This amendment now establishes us on the same reporting cycle adopted by the Bank of China Group (the "BOC Group") and indeed by the majority of the financial services industry in the UK. Hence these financial statements cover a 15-month period from 1 October 2007 to 31 December 2008.

Our corporate and trade finance business encompasses funding and advisory services for Chinese corporate clients seeking to expand in the UK and Europe. Syndication plays an important role for the bank in gaining access to European corporate clients. Our retail activities focus on branch banking. The bank offers regular high street retail banking services including current accounts, savings accounts, debit and credit cards.

Business Review

As at 31 December 2008 the bank had total assets of £1,055,809,000.

The bank's assets are primarily financed by inter-bank and inter-group deposits. The bank has, however, continued to increase its customer deposits and this reflects our determination to develop our corporate banking services as well as to help in meeting the bank's funding requirements.

For the 15-month period ended 31 December 2008, the bank generated a pre-tax profit of £4,574,000.

On 15 October 2007 the Bank of China Limited, London Branch ("London Branch") transferred the whole of its UK retail banking activities and certain other corporate banking activities to BOCUK. This transfer was effected by a Business Transfer Agreement in conjunction with a Scheme pursuant to Part VII of the Financial Services Markets Act 2000 (the "FSMA") as authorised by the High Court of Justice on 2 October 2007. The transfer was done at book value and the consideration was settled for cash.

During the period under review, the bank established a wholly-owned, non-banking, subsidiary China Visa Services Limited. This company undertakes the processing of visa applications for entry into the People's Republic of China (the "PRC").

Also during the period the bank established a wholly-owned Private Banking subsidiary in Geneva, Switzerland, Bank of China (Suisse) S.A. ("BOCS"), investing CHF 50 million in the ordinary share capital. BOCS commenced its trading activities in December 2008.

In December 2008 BOCS acquired a 70% holding in an established fund management company. The acquired company's name was changed to BOC (Suisse) Fund Management S.A. Both of these entities are regulated by the Swiss Financial Market Supervisory Authority ("FINMA").

Retail Banking

Retail banking is an important element of our growth strategy in the UK. During the period, the bank continued to build its brand image and increased its customer base. To this end the bank refurbished four of its high street branches during the period with the remaining one branch scheduled to be completed in the first quarter of 2009.

Retail Banking consists of the Banking Department located at 90 Cannon Street, London, together with four satellite branches located in London China Town, Birmingham, Manchester and Glasgow. The customer base is predominately local Chinese for the four satellite branches, however, the Banking Department has a much more international customer base.



Corporate Banking

Whilst continuing to operate in the syndicated loans market, the bank is also seeking to further develop its bilateral lending by offering a range of banking facilities to corporate customers including loans and syndications, trade services, cash management and foreign exchange.

A key objective for the wholesale lending business is to be the preferred bank for Chinese corporate clients doing business in the UK and other European Union ("the EU") countries.

Financial Markets

The Financial Markets and Financial Institutions Department comprises of three divisions; foreign exchange, money market and fixed income investments. During the period, these activities have continued to focus upon efficient liquidity management and the funding requirements of the balance sheet. There was no trading activity during the period.

Dividends

The directors do not recommend the payment of a dividend.

Directors' Interest

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

Mrs. Yanling Zhang	<i>Chairman</i>
Dr. Kenneth Q. Ge	<i>Chief Executive Officer</i>
Mr. Wenjian Fang	<i>Chief Risk Officer</i>
Mr. Stephen Hinds	<i>Chief Operating Officer</i>
Mr. Yangxin Huang	<i>non-executive</i>
Mr. Christopher Fitzgibbon	<i>non-executive</i>
Mr. Donald Workman	<i>non-executive</i>

None of the directors who held office at the end of the financial period had any disclosable interest in the shares of the bank at that date.

Directors' Emoluments

Information on emoluments of the directors of BOCUK, in accordance with the Companies Act 1985, is disclosed in Note 16 to the financial statements.

Directors' Indemnities

The BOCUK Board of Directors (the "Board") believes that it is in the best interests of the bank to attract and retain the services of the most able and experienced directors by offering competitive terms of engagement, including the granting of indemnities on terms consistent with the applicable statutory provisions. Qualifying third party indemnity provisions (as defined by Section 234 of the Companies Act 2006) were accordingly in force during the course of the financial period ended 31 December 2008 for the benefit of the directors and, at the date of this report, are in force for the benefit of the directors in relation to certain losses and liabilities which they may incur (or have incurred) in connection with their duties, powers or office.

Employees

There were 186 employees of BOCUK at 31 December 2008.

Charitable and Political Contributions

For the period ended 31 December 2008, the bank did not fund any charities nor did it make any donations to political organisations.

Financial Instruments

The bank's principal financial risk management objectives and policies including its exposure to credit risk, market risk, and liquidity risk are set out in pages 44 to 55 under the headings, 'Credit Risk', 'Market Risk', 'Liquidity Risk' in Note 7 to the financial statements.

Auditors

The directors who held office at the date of approval of this director's report confirm that:

- so far as they are each aware, there is no relevant audit information of which the bank's auditors are unaware; and
- each director has taken all steps that he/she ought to take as a director to make himself/herself aware of any relevant audit information and to establish that the bank's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 234ZA of the Companies Act 1985.

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and PricewaterhouseCoopers LLP will therefore continue in office.

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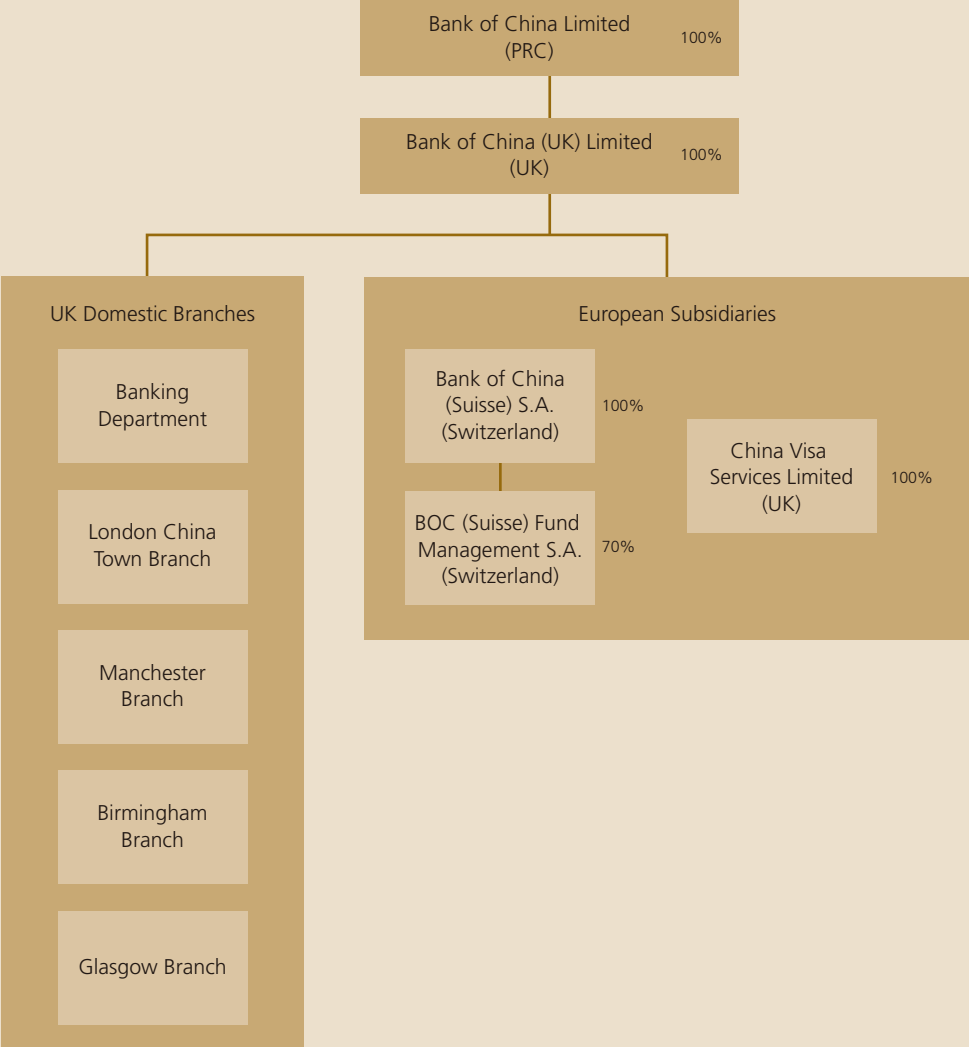
By order of the Board,

Dr Kenneth Q. Ge
Chief Executive Officer
Board Director

27 April 2009

Corporate Governance Statement

Bank of China (UK) Limited (“BOCUK” or the “bank”) is committed to the principles of corporate governance contained in the UK Combined Code on Corporate Governance (the “Combined Code”) issued by the Financial Reporting Council.



Corporate Governance Framework

The bank's corporate governance framework centres on the bank's Board of Directors ("the Board"), which provides guidance and effective oversight of the senior management. In order to run the business effectively, the Board delegates responsibility for the day-to-day management of the bank to the Chief Executive Officer, who is supported by the Executive Management Committee, which he chairs.

There are four scheduled Board meetings each year. Scheduled Board and committee meetings are arranged in advance to ensure, as far as possible, that directors can manage their time commitments. All directors are provided with supporting papers and relevant information for each meeting and are expected to attend, unless there are exceptional circumstances that prevent them from doing so.

In the event that a director is unable to attend a meeting, he/she will still receive the papers for the meeting and will normally discuss any matters they wish to raise with the Chairman of the meeting, to ensure their views are taken into account. In addition, all directors are able to discuss any issues with the Chairman of the Board and/or the Chief Executive Officer at any time. During the period ending 31 December 2008, it is considered that all directors contributed the time necessary to discharge their responsibilities to the Board.

The Chairman of the Board works closely with the Company Secretary to ensure that accurate, timely and clear information flows to the Board. Supporting papers for scheduled meetings are distributed in advance of each meeting. All directors have access to the services of the Company Secretary.

Following the provisions in the Articles of Association the appointment or removal of a member of the Board requires the approval of the shareholders. Independent non-executive directors are appointed for three-year renewable terms which may, in accordance with the Articles of Association, be terminated without notice or payment of compensation.

Board Effectiveness

Under United Kingdom (the "UK") Company Law, directors must act in a way they consider, in good faith, would be most likely to promote the success of the bank for the benefit of the shareholders as a whole. In doing so, the directors must have regard (amongst other matters) to the following:

- The likely consequences of any decision in the long-term;
- The interests of the bank's employees;
- The need to foster the bank's business relationships with suppliers, customers and others; and
- The impact of the bank's operations on the community and the environment.

The Board is responsible to shareholders for creating and delivering sustainable shareholder value through the management of the bank's businesses. It therefore determines the goals and policies of the bank to deliver such long-term value and provides overall strategic direction within a framework of rewards, incentives and controls. The Board aims to ensure that management strikes an appropriate balance between promoting long-term growth and delivering short-term objectives.

The Board is also responsible for ensuring that management maintains a system of internal controls that provide assurance of effective and efficient operations, internal financial controls and compliance with the law and regulation. In carrying out this responsibility, the Board has regard to what is appropriate for the bank's business and reputation, the materiality of the financial and other risks inherent in the business, and the relative costs and benefits of implementing specific controls.

The Board is also the decision-making body for all other matters of such importance as to be of significance to the bank as a whole because of their strategic, financial or reputational implications or consequences.

A typical Board meeting receives reports from the Chief Executive Officer and will also be presented with an update on the execution of strategy in the main businesses and functions. It will also receive reports from each of the principal Board Committees and may also receive a report from the Company Secretary on any relevant corporate governance matters.



Chairman and Chief Executive Officer

The roles of the Chairman and the Chief Executive Officer are separate. The Chairman's main responsibility is to lead and manage the work of the Board to ensure that it operates effectively and fully discharges its legal and regulatory responsibilities. The Board has delegated the responsibility for the day-to-day management of the bank to the Chief Executive Officer, who is responsible for recommending strategy to the Board, leading the executive directors and for making and implementing operational decisions.

Board Balance and Independence

The Board has collective responsibility for the success of the bank, however, executive directors have direct responsibility for business operations, whereas non-executive directors are responsible for bringing independent judgment and scrutiny to decisions taken by the Board, providing objective challenge to management. The Board can draw on the wide range of skills, knowledge and experience they have built up as directors of other companies and as business leaders.

The Combined Code sets out circumstances that the Board may find relevant when determining the independence of a non-executive director. The Board considers that the following behaviours are essential in order for the Board to conclude that an individual is independent:

- Provides objective challenge to management;
- Is prepared to challenge others' assumptions, beliefs or viewpoints as necessary for the good of the bank;
- Questions intelligently, debates constructively, challenges rigorously and makes decisions dispassionately;
- Is willing to stand up and defend their own beliefs and viewpoints in order to support the ultimate good of the bank; and

- Understands the bank's business and affairs, to enable them properly to evaluate the information and responses provided by management.

All directors must report any changes in their circumstances to the Board and the shareholders reserve the right to terminate the appointment of a director if there are any material changes in their circumstances that may conflict with their commitments as a director of the bank, or that may impact on their independence.

Information and Professional Development

A three-part training programme is in place for directors. This comprises:

- Induction training, when they join the Board;
- Training and awareness of the business of the bank; and
- Training and awareness of external technical matters.

A presentation is given to all new directors, which outlines their responsibilities as a director of a UK limited company and provides an overview of the bank and its businesses. Each new director then has a tailored induction programme to further familiarise themselves with the bank and its businesses. This takes the form of sessions with each of the executive directors and the heads of the main bank functions and includes opportunities to visit operational sites to meet with senior management and employees. Once they have completed the first part of their induction, and have a good overview of the bank, they then have further sessions with the executive directors and senior managers from each of the principal business units to gain a detailed and in depth understanding of their business, which includes the challenges, opportunities and risks that are faced by each.

On establishment of the bank the full Board attended a Corporate Governance and Regulatory Responsibilities training session presented by external consultants.

In addition, the executive directors and senior management, attended training to:

- Clarify and outline the segregation of the business between BOCUK and Bank of China Limited, London Branch (the "London Branch") and the impact on their duties.
- Clarify regulatory responsibilities prior to the 2008 Financial Services Authority (the "FSA") ARROW2 Review.

There have been no new directors appointed during the period under review and therefore no further induction training has taken place.

Performance Review

Annual performance contracts were established for the executive directors in March 2008 to assess their performance across five key performance areas aligned to the bank's 'balanced scorecard' approach to performance management, being:

- Financial
- Business Processes and Technical Skills
- Customer Focus
- Leadership
- Team

The performance contracts provide an overall summary of their achievements throughout the year in their roles as directors of the bank.

Internal Control

The Board is responsible for the bank's system of internal control. It is designed to facilitate effective and efficient operations and to ensure the quality of internal and external reporting and compliance with applicable laws and regulations. In devising internal controls, BOCUK considers the nature and extent of the risk, the likelihood of it crystallising and the cost of controls.

The Board receives regular reports and updates from the Executive Management and the Audit Committee on the effectiveness of the bank's internal control system. The system of internal controls is also subject to regulatory oversight and periodic FSA ARROW2 assessment, the most recent of which was in November 2008.

Remuneration Committee Report

The Remuneration Committee (the "Committee") met on three occasions in 2008 and considered and approved the following:

Terms of Reference

The Terms of Reference for the Committee were approved and adopted by the Committee at its first meeting on 20 February 2008.

Policy Reviews

The Committee undertook a thorough review of the following policies and implemented final versions accordingly:

- Recruitment & Selection Policy
- Training & Development Policy
- Remuneration Policy amended to Compensation & Benefits Policy (including Discretionary Bonus Scheme)
- Performance Management



The Implementation of a new Grading Structure

The Committee discussed the proposed new grading structure during the period, and agreed that the Human Resources Department were to implement the new grading structure after due and careful consideration. The new grading structure aims to serve as the framework for subsequent design of staff remuneration and career development and is also aligned to performance management processes.

Corporate Governance

The Committee members considered how other global banks with overseas subsidiaries operate their Remuneration Committees specifically in relation to corporate governance structures i.e. global Head Office versus local requirement and agreed that alignment to global policies and procedures was a priority where practical but local regulations and legislation would always prevail.

Director Contracts

The Committee reviewed and approved the new director contracts and agreed that the Human Resources Department would implement them.

The Chairman of the Committee reported on the aforementioned matters to the Board after each meeting and advised the Board on decision-making when required.

Audit Committee Report

The Audit Committee (the "Committee") comprises of: three non-executive directors who are voting members; Mr Chris Fitzgibbon (Chairman), Mr Huang Yangxin and Mr Donald Workman, and two non-voting members; Mr Stephen Hinds, Chief Operating Officer and Mr Yue Long, Head of Internal Audit. The Committee meets at least quarterly and four meetings were held in 2008 during which the Committee considered the effectiveness of the bank's systems for internal control, risk management and compliance with financial services legislation and regulations. In addition the following key activities were undertaken:

- The Committee approved the scope of the external auditors' work, and separately assessed their effectiveness.
- The Committee reviewed the financial statements presented to the Board and the quality and acceptability of the related accounting policies, practices and financial reporting disclosures.
- The Policy, Procedures and Plan for the Internal Audit Department were considered and approved. The effectiveness of the department and the adequacy of its resources were also considered and its ongoing performance monitored.
- Regular reports and updates were received from Internal Audit Department.
- Reports were received from Risk Management and Legal and Compliance Departments and these were reviewed and discussed.
- A self assessment as to the effectiveness of the Audit Committee was completed in November 2008.

Bank of China (Suisse) S.A., a subsidiary of the bank, has its own Audit Committee and governance structure.

Statement of Directors' Responsibilities in Respect of the Directors' Report and the Financial Statements

The directors are responsible for preparing 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 period. Under that law the Board of Directors (the "Board") of Bank of China (UK) Limited ("BOCUK" or the "bank") has elected to prepare the financial statements in accordance with the "International Financial Reporting Standards" (the "IFRSs") as adopted by the European Union (the "EU"). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for the period reported.

International Accounting Standard 1 requires that financial statements present fairly the financial position, performance, and cash flow of the bank. The Companies Act 1985 provides references in relevant parts of that Act to financial statements giving a true and fair view, and references to financial statements achieving a fair presentation. In preparing these financial statements the directors are required to:

- Properly select suitable accounting policies and apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State that the financial statements comply with IFRSs;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;

- Provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions and other events and conditions on the entity's financial position and financial performance; and
- Prepare the financial statements on a going concern basis unless it is inappropriate to presume that the bank will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the bank and which enable them to ensure that the financial statements and the Director's Report comply with the Companies Act 1985. They 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.

Directors' Responsibility Statement

On behalf of the directors of BOCUK, I confirm that to the best of my knowledge the following statements are true:

1. The financial statements, prepared in accordance with International Financial Reporting Standards, as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the bank.
2. The Directors' Report includes a fair review of the development and performance of the business and the position of the bank.

Dr. Kenneth Q. Ge

Chief Executive Officer
Board Director

27 April 2009

Independent Auditors' Report



To the Members of Bank of China (UK) Limited

We have audited the financial statements of Bank of China (UK) Limited ("BOCUK" or the "bank") for the period ended 31 December 2008 which comprise the Income Statement, the Balance Sheet, Statement of Recognised Income and Expenses and the Statement of Cash Flows, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective Responsibilities of Directors and Auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards (the "IFRSs") as adopted by the European Union (the "EU") are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

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

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of Audit Opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Company's affairs as at 31 December 2008 and of its profit and cash flows for the period then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
London

27 April 2009

Income Statement

For the period ended 31 December 2008

£000	Note	15 months to 31 December 2008	6 months to 30 September 2007
Continuing operations			
Interest income from financial investments		17,202	–
Other interest income		36,869	473
Interest expense		(35,584)	(110)
Net interest income	10	18,487	363
Fee and commission income		3,886	–
Fee and commission expense		(238)	–
Net fee and commission income	11	3,648	–
Net loss on derivative financial instruments	12	(3,314)	–
Foreign exchange gain		915	–
Other operating income	13	9,501	–
Profit on sale of debt securities		2,495	–
Non-interest income		9,597	–
Total Income		31,732	363
Staff costs	14	(11,629)	–
Administration and general expenses	15	(5,767)	(10)
Depreciation of plant and equipment	24	(292)	–
Amortisation of intangible assets	25	(84)	–
Impairment charges and other credit provisions	22	(9,386)	–
Profit before tax		4,574	353
Tax	17	(1,562)	(106)
Profit after tax		3,012	247

Balance Sheet

For the period ended 31 December 2008

£000	Note	31 December 2008	30 September 2007
Assets			
Cash	18	40,069	200,000
Loans and advances to banks	20	67,272	–
Loans and advances to customers	21	551,148	–
Derivative financial instruments	19	5,554	–
Prepayments, accrued income and other assets	27	21,197	473
Available for sale investments	23	330,093	–
Deferred tax asset	26	5,656	–
Intangible assets	25	321	–
Tangible fixed assets	24	2,371	–
Investment in group companies	35	32,128	–
Total assets		1,055,809	200,473
Liabilities			
Deposits from banks	28	560,116	–
Deposits from customers	29	290,289	–
Derivative financial instruments	19	5,390	–
Other liabilities	31	10,601	–
Accruals and deferred income	32	4,099	120
Current tax liabilities		195	106
Deferred tax liabilities	26	14	–
Provisions	34	–	–
Subordinated liabilities	30	60,000	60,000
Total liabilities		930,704	60,226
Equity			
Authorised and called up share capital	33	140,000	140,000
Retained earnings		3,259	247
Available for sale reserve		(18,154)	–
Total shareholders' equity		125,105	140,247
Total shareholders' equity and liabilities		1,055,809	200,473

The financial statements were approved by the Board of Directors of Bank of China (UK) Limited and authorised for issue on 27 April 2009. They were signed on its behalf by:

Dr. Kenneth Q. Ge
Chief Executive Officer
Board Director

27 April 2009

Statement of Recognised Income and Expenses

For the period ended 31 December 2008

£000	31 December 2008	30 September 2007
Profit for the financial period ending	3,012	247
Unrealised losses available for sale investments, before tax	(25,269)	–
Movements taken to reserves	–	–
Tax on items transferred to equity	7,115	–
Net income recognised directly in equity, net of tax	(18,154)	–
Net income recognised in the income statement	3,012	247
Total recognised income and expense	(15,142)	247

Statement of Cash Flows

For the period ended 31 December 2008

£000	Note	15 months to 31 December 2008	6 months to 30 September 2007
Cash flows from operating activities			
Profit on ordinary activities before taxation		4,574	353
Adjustments for non cash items			
Depreciation and amortisation		376	–
Net impairment loss on investment securities		8,965	–
Net impairment loss on loans and advances		421	–
Interest receivable from financial investments		(17,202)	–
Other interest receivable		(36,869)	(473)
Interest payable		35,584	120
Net profit on sale of available for sale investments		(2,495)	–
Foreign exchange gain on sale of available for sale investments		(59,563)	–
Changes in operating assets and liabilities			
Change in derivative assets held for risk management		(5,554)	–
Change in loans and advances to banks		(67,272)	–
Change in loans and advances to customers		(551,569)	–
Change in other assets		(16,295)	–
Change in derivative liabilities held for risk management		5,390	–
Change in deposits from banks		560,116	–
Change in deposits from customers		290,289	–
Change in other liabilities and provisions		11,254	–
Adjustment for cash items			
Interest and coupon received		43,862	–
Interest paid		(32,258)	–
Income tax paid		(1,815)	–
Net cash from operating activities		169,939	–
Cash flows from investing activities			
Acquisition of investment securities		(471,210)	–
Proceeds from sale of investment securities		176,536	–
Acquisition of property and equipment		(2,663)	–
Acquisition of intangible assets		(405)	–
Investment in group companies		(32,128)	–
Net cash used in investing activities		(329,870)	–
Cash flows from financing activities			
Proceeds from issue of share capital		–	140,000
Proceeds from issue of subordinated liabilities		–	60,000
Net cash from financing activities		–	200,000
Net increase/(decrease) in cash and cash equivalents		(159,931)	200,000
Cash and cash at beginning of period		200,000	–
Cash and cash equivalents at period end	18	40,069	200,000

The statement of cash flows has been prepared under the indirect method.

Notes to the Financial Statements

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1. Reporting entity	21. Loans and advances to customers
2. Basis of preparation	22. Allowances for impairment
3. Significant accounting policies	23. Available for sale investments
4. Critical estimates and judgements	24. Tangible fixed assets (property, plant and equipment)
5. New pronouncement	25. Intangible assets
6. New standards and interpretations not yet adopted	26. Deferred tax assets and liabilities
7. Financial risk management	27. Prepayments, accrued income and other assets
(a) Credit risk	28. Deposits from banks
(b) Liquidity risk	29. Deposits from customers
(c) Market risk	30. Subordinated liabilities
(d) Capital management	31. Other liabilities
8. Pillar III disclosures	32. Accruals and deferred income
9. Financial assets and financial liabilities	33. Capital and reserves
10. Net interest income	34. Provisions
11. Net fee and commission income	35. Related parties
12. Net loss from derivative financial instruments	36. Lease commitments
13. Other operating income	37. Subsequent events
14. Staff costs	
15. Administration and general expenses	
16. Directors' emoluments	
17. Income tax expense	
18. Cash	
19. Derivative financial instruments	
20. Loans and advances to banks	

1. Reporting entity

Bank of China (UK) Limited (“BOCUK” or the “bank”) is a company domiciled in the United Kingdom (the “UK”) with its registered office at 90 Cannon Street, London EC4N 6HA. The separate financial statements of the bank as at and for the period ended 31 December 2008 are presented below. The bank is primarily involved in retail and corporate banking.

Following authorisation of the bank by the Financial Services Authority (the “FSA”) on 24 September 2007 the bank decided to amend the annual reporting date to 31 December.

2. Basis of preparation

(a) *Statement of compliance*

These financial statements have been prepared in accordance with International Financial Reporting Standards (the “IFRSs”) as adopted by the European Union (the “EU”) and therefore the financial statements comply with Article 4 of the EU IAS Regulation.

The bank has availed itself of the exemption election in IAS 27 *Consolidated and Separate Financial Statements* that permits an entity to prepare separate financial statements. The bank is a wholly-owned subsidiary of Bank of China Limited (“BOC”), which produces consolidated financial statements available for public use that comply with IFRS. BOC is domiciled in the People’s Republic of China (the “PRC”), with its head office located at 1 Fuxingmen Nei Dajie, Beijing 100818 PRC. The consolidated financial statements of the BOC Group are publicly available from this address.

The financial statements were authorised for issue by the Board of Directors (the “Board”) on 27 April 2009.

(b) *Basis of measurement*

The financial statements have been prepared under the historical cost basis modified to include the fair valuation of certain financial instruments and contracts to buy or sell non-financial items to the extent required or permitted under accounting standards and as set out in the relevant accounting policies.

The following items are measured at fair value:

- derivative financial instruments
- available for sale financial assets

(c) *Functional and presentation currency*

These financial statements are presented in Sterling (£), which is the bank’s functional currency. Except as indicated, financial information presented in Sterling has been rounded to the nearest thousand.

2. Basis of preparation (Continued)

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in Note 4.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by the bank.

(a) Revenue recognition

Interest income and expense are recognised in the income statement for all interest-bearing financial instruments, except for those classified at fair value through profit or loss, using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The effective interest rate is calculated on initial recognition of the financial asset or liability, estimating the future cash flows after considering all the contractual terms of the instrument but not future credit losses. The calculation includes all amounts paid or received by the bank including expected early redemptions and related penalties and premiums and discounts that are an integral part of the overall return as well as direct incremental transaction costs related to the acquisition, issue or disposal of a financial instrument. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss (see Note 3(f)).

Fees and commissions which are not an integral part of the effective interest rate are generally recognised when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan.

Dividend income is recognised when the right to receive payment is established.

3. Significant accounting policies (Continued)

(b) *Available for sale financial assets*

Debt securities are classified as available for sale and recognised in the balance sheet at their fair value. Available for sale investments are those intended to be held for an indeterminate period of time and may be sold in response to need for liquidity or changes in interest rates, exchange rates or equity prices. Gains and losses arising from changes in the fair value of investments classified as available for sale are recognised directly in equity, until the financial asset is either sold, becomes impaired or matures, at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement. Interest calculated using the effective interest method is recognised in the income statement.

The fair values of assets and liabilities traded in active markets are based on current bid and offer prices respectively. If the market is not active the bank establishes a fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and other valuation techniques commonly used by market participants.

Purchases and sales of securities and other financial assets and liabilities are recognised on trade date, being the date that the bank is committed to purchase or sell an asset. Available for sale financial assets are initially recognised at fair value inclusive of transaction costs.

These financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the bank has transferred substantially all risks and rewards of ownership.

(c) *Derivative financial instruments*

All derivative instruments are held for risk management purposes and do not qualify for hedge accounting according to IAS 39. All derivatives are recognised at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and using valuation techniques, including discounted cash flow, as appropriate. Derivatives are carried in the balance sheet as assets when their fair value is positive and as liabilities when their fair value is negative. All changes in the fair value of the derivative are recognised immediately in profit or loss as a component of net loss on derivative financial instruments.

(d) *Foreign currencies*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the income statement. Non-monetary assets that are measured at fair value are translated using the exchange rate at the date that the fair value was determined. Translation differences on monetary items, including available for sale investments, measured at fair value are recognised in profit or loss.

(e) *Loans and advances to banks and customers*

Loans and advances to banks and customers are initially recognised at fair value and subsequently accounted for at amortised cost using the effective interest method less accumulated impairment losses. Loans and advances are initially recognised when cash is advanced to the borrowers at fair value inclusive of transaction costs. Loans and advances are derecognised when the rights to receive cash flows from them have expired or where the bank has transferred substantially all risks and rewards of ownership.

Loans and advances to banks and customers include both originated and syndicated loans. The bank does not originate loans to syndicate, rather it purchases syndicated loans from third party banks.

3. Significant accounting policies (Continued)

(f) *Impairment of financial assets*

At each balance sheet date the bank assesses whether, as a result of one or more events occurring after initial recognition, there is objective evidence that a financial asset or group of financial assets has become impaired.

The criteria that the bank uses to determine that there is objective evidence of an impairment loss may include:

- Delinquency in contractual payments of principal and/or interest;
- Indications that the borrower or group of borrowers is experiencing significant financial difficulty;
- Significant legal or regulatory disputes;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings; or
- Other objective evidence indicating impairment of the financial asset.

The estimated period between a loss occurring and its identification is determined by local management for each identified financial asset. In general, the periods used vary between one month and three months.

(i) *Assets accounted for at amortised cost*

If there is objective evidence that an impairment loss has been incurred, an allowance is established which is calculated as the difference between the balance sheet carrying value of the asset and the present value of estimated future cash flows discounted at that asset's original effective interest rate. Allowances are established on a case-by-case basis for all of the bank's lending activities which include residential mortgage, personal lending, credit cards and corporate lending. If an asset has a variable interest rate, the discount rate used for measuring the impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised asset reflects the cash flows that may result from foreclosure less the costs of obtaining and selling the collateral, whether or not foreclosure is probable.

For credit card lending where there is no objective evidence of individual impairment the portfolio is collectively assessed for impairment based on historical loss experience and adjusted for current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, such as an improvement in the borrower's credit rating, the allowance is adjusted and the amount of the reversal is recognised in the income statement.

3. Significant accounting policies (Continued)

(f) Impairment of financial assets (Continued)

(i) Assets accounted for at amortised cost (Continued)

A loan or advance is normally written off, either partially or in full, against the related allowance when the proceeds from realising any available security have been received or there is no realistic prospect of recovery (as a result of the customer's insolvency, ceasing to trade or other reason) and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses recorded in the income statement.

(ii) Available for sale financial assets

If there is objective evidence that an impairment loss has been incurred, the cumulative loss measured as the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss on that asset previously recognised, is removed from equity and recognised in the income statement.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement.

(iii) Renegotiated loans

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the asset is considered to be past due and disclosed only if further renegotiated.

(g) Hedge accounting

Hedge accounting is applied to derivative and other instruments designated as hedges in hedging relationships provided certain criteria are met.

The bank documents, at the inception of the hedging relationship, the relationship between hedged items and hedging instruments, as well as the risk management objective and strategy for undertaking the hedge transaction. The bank also documents its assessment, both at inception and on an ongoing basis, of whether the instruments that are used in the hedging transaction are highly effective in offsetting changes in the fair values or cash flows of the hedged items.

Fair value hedge

When considered appropriate the bank hedges the foreign exchange risk arising from its investment in foreign subsidiaries using either derivative or other financial instruments. For such hedges, the foreign exchange difference arising on both the hedging instrument and the hedged item is recognised directly in the income statement. The hedged risk is adjusted for against the carrying amount of the investment in subsidiaries.

Derivatives that do not qualify for hedge accounting

All gains or losses from the changes in fair value of derivatives that do not qualify for hedge accounting are recognised immediately in the income statement.

3. Significant accounting policies (Continued)

(h) *Derecognition of financial liabilities*

The bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

(i) *Subsidiaries*

Subsidiaries are entities controlled by the bank. Control exists when the bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

The investment in subsidiaries is accounted for at cost less impairment adjusted for any foreign exchange risk that has been hedged.

(j) *Tangible fixed assets*

Tangible fixed assets are included at cost less accumulated depreciation and accumulated impairment losses. The value of land (included in premises) is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate the difference between the cost and the residual value over their estimated useful lives, as follows:

Premises (excluding land):

- Freehold/long and short leasehold premises: shorter of 50 years or the remaining period of the lease
- Leasehold improvements: shorter of 10 years or the remaining period of the lease

Equipment:

- Fixtures and furnishings: 10-20 years
- Other equipment and motor vehicles: 2-8 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In the event that an asset's carrying amount is determined to be greater than its recoverable amount it is written down immediately. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

The cost of replacing a part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the bank and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

3. Significant accounting policies (Continued)

(k) Intangible assets

Software acquired by the bank is stated at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use. The estimated useful life of software is three to five years.

Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In the event that an asset's carrying amount is determined to be greater than its recoverable amount it is written down immediately. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

(l) Leases

The bank enters into leases as the lessee. All of the leases are operating leases. Operating lease rentals are charged to the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the end of the lease period, any payment made to the lessor by way of penalty is recognised as an expense in the period of termination.

(m) Offset

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right of set-off and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(n) Cash and cash equivalent

For the purposes of the cash flow statement, cash and cash equivalents comprise cash and non-mandatory balances with central banks and amounts due from banks with an original maturity of less than three months.

(o) Borrowings

Borrowings (which include deposits from banks, customer accounts and subordinated liabilities) are recognised initially at fair value, being their issue proceeds net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest method.

(p) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in income statement when they are due.

3. Significant accounting policies (Continued)

(p) *Employee benefits (Continued)*

(ii) *Defined benefit plans*

The bank is a participant of the Bank of China Pension and Life Assurance scheme offered by Bank of China Limited, London Branch (the "London Branch"). The London Branch is the sponsoring employer. There are no contractual arrangements for charging the net defined benefit cost for this plan. Contributions to the fund are recognised as an expense in the income statement in the accounting period to which they relate. Any unpaid contributions are recognised in the balance sheet as a liability.

(q) *Short-term benefits*

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(r) *Taxation*

The tax expense represents the sum of the tax currently payable and deferred tax.

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

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

The tax effects of losses available for carry forward are recognised as a deferred tax asset when it is probable that future taxable profits will be available against which these losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

Income tax payable on profits is recognised as an expense in the period in which those profits arise. Deferred tax related to fair value re-measurement of available for sale investments, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the income statement together with the deferred gain or loss.

3. Significant accounting policies (Continued)

(s) Provisions

Provisions are recognised in respect of present obligations arising from past events where it is probable that outflows of resources will be required to settle the obligations and they can be reliably estimated.

Contingent liabilities are possible obligations whose existence depends on the outcome of uncertain future events or those present obligations where the outflows of resources are uncertain or cannot be measured reliably. Contingent liabilities are not recognised in the financial statements but are disclosed unless they are remote.

(t) Share capital and reserves

Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instrument.

4. Critical estimates and judgements

The bank makes estimates and assumptions concerning the future. The estimates and assumptions that could have significant risk of causing material adjustment to the carrying amounts of assets within the next financial year are highlighted below.

(i) Impairment of loans and advances

The bank reviews its loans and advances on an individual basis to assess impairment on a periodic basis unless a known circumstance occurs at or before the scheduled review date. In determining whether an impairment loss should be recorded in the income statement, the bank makes a judgement as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flow of a loan or advance. This evidence may include observable data indicating that there has been an adverse change in the payment status of the borrower e.g. payment delinquency, or default. Additional observable data that would be considered is set out in Note 3(f).

(ii) Impairment of available for sale investments

The bank follows the guidance of IAS 39 to determine when available for sale investment securities are impaired. This determination requires significant judgment. In making this judgment, the bank evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, the extent to which changes in fair value relate to credit events; and the financial health of and near-term business outlook for the investee/underlying portfolio, including factors such as industry and sector performance, credit ratings, and counterparty risk.

The methodology and assumptions used for impairment assessments are reviewed regularly. In evaluating impairment of asset backed securities ("ABS") and mortgage backed securities ("MBS") during the period, the bank continued to use a significant decline in market price to be a key indicator of impairment. The bank also considered other objective evidence of impairment, taking into account that during the period market prices were significantly impacted by liquidity and a range of indicative prices was obtained for certain ABS and MBS held by the bank.

Details about the use of estimates and judgements are presented in Note 3.

5. New Pronouncement

In October 2008 the International Accounting Standards Board (the "IASB") issued Reclassification of Financial Assets (Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures). The amendment to IAS 39 permits an entity to reclassify non-derivative financial assets, other than those designated at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss category if they are no longer held for the purpose of being sold or repurchased in the near term. The amendment also permits an entity to transfer from the available for sale category to loans and receivables category a financial asset that would have met the definition of loans and receivables, if the assets had not been designated as available for sale, if the entity has the intention and ability to hold that financial asset for the foreseeable future.

The amendment to IFRS 7 introduces additional disclosure requirements if an entity has reclassified financial assets in accordance with the amendment to IAS 39. The amendments are effective retrospectively from 1 July 2008.

The bank did not reclassify any financial assets under this amendment.

6. New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2008, and have not been applied in preparing these financial statements.

IFRIC 13 Customer Loyalty Programmes addresses the accounting by entities that operate or otherwise participate in customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13 becomes mandatory for the bank's 2009 financial statements and will be applicable retrospectively. The bank does not have any customer loyalty programs and therefore does not expect these amendments to have any impact on the financial statements.

Revised IFRS 3 Business Combinations (2008) incorporates the following changes that are likely to be relevant to the bank's operations:

- The definition of a business has been broadened, which may result in more acquisitions being treated as business combinations.
- Contingent consideration will be measured at fair value, with subsequent changes in fair value recognised in profit or loss.
- Transaction costs, other than share and debt issue costs, will be expensed as incurred.
- Any pre-existing interest in an acquiree will be measured at fair value, with the related gain or loss recognised in profit or loss.
- Any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of an acquiree, on a transaction-by-transaction basis.

6. New standards and interpretations not yet adopted (Continued)

Revised IFRS 3, which becomes mandatory for the bank's 2010 financial statements, will be applied prospectively and therefore there will be no impact on prior periods in the bank's 2010 financial statements.

Revised IAS 1 Presentation of Financial Statements (2007) introduces the term "total comprehensive income," which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income. Revised IAS 1, which becomes mandatory for the bank's 2009 financial statements, is expected to have a significant impact on the presentation of the financial statements as the bank plans to provide total comprehensive income in a single statement of comprehensive income for its 2009 financial statements.

Amended IAS 27 Consolidated and Separate Financial Statements (2008) require accounting for changes in ownership interests in a subsidiary that occur without loss of control, to be recognised as an equity transaction. When the bank loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The amendments to IAS 27, which become mandatory for the bank's 2010 financial statements, are not expected to have a significant impact on the Notes to the financial statements.

Amendments to IAS 32 and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation, require puttable instruments and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation, to be classified as equity if certain conditions are met. The amendments, which become mandatory for the bank's 2009 financial statements with retrospective application required, are not expected to have any significant impact on the financial statements.

The IASB made certain amendments to existing standards as part of its first annual improvements project. The effective dates for these amendments vary by standard and most will be applicable to the Bank's 2009 financial statements. The bank does not expect these amendments to have any significant impact on the financial statements.

Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. The amendments will become mandatory for the bank's 2010 financial statements, with retrospective application required.

7. Financial risk management

Introduction and overview

The bank has exposure to the following risks from financial instruments

- Credit risk
- Liquidity risk
- Market risk

This Note presents information about the bank's exposure to each of the above risks, the bank's objectives, policies and procedures for measuring and managing risk, and the bank's management of capital.

7. Financial risk management (Continued)

Risk management framework

The Board has overall responsibility for the establishment and oversight of the bank's risk management framework. The Board has established the bank's Asset and Liability ("ALCO"), Credit and Operational Risk Committees, which are responsible for developing and monitoring the bank's risk management policies in their specified areas. All Board committees have both executive and non-executive members and report regularly to the Board on their activities.

The bank's risk management policies are established to identify and analyse the risks faced by the bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

The bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and responsibilities.

The bank's Audit Committee is responsible for monitoring compliance with the bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the bank. Internal Audit Department assists the Audit Committee in these functions. Internal Audit Department undertakes both regular and ad-hoc reviews of the risk management controls and procedures, the results of which are reported to the Audit Committee.

(a) Credit risk

Financial risk management

Credit risk is the risk of financial loss to the bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the bank's loans and advances to customers and available for sale financial investments.

Credit risk management framework

The bank has established a set of credit risk management policies and procedures, and appropriate credit risk limits to manage and control credit risk that arises through the bank's normal business activities. These policies, procedures and limits are regularly reviewed in light of changes in markets and business strategies.

The bank's organisation structure establishes a clear set of authorities and responsibilities for monitoring compliance with policies, procedures and limits, based on the principal of 'Three Lines of Defence'.

The business units are responsible for the day-to-day management of credit risk with the Risk Management Department being responsible for risk oversight and ensuring procedural compliance as well as the drafting, reviewing and updating of credit risk management policies and procedures. The internal audit function represents the third line of defence.

The Board has the highest credit approval authority for BOCUK. The Board can delegate its authority to the Board Credit Committee, and the Chief Executive Officer ("CEO") of the bank. The CEO of the bank may delegate credit approval authority to Branch Managers, subject to Board approval.

7. Financial risk management (Continued)

(a) Credit risk (Continued)

Credit risk measurement and control

Loans and advances

The approval of an individual credit risk proposition requires assessment of the customer, any existing credit exposure to the customer and the credit risks associated with the transaction, at the same time taking into account the reward being offered for the risk and the extent of risk mitigation available to offset the potential loss in the event of default. The Risk Management Department is responsible for making an independent assessment of all credit facilities.

There are three main areas of concentration risk that are monitored, reported and managed by the bank: single customer (group), industrial sector and country risk. The bank monitors changes to counterparties' credit risk, quality of the credit portfolio and risk concentrations, and reports regularly to the bank's Executive Management Committee and the Board Credit Committee. Consideration must be given and compliance must be adhered to these three risk management areas either during initiating a transaction or maintaining and managing the portfolio quality.

The banks internal loan grading system divides loans into five categories as follows:

- Category 1: "Performing" represents loans where the borrower is currently meeting their repayment obligations and full repayment of interest and principal is not in doubt.
- Category 2: "Special Mention" represents loans where the borrower is experiencing difficulties which may threaten the banks position. Ultimate loss is not expected at this stage but could occur if adverse conditions persist.
- Category 3: "Sub-standard" represents loans where the borrower displays a definable weakness that is likely to jeopardise repayment.
- Category 4: "Doubtful" represents loans where collection in full is improbable and the bank expects to sustain a loss of principal and/or interest, taking into account the net realisable value of any collateral held.
- Category 5: "Loss" represents loans which are considered un-collectible after all collection options (such as the realisation of collateral or the initiation of legal proceedings) have been exhausted.

Debt securities and derivatives

For investment in debt securities and securitisation-backed assets, the external credit rating and assessment on the credit quality of the underlying asset are used for managing the credit risk involved. Credit limits are established on a counterparty and security issuer basis. For derivatives, the bank sets customer limits to manage the credit risk involved and follows the same approval process as loans and advances. On-going monitoring of stop-loss limits is established.

Collateral held as security

The bank has established a mechanism to update the value of its main type of collateral, residential properties, with the use of public index on a portfolio basis.

For loans guaranteed by a third party guarantor, the bank assesses the guarantor's financial condition, credit history and ability to meet their obligations if called to do so.

7. Financial risk management (Continued)

(a) Credit risk (Continued)

Credit risk measurement and control (Continued)

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure without taking account of any collateral held or other credit enhancements. The maximum exposure to credit risk at the reporting date was:

£000	31 December 2008	30 September 2007
On balance sheet		
Cash	39,224	200,000
Loans and advances to banks	67,272	–
Loans and advances to customers	551,148	–
Derivative financial instruments	5,554	–
Available for sale financial investments	330,093	–
Total on balance sheet	993,291	200,000
Off balance sheet		
Loan commitments	223,350	–
Guarantees	66,847	–
Total off balance sheet	290,197	–
Total exposure	1,283,488	200,000

The fair value of collateral held at 31 December 2008 against amounts due from customer was £24,074,000, (30 September 2007 – £nil).

No significant concentration of exposure exists.

7. Financial risk management (Continued)

(a) Credit risk (Continued)

Credit risk measurement and control (Continued)

Exposure to credit risk (Continued)

The table below presents further detail on the bank's exposure to credit risk.

£000	Cash	Loans and advances to banks	Loans and advances to customers	Available for sale investments
31 December 2008				
Gross exposure	39,224	67,272	551,550	339,423
Individually impaired	–	–	457	19,215
Allowance for impairment	–	–	(402)	(9,330)
Carrying amount	–	–	55	9,885
Past due but not impaired	–	–	260	–
<i>Ageing profile:</i>				
0-3 months	–	–	206	–
4-6 months	–	–	52	–
7-9 months	–	–	–	–
10-12 months	–	–	2	–
Neither past due nor impaired	39,224	67,272	550,833	320,208
<i>Credit rating</i>				
AAA	–	–	–	74,614
Aa1-Aa3	3,358	14,496	–	174,555
A1-A3	35,866	15,737	71,001	39,262
Baa1-Baa3	–	13,685	90,811	31,777
Ba1-Ba3	–	–	34,680	–
Unrated	–	23,354	354,341	–
Total carrying amount	39,224	67,272	551,148	330,093

7. Financial risk management (Continued)

(a) Credit risk (Continued)

Credit risk measurement and control (Continued)

Exposure to credit risk (Continued)

£000	Cash	Loans and advances to banks	Loans and advances to customers	Available for sale investments
30 September 2007				
Gross exposure	200,000	–	–	–
Individually impaired	–	–	–	–
Allowance for impairment	–	–	–	–
Carrying amount	–	–	–	–
Past due but not impaired	–	–	–	–
<i>Ageing profile:</i>				
0-3 months	–	–	–	–
4-6 months	–	–	–	–
7-9 months	–	–	–	–
10-12 months	–	–	–	–
Neither past due nor impaired	200,000	–	–	–
<i>Credit rating</i>				
AAA	–	–	–	–
Aa1-Aa3	–	–	–	–
A1-A3	200,000	–	–	–
Baa1-Baa3	–	–	–	–
Ba1-Ba3	–	–	–	–
Unrated	–	–	–	–
Total carrying amount	200,000	–	–	–

(b) Liquidity risk

Liquidity risk is the risk that the bank will not be able to meet its financial obligations as they fall due.

The bank is exposed to the risk that it will be unable to meet its obligations as they fall due, arising from the differing maturity profiles of its assets and liabilities. To mitigate its exposure the bank places limits on the mismatch of maturity dates, and by holding stock of liquid assets which could be sold at short notice if the need arose.

The Board is the ultimate decision making body and is responsible for the compliance with the regulatory requirements. Formulation of the risk management procedures, implementation mechanism and monitoring of the compliance is the main responsibility of the ALCO. Daily management of liquidity is carried out by the treasury function assisted by the Finance Department who monitor the liquidity risk and provide regular reports to management and the FSA.

7. Financial risk management (Continued)

(b) Liquidity risk (Continued)

The following are the contractual (undiscounted) maturities of financial liabilities, including estimated interest payments and excluding the effect of any netting agreements if they were in place:

£000	Carrying amount	Contractual cash flows	Less than 1 month	1 – 3 Months	3 months to 1 Year	More than 1 year
31 December 2008						
Non-derivative financial liabilities						
Deposits from banks	560,116	(564,398)	(209,478)	(303,209)	(51,711)	–
Customer accounts	290,289	(290,869)	(253,034)	(28,554)	(9,281)	–
Subordinated liabilities	60,000	(60,454)	–	(454)	–	(60,000)
Derivative financial instruments	5,390	–	–	–	–	–
Cash outflows	–	(12,569)	(7,371)	(13)	(732)	(4,453)
Cash inflows	–	7,157	7,157	–	–	–
	915,795	(921,133)	(462,726)	(332,230)	(61,724)	(64,453)
Unrecognised loan commitments	223,350	(223,350)	(223,350)	–	–	–
	1,139,145	(1,144,483)	(686,076)	(332,230)	(61,724)	(64,453)
30 September 2007						
Non-derivative financial liabilities						
Deposits from banks	–	–	–	–	–	–
Customer accounts	–	–	–	–	–	–
Subordinated liabilities	60,000	61,011	–	1,011	–	60,000
Derivative financial instruments	–	–	–	–	–	–
Interest rate swaps	–	–	–	–	–	–
Foreign currency swaps	–	–	–	–	–	–
	60,000	61,011	–	1,011	–	60,000
Unrecognised loan commitments	–	–	–	–	–	–
	60,000	61,011	–	1,011	–	60,000

The previous table shows the undiscounted cash flows on the bank's financial liabilities and unrecognised loan commitments on the basis of their earliest possible contractual maturity. The bank expected cash flows on these instruments vary significantly from this analysis and hence show a worst case scenario. For example, current accounts and demand deposits from customers are expected to maintain a stable or increasing balance; and unrecognised loan commitments are not all expected to be drawn down immediately but to be drawn over a period of time.

7. Financial risk management (Continued)

(b) Liquidity risk (Continued)

The contractual cash flow disclosed in the previous table represents the contractual undiscounted cash flows relating to the principal and interest on the financial liability or commitment. The disclosure for derivatives shows a net amount for derivatives that are settled on a net basis, (e.g. interest rate swaps) but on a gross outflow and inflow basis for derivatives that have simultaneous gross settlement (e.g. forward foreign exchange contracts and currency swaps).

Going concern assessment

The Board has given its consideration as to the going concern status of the bank as at the balance sheet date. After due consideration the Board is of the opinion that the bank will continue as a going concern for the foreseeable future, generating cash flows from its continuing operations, but taking additional comfort from the letter of support from the parent company.

(c) Market risk

Foreign exchange risk

Foreign exchange risk is the risk that movements in the various currencies could materially impact the financial statements. The bank makes loans and takes deposits in a number of currencies, so to manage its exposure to foreign exchange risk the bank holds derivative instruments.

At the 31 December 2008 the bank held a net loss position as the sterling equivalent value of all currencies where the currency obligations were higher than currency receivables was £467,000 (30 September 2007: £nil).

The following table shows the foreign exchange positions as of the period end.

£000	Sterling	US Dollars	EURO	Other
31 December 2008				
Cash	4,898	679	26,919	7,573
Loans and advances to banks	–	52,776	5,236	9,260
Loans and advances to customers	146,809	204,135	158,163	42,041
Derivative financial instruments (asset)	4,840	–	714	–
Available for sale financial investments	15,542	14,051	271,905	28,595
Other assets	26,800	1,494	998	32,381
Deposits from banks	(5,378)	(188,559)	(260,551)	(105,628)
Customer accounts	(166,524)	(111,892)	(6,505)	(5,368)
Derivative financial instruments (liability)	(53)	(1,521)	(3,816)	–
Other liabilities	(10,813)	(1,657)	(2,143)	(296)
Subordinated liabilities	(60,000)	–	–	–
Total shareholders' equity	(150,004)	946	19,500	4,453
Net on balance sheet exposure	(193,883)	(29,548)	210,420	13,011
Derivative financial instruments				
Currency swaps	201,628	28,166	(215,722)	(13,593)
Foreign exchange forwards	(1,347)	1,335	–	–
Total net exposure	6,398	(47)	(5,302)	(582)

7. Financial risk management (Continued)

(c) Market risk (Continued)

Foreign exchange risk (Continued)

£000	Sterling	US Dollars	EURO	Other
30 September 2007				
Cash	200,000	–	–	–
Loans and advances to banks	–	–	–	–
Loans and advances to customers	–	–	–	–
Derivative financial instruments (asset)	–	–	–	–
Available for sale financial investments	–	–	–	–
Other assets	473	–	–	–
Deposits from banks	–	–	–	–
Customer accounts	–	–	–	–
Derivative financial instruments (liability)	–	–	–	–
Other liabilities	(226)	–	–	–
Subordinated liabilities	(60,000)	–	–	–
Total shareholders' equity	(140,247)	–	–	–
Net on balance sheet exposure				
Derivative financial instruments	–	–	–	–
Currency swaps	–	–	–	–
Foreign exchange forwards	–	–	–	–
Total net exposure				
	–	–	–	–

Sensitivity analysis

A 1 percent weakening of the following currencies against Sterling at 31 December 2008 would have increased (decreased) equity and profit or loss by the amounts shown below. This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date.

This analysis assumes that all other variables, in particular other exchange rates and interest rates, remain constant. The analysis is performed on the same basis for 30 September 2007.

£000	Equity		Profit or loss	
	31 December 2008	30 September 2007	31 December 2008	30 September 2007
Sterling	(77)	–	–	–
US Dollars	(10)	–	–	–
Euro	(228)	–	(71)	–
Other	(369)	–	(6)	–

A 1 percent strengthening of the above currencies against Sterling at 31 December 2008 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

7. Financial risk management (Continued)

(c) Market risk (Continued)

Exposure to interest rate risk

The bank does not operate a trading book.

The principal exposure to which the banking book portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for re-pricing bands. The ALCO is the monitoring body for compliance with these limits and is assisted by the Treasury Department in its day-to-day monitoring activities. A summary of the bank's interest rate gap position in the banking books is as follows:

£000	Carrying amount	Less than 1 month	1 – 3 months	3 months to 1 year	1 – 5 years	Over 5 years	Non interest bearing
31 December 2008							
Assets							
Cash	40,069	6,426	–	–	–	–	33,643
Loans and advances to banks	67,272	34,690	22,945	9,637	–	–	–
Loans and advances to customers	551,148	369,812	114,181	66,899	8	–	248
Derivative financial instruments	5,554	–	–	–	–	–	5,554
Available for sale financial investments	330,093	41,151	57,863	8,118	184,799	37,823	339
Other assets	61,673	–	–	–	–	–	61,673
Total assets	1,055,809	452,079	194,989	84,654	184,807	37,823	101,457
Liabilities and equity							
Liabilities							
Deposits from banks	560,116	206,814	301,142	51,273	–	–	887
Customer accounts	290,289	191,004	28,363	9,120	–	–	61,802
Derivative financial instruments	5,390	–	–	–	–	–	5,390
Other liabilities	14,909	–	–	–	–	–	14,909
Subordinated liabilities	60,000	–	60,000	–	–	–	–
Equity							
Shareholders' equity	125,105	–	–	–	–	–	125,105
Total equity and liabilities	1,055,809	397,818	389,505	60,393	–	–	208,093
Effect of derivatives held for risk management	–	–	51,671	–	(29,680)	(21,991)	–
Interest rate sensitivity gap	–	54,261	(142,845)	24,261	155,127	15,832	(106,636)
Cumulative gap	–	54,261	(88,584)	(64,323)	90,804	106,636	–

7. Financial risk management (Continued)

(c) Market risk (Continued)

Exposure to interest rate risk – banking book

£000	Carrying amount	Less than 1 month	1 – 3 months	3 months to 1 year	1 – 5 years	Over 5 years	Non interest bearing
30 September 2007							
Assets							
Cash	200,000	200,000	–	–	–	–	–
Loans and advances to banks	–	–	–	–	–	–	–
Loans and advances to customers	–	–	–	–	–	–	–
Derivative financial instruments	–	–	–	–	–	–	–
Available for sale financial investments	–	–	–	–	–	–	–
Other assets	473	–	–	–	–	–	473
Total assets	200,473	200,000	–	–	–	–	473
Liabilities and equity							
Liabilities	60,226	–	60,000	–	–	–	226
Deposits from banks	–	–	–	–	–	–	–
Customer accounts	–	–	–	–	–	–	–
Derivative financial instruments	–	–	–	–	–	–	–
Other liabilities	226	–	–	–	–	–	226
Subordinated liabilities	60,000	–	60,000	–	–	–	–
Equity							
Shareholders' equity	140,247	–	–	–	–	–	140,247
Total equity and liabilities	200,473	–	60,000	–	–	–	140,473
Effect of derivatives held for risk management	–	–	–	–	–	–	–
Interest rate sensitivity gap	–	200,000	(60,000)	–	–	–	(140,000)
Cumulative gap	–	200,000	140,000	140,000	140,000	140,000	–

The table above indicates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the bank's income statement.

7. Financial risk management (Continued)

(c) Market risk (Continued)

Exposure to interest rate risk – banking book (Continued)

At the balance sheet date the exposure to interest rate risk was projected to be:

£000	100bps Parallel increase	100bps Parallel decrease
Sensitivity of projected net interest income at		
31 December 2008	(532)	532
30 September 2007	1,550	(1,550)
Sensitivity of reported equity to interest rate movements at		
31 December 2008	10,552	(10,552)
30 September 2007	–	–

Interest rate movements affect reported equity in the following ways: (i) retained earnings arising from increases or decreases in net interest income and the fair value changes reported in profit or loss and (ii) fair value reserves arising from increases or decreases in fair values of available for sale financial instruments reported directly in equity.

(d) Capital management

Regulatory capital

The bank's lead regulator the FSA sets and monitors capital requirements for the bank. The parent company and individual banking operations are directly supervised by their local regulators.

With effect from 1 January 2008 the bank is required to comply with the provisions of the Basel II framework in respect of regulatory capital. The bank has adopted the standardised approach for credit and operational risk in the calculation of the bank's capital requirement as prescribed under Basel II framework. As the bank does not have a trading book therefore the capital requirement for the foreign exchange risk inherent in the banking book, the bank's only market risk, is also calculated on the standardised approach.

The bank's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes ordinary share capital, retained earnings, translation reserve and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment allowances (limited to those credit portfolios where the standardised approach is used under Basel II) and the element of the fair value reserve relating to unrealised gains/losses on equity instruments classified as available for sale.

7. Financial risk management (Continued)

(d) Capital management (Continued)

Regulatory capital (Continued)

Various limits are applied to elements of the capital base. The amount of innovative tier 1 securities cannot exceed 15 percent of total tier 1 capital; qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 percent of tier 1 capital. There also are restrictions on the amount of collective impairment allowances that may be included as part of tier 2 capital. Other deductions from capital include the carrying amounts of investments in subsidiaries that are not included in the regulatory consolidation, investments in the capital of banks and certain other regulatory items.

Banking operations are categorised as banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. As noted above, Basel II introduced a risk-weighted asset requirement in respect of operational risk.

The bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The bank has complied with all externally imposed capital requirements throughout the period.

The bank's regulatory capital position at 31 December was as follows:

£000	Note	2008 Basel II Actual
Tier 1 capital		
Ordinary share capital		140,000
Retained earnings		3,259
Tier 2 capital		
Collective allowances for impairment		24
Qualifying subordinated liabilities		60,000
Other regulatory adjustments		(32,128)
Total regulatory capital		171,155

As the bank had not commenced its trading activities as at 30 September 2007, comparative figures have not been provided in the above table.

Management uses regulatory capital ratios in order to monitor its capital base, and these capital ratios remain the internal standards for measuring capital adequacy. The FSA's approach to such measurement based upon Basel II is now primarily based on monitoring the relationship of the Capital Resources Requirement (measured as 8 percent of risk-weighted assets) to available capital resources. The FSA also sets individual capital guidance ("ICG") for any bank that sets capital requirements in excess of the minimum Capital Resources Requirement. A key input to the ICG setting process is the bank's Internal Capital Adequacy Assessment Process ("ICAAP"). The bank submitted its ICAAP document to the FSA in October 2008 and the ICG was agreed with the FSA in March 2009. The agreed ICG remains confidential between each bank and the FSA in accordance with accepted practice.

8. Pillar III disclosures

The European Union Capital Requirements Directive came into effect on 1 January 2007. It introduced consistent capital adequacy standards and an associated supervisory framework in the EU based on the Basel II rules agreed by the G-10.

Implementation of the Directive in the UK was by way of rules introduced by the FSA. Among them are disclosure requirements applicable to banks and building societies, which are known as Pillar III. These are designed to promote market discipline by providing market participants with key information on a firm's risk exposures and risk management processes. Pillar III also aims to complement the minimum capital requirements described under Pillar I of Basel II, as well as the supervisory review processes of Pillar II and aims to encourage market discipline by allowing market participants to assess key pieces of information on risk exposures and the risk assessment processes of the firm.

The bank adopted the Pillar I Standardised Approach to credit risk, market risk and operational risk from 1 January 2008, it also became subject to Pillars II and III from that date.

The bank's Pillar III disclosure document will be available shortly after the publication of these financial statements. Copies of this document can be obtained from:

The Executive Office
Bank of China (UK) Limited
90 Cannon Street
London
EC4N 6HA

9. Financial assets and financial liabilities

Fair values of financial instruments

The bank's valuation methodology is detailed in Note 3.

Fair values

The fair values for each class of financial assets and financial liabilities together with their carrying amounts shown in the balance sheet are as follows:

£000	Financial instruments at fair value through profit and loss	Loans and receivables	Available for sale	Other amortised cost	Total carrying amount	Fair value
31 December 2008						
Assets						
Cash	–	40,069	–	–	40,069	40,069
Loans and advances to banks	–	67,272	–	–	67,272	67,219
Loans and advances to customers	–	551,148	–	–	551,148	549,836
Derivative financial instruments	5,554	–	–	–	5,554	5,554
Available for sale investments	–	–	330,093	–	330,093	330,093
Total financial assets	5,554	658,489	330,093	–	994,136	992,771
Liabilities						
Deposits from banks	–	–	–	560,116	560,116	560,116
Customer accounts	–	–	–	290,289	290,289	290,289
Derivative financial instruments	5,390	–	–	–	5,390	5,390
Subordinated liabilities	–	–	–	60,000	60,000	60,000
Total financial liabilities	5,390	–	–	910,405	915,795	915,795
30 September 2007						
Assets						
Cash	–	200,000	–	–	200,000	200,000
Loans and advances to banks	–	–	–	–	–	–
Loans and advances to customers	–	–	–	–	–	–
Derivative financial instruments	–	–	–	–	–	–
Available for sale investments	–	–	–	–	–	–
Investment in subsidiaries	–	–	–	–	–	–
Total financial assets	–	200,000	–	–	200,000	200,000
Liabilities						
Deposits from banks	–	–	–	–	–	–
Customer accounts	–	–	–	–	–	–
Derivative financial instruments	–	–	–	–	–	–
Subordinated liabilities	–	–	–	60,000	60,000	60,000
Total financial liabilities	–	–	–	60,000	60,000	60,000

10. Net interest income

£000	31 December 2008	30 September 2007
Interest income from financial investments	17,202	–
Other interest income		
Cash	473	473
Loans and advances to banks	4,648	–
Loans and advances to customers	31,748	–
Total other interest income	36,869	473
Total interest income	54,071	473
Interest expense		
Deposits from banks	23,944	–
Customer accounts	6,801	–
Subordinated liabilities	4,839	110
Total interest expense	(35,584)	(110)
Net interest income	18,487	363

Included within various line items under interest income for the year ended 31 December 2008 is a total of £172,000 (30 September 2007: £nil) accrued for impaired financial assets.

11. Net fee and commission income

£000	31 December 2008	30 September 2007
Fee and commission income		
Retail banking customer fees	1,791	–
Corporate banking credit related fees	1,739	–
Other	356	–
Total fee and commission income	3,886	–
Fee and commission expense		
Inter bank transaction fees	22	–
Other	216	–
Total fee and commission expense	(238)	–
Net fee and commission income	3,648	–

12. Net loss from derivative financial instruments

£000	31 December 2008	30 September 2007
Net loss from derivative financial instruments held for risk management purposes:		
Interest rate swaps	(3,311)	–
Foreign currency forwards	(3)	–
	(3,314)	–

There are no financial derivatives instruments that qualify for hedge accounting in accordance with IAS39.

13. Other operating income

£000	31 December 2008	30 September 2007
Service charge	9,491	–
Other	10	–
	9,501	–

14. Staff costs

£000	31 December 2008	30 September 2007
Wages and salaries	9,112	–
Contributions to defined contribution plans	897	–
Other	1,620	–
	11,629	–

15. Administration and general expenses

£000	31 December 2008	30 September 2007
Administrative	4,554	–
Software licensing and other IT costs	533	–
Auditor fees	65	–
Other	615	–
	5,767	–

16. Directors' emoluments

£000	31 December 2008	30 September 2007
Emoluments of directors in respect of services rendered		
Emoluments	603	–
Pension contributions	59	–
Highest paid director		
Emoluments	318	–
Pension contributions	42	–

17. Income tax expense

Recognised in the income statement

£000	31 December 2008	30 September 2007
Current tax expense		
Current period	1,548	106
Adjustments for prior years	–	–
Deferred tax expense		
Origination and reversal of temporary differences	14	–
Total income tax expense	1,562	106

Reconciliation of effective tax rate

£000	31 December 2008	30 September 2007
Profit before income tax	4,574	353
Income tax using the domestic corporation tax rate	1,319	106
Non-deductible expenses	243	–
Over-provided in prior years	–	–
Total income tax expense in income statement	1,562	106

Income tax recognised directly in equity

£000	31 December 2008	30 September 2007
Current tax		
Available for sale investments	(1,459)	–
Deferred tax		
Available for sale investments	(5,656)	–
	(7,115)	–

18. Cash

£000	31 December 2008	30 September 2007
Cash and balances with banks	39,224	200,000
Cash in hand	845	–
	40,069	200,000

19. Derivative financial instruments

The bank holds derivative instruments for risk management and cross currency funding purposes.

£000	31 December 2008		30 September 2007	
	Assets	Liabilities	Assets	Liabilities
Instrument type:				
Interest rate swap	714	5,337	–	–
Cross currency swap	4,840	41	–	–
Foreign exchange forward	–	12	–	–
	5,554	5,390	–	–

The bank did not designate any derivative financial instruments for hedging purposes during either period presented.

20. Loans and advances to banks

£000	31 December 2008	30 September 2007
Loans and advances to banks	67,272	–

At 31 December 2008 £40,797,000 (30 September 2007: £nil) of loans and advances to banks are expected to be recovered more than twelve months after the balance sheet date.

21. Loans and advances to customers

£000	31 December 2008	30 September 2007
Corporate loans and advances	516,902	–
Retail loans and advances	34,648	–
Gross loans and advances	551,550	–
Less: allowance for impairments		
Specific	(378)	–
Collective	(24)	–
Total allowance for impairment	(402)	–
Loans and advances to customer net	551,148	–

At 31 December 2008 £459,402,000 (30 September 2007: £nil) of loans and advances to customers are expected to be recovered more than twelve months after the balance sheet date.

Loans and advances to customers at amortised cost

£000	31 December 2008			30 September 2007		
	Gross amount	Impairment allowance	Carrying amount	Gross amount	Impairment allowance	Carrying amount
Corporate loans and advances	516,902	–	516,902	–	–	–
Retail loans and advances	34,648	(402)	34,246	–	–	–
	551,550	(402)	551,148	–	–	–

22. Allowances for impairment

(a) Loans and advances to banks and customers

£000	Specific		Collective	
	Loans and advances to banks	Loans and advances to customers	Loans and advances to banks	Loans and advances to customers
Balance at 1 October 2007	–	–	–	–
Transfers	–	44	–	–
Charges	–	400	–	24
Recoveries	–	(3)	–	–
Write-offs	–	(63)	–	–
Balance at 31 December 2008	–	378	–	24
Balance at 29 March 2007	–	–	–	–
Charges	–	–	–	–
Recoveries	–	–	–	–
Write-offs	–	–	–	–
Balance at 30 September 2007	–	–	–	–

22. Allowances for impairment (Continued)

(b) Available for sale financial investments

£000	Note	Movement in fair value recognised in equity	Impairment
Balance at 1 October 2007		–	–
Charges		34,234	8,965
Allocated as impaired		(8,965)	–
Write-offs		–	–
Balance at 31 December 2008	23	25,269	8,965
Balance at 29 March 2007		–	–
Charges		–	–
Recoveries		–	–
Write-offs		–	–
Balance at 30 September 2007		–	–

23. Available for sale investments

At 31 December 2008 there were £321,975,000 available for sale investments (30 September 2007: £nil) which are expected to be recovered more than twelve months after the balance sheet date. The available for sale investments balance is comprised of fixed and floating interest rate bonds.

£000	Note	31 December 2008	30 September 2007
Debt securities		268,581	–
Asset backed securities		61,512	–
		330,093	–
Balance at 1 October 2007		–	–
Acquisitions and transfers		471,210	–
Accrued interest		7,594	–
Disposals (through sale and redemptions)		(173,878)	–
Losses from changes in fair value recognised in equity	22 (b)	(25,269)	–
Impairment	22 (b)	(8,965)	–
Amortisation of discount/(premium)		(162)	–
Foreign exchange movement		59,563	–
Balance at 31 December 2008		330,093	–

24. Tangible fixed assets (property, plant and equipment)

£000	Property, plant and fixtures	Furniture and equipment	Computer equipment	Motor vehicles	Total
Cost					
Balance at 29 March 2007	–	–	–	–	–
Acquisitions	–	–	–	–	–
Disposals	–	–	–	–	–
Balance at 30 September 2007	–	–	–	–	–
Balance at 1 October 2007	–	–	–	–	–
Acquisitions and transfers	4,863	589	325	67	5,844
Disposals	–	(61)	–	–	(61)
Balance at 31 December 2008	4,863	528	325	67	5,783
Depreciation					
Balance at 29 March 2007	–	–	–	–	–
Depreciation for the period	–	–	–	–	–
Disposals	–	–	–	–	–
Balance at 30 September 2007	–	–	–	–	–
Balance at 1 October 2007	–	–	–	–	–
Transfers	2,509	535	137	–	3,181
Depreciation for the period	252	16	20	4	292
Disposals	–	(61)	–	–	(61)
Balance at 31 December 2008	2,761	490	157	4	3,412
Net carrying values at 31 December 2008	2,102	38	168	63	2,371
30 September 2007	–	–	–	–	–

During the periods ending 31 December 2008 and 30 September 2007 the bank identified no events or circumstances that would indicate that the bank's tangible fixed assets may be impaired.

25. Intangible assets

£000	IT Software	Total
Cost	–	–
Balance at 29 March 2007	–	–
Acquisitions	–	–
Balance at 30 September 2007	–	–
Balance at 1 October 2007	–	–
Acquisitions and transfers	408	408
Balance at 31 December 2008	408	408
Depreciation and Impairment loss		
Balance at 29 March 2007	–	–
Depreciation for the period	–	–
Balance at 30 September 2007	–	–
Balance at 1 October 2007	–	–
Transfers	3	3
Depreciation for the period	84	84
Balance at 31 December 2008	87	87
Net carrying value at 31 December 2008	321	321
30 September 2007	–	–

During the periods ending 31 December 2008 and 30 September 2007 the bank identified no events or circumstances that would indicate that the bank's intangible assets may be impaired.

26. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

£000	31 December 2008			30 September 2007		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Property and equipment, and software	–	(14)	(14)	–	–	–
Available for sale investments	5,656	–	5,656	–	–	–
Other	–	–	–	–	–	–
Net tax assets/(liabilities)	5,656	(14)	5,642	–	–	–

Unrecognised deferred tax assets

There were no unrecognised deferred tax assets as at 31 December 2008 (£nil) and (30 September 2007: £nil).

Movements in temporary differences during the year

£000	Opening balance 1 October 2007	Recognised in profit or loss	Recognised in equity	Closing balance 31 December 2008
Property and equipment, and software	–	(14)	–	(14)
Available for sale investments	–	–	5,656	5,656
Allowance for loan losses	–	–	–	–
Other	–	–	–	–
	–	(14)	5,656	5,642

£000	Opening balance 29 March 2007	Recognised in profit or loss	Recognised in equity	Closing balance 30 September 2007
Property and equipment, and software	–	–	–	–
Available for sale investments	–	–	–	–
Allowance for loan losses	–	–	–	–
Other	–	–	–	–
	–	–	–	–

27. Prepayments, accrued income and other assets

£000	31 December 2008	30 September 2007
Accrued income	3,098	473
Prepaid expenses	171	–
Prepaid tax	1,815	–
Other	16,113	–
	21,197	473

28. Deposits from banks

£000	31 December 2008	30 September 2007
From subsidiaries	6,425	–
Other deposits from banks	553,691	–
	560,116	–

At 31 December 2008 £nil (30 September 2007: £nil) of deposits from banks are expected to be settled more than twelve months after the balance sheet date.

29. Deposits from customers

£000	31 December 2008	30 September 2007
Retail customers:		
Term deposits	145,685	–
Notice deposits	53,142	–
Current deposits	83,250	–
Other	53	–
Corporate customers:		
Notice deposits	184	–
Current deposits	901	–
Other	7,074	–
	290,289	–

At 31 December 2008 £nil (30 September 2007: £nil) of deposits from customers are expected to be settled more than twelve months after the balance sheet date.

30. Subordinated liabilities

£000	31 December 2008	30 September 2007
Subordinated note issued	60,000	60,000
	60,000	60,000

The subordinated note issued is expected to settle more than twelve months after the balance sheet date (30 September 2007: £60,000,000).

On 20 September 2007 the bank issued £60,000,000 subordinated loan. Interest is payable on the 31 March, 30 June, 30 September and 31 December at the three-month London Interbank Bank Offer Rate plus 30 basis points. The rate applicable to the loan as at the reporting date was 3.07 percent. The loan is repayable upon giving 5 years and one day's notice.

The above liabilities will, in the event of the winding-up of the bank, be subordinated to the claims of depositors and all other creditors of the bank.

The bank has not had any defaults of principal, interest or other breaches with respect to its subordinated liabilities during the periods ended 31 December 2008 and 30 September 2007.

31. Other liabilities

(a) Other liabilities

£000	31 December 2008	30 September 2007
Creditors and accruals	9,167	–
Other	1,434	–
	10,601	–

(b) Defined benefit obligations

The bank makes contributions to a group defined benefit scheme that provides pension benefits for employees upon retirement. The scheme entitles a retired employee to receive an annual payment equal to 1/60 of final salary for each year of service the employee provided. The scheme is sponsored by Bank of China Limited, London Branch, and was closed to new employees on 31 December 2004.

The following tables set out details of the Bank of China Pension & Life Assurance Scheme (the "scheme") as at 31 December 2008. This disclosure is for the scheme as a whole and does not represent the bank's allocation of the scheme's assets and liabilities due to its participation in the scheme. The scheme prepares its financial statements as at 31 December annually, therefore the amounts stated in the tables below cover a 12 month period to 31 December 2008, comparative figures for 30 September 2007 are unavailable and are not presented.

31. Other liabilities (Continued)

(b) Defined benefit obligations (Continued)

Changes in the present value of the scheme's liabilities

£000	31 December 2008	30 September 2007
Benefit obligations at beginning of year	28,446	–
Interest costs	1,661	–
Current service costs	757	–
Members contributions	123	–
Actuarial (gain)/loss	(4,023)	–
Effects of curtailments or settlements	–	–
Benefits paid	(447)	–
Past service costs	–	–
Benefit obligations at the end of the year	26,517	–

The benefit obligation arising from schemes that are wholly unfunded and wholly or partly funded as follows:

£000	31 December 2008	30 September 2007
Unfunded obligations	–	–
Wholly or partly funded obligations	855	–
Total	855	–

Changes in scheme assets

£000	31 December 2008	30 September 2007
Market value of assets at beginning of year	20,578	–
Expected return on scheme assets	1,428	–
Actuarial gain/(loss)	438	–
Members' contributions	123	–
Employers' contributions	5,253	–
Effects of settlements	–	–
Benefits paid	(447)	–
Market value of assets at end of year	27,373	–

31. Other liabilities (Continued)

(b) Defined benefit obligations (Continued)

Scheme assets as a percentage of total assets

	31 December 2008	30 September 2007
Equities	21.8%	–
Bonds	27.1%	–
Property	5.0%	–
Cash	46.1%	–

Principal actuarial assumptions

The overall expected return on assets has been derived by considering the long-term expected rate of return for each asset class and taking the average rates weighted by the proportion invested in each asset class at the year end.

	31 December 2008	30 September 2007
Discount rate	6.00%	–
Price inflation	2.75%	–
Rate of increase in salaries	4.25%	–
Rate of increase for pensions in payment (LPI)	2.65%	–
Post retirement mortality table	PM/FA 92 YOB (Long Cohort)	–
Expected return on assets	5.90%	–

The bank expects to pay £648,000 in contributions to defined benefit plans in 2009.

32. Accruals and deferred income

£000	31 December 2008	30 September 2007
Deferred income	1,112	–
Accrued interest	2,987	120
	4,099	120

33. Capital and reserves

Reconciliation of movements in capital and reserves

£000	Issue share capital	Retained earnings	Available for sale reserve	Total
As of 29 March 2007	–	–	–	–
Issue of share capital	140,000	–	–	140,000
Profit for the financial period	–	247	–	247
As at 30 September 2007	140,000	247	–	140,247
As of 1 October 2007	140,000	247	–	140,247
Unrealised loss on available for sale investments	–	–	(18,154)	(18,154)
Profit for the financial period	–	3,012	–	3,012
As at 31 December 2008	140,000	3,259	(18,154)	125,105

(a) *Capital*

At 31 December 2008 the authorised share capital comprised 140,000,000 ordinary shares (30 September 2007: 140,000,000). These instruments have a par value of £1 and are all issued shares and fully paid.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the bank. All shares rank equally subordinated to the bank's assets.

(b) *Available for sale reserve*

The available for sale reserve includes the cumulative net change in the fair value of available for sale investments, excluding impairment losses, until the investment is derecognised or impaired.

(c) *Dividends*

There were no dividends declared for the periods ending 31 December 2008 or 30 September 2007.

34. Provisions

There were no provisions or contingencies at the periods ended 31 December 2008 or 30 September 2007.

35. Related parties

(a) Parent and ultimate controlling party

The immediate parent company of the bank is Bank of China Limited (a company incorporated in the People's Republic of China). The ultimate holding company is China Investment Corporation Limited.

The largest and smallest group which includes the bank and which prepares publicly available consolidated financial statements is the Bank of China Limited. Copies of its consolidated financial statements are publicly available from the Head Office of the Bank of China Limited, 1 Fuxingmen Nei Dajie, Beijing 100818 People's Republic of China.

During the period ended 31 December 2008 there were no transactions which resulted in there being a change in the ultimate controlling party of the bank.

The bank regards the following as being related parties that exercise significant influence:

- Bank of China Limited
- China Investment Corporation Limited

Related party transactions occurred between the bank and the London Branch. At the 31 December 2008 the bank received £553,258,000 (30 September 2007: £nil) which is around 65% (30 September 2007: nil%) of its funding from Bank of China Limited, London Branch in the form of short-term funding. The funding is interest bearing at market rate for the term and currency borrowed, and is repayable in accordance with the contractual maturity date of the deposit.

35. Related parties (Continued)

(a) Parent and ultimate controlling party (Continued)

£000	Nature of related party	
	Significant influence	Subsidiary company
Balance at 31 December 2008		
Cash	35,866	–
Loans and advances to customers	–	501
Derivative financial instruments	5,554	–
Prepayments, accrued income and other assets	15,531	292
Deposits by banks	553,258	6,425
Customer accounts	–	1,194
Derivative financial instruments	5,387	–
Other liabilities	6,590	–
Subordinated liabilities	60,000	–
Included in the profit and loss account for the period		
Interest receivable	4,947	25
Interest payable	(28,756)	(1)
Other operating income	8,848	253
Pension contributions	690	–
Balance at 30 September 2007		
Cash	200,000	–
Loans and advances to customers	–	–
Derivative financial instruments	–	–
Prepayments, accrued income and other assets	473	–
Deposits by banks	–	–
Customer accounts	–	–
Derivative financial instruments	–	–
Other liabilities	102	–
Subordinated liabilities	60,000	–
Included in the profit and loss account for the period		
Interest receivable	473	–
Interest payable	(110)	–
Other operating income	–	–
Pension contributions	–	–

35. Related parties (Continued)

(b) Investment in non-consolidated subsidiaries

	Country of incorporation	Ownership interest	
		31 December 2008	30 September 2007
Bank of China (Suisse) S.A.	Switzerland	100%	–
BOC (Suisse) Fund Management S.A. ¹	Switzerland	70%	–
China Visa Services Limited	United Kingdom	100%	–

¹ Indirect holding via Bank of China (Suisse) S.A.

The bank holds an investment of £28,113,000 (CHF 50,000,000) in Bank of China (Suisse) S.A. and £1 in China Visa Services Limited at 31 December 2008 (£nil: 30 September 2007). These entities are wholly-owned, with head quarters at rue du General-Dufour 3, 1204 Geneva, Switzerland and Morley House, 26 Holborn Viaduct, London EC1A 2AT, United Kingdom respectively.

The bank has availed itself of the consolidation exemption (refer to Note 2) and therefore does not consolidate these subsidiaries.

(c) Key management compensation

Key management is comprised of directors and the members of the Executive Management Committee of the bank.

Key management personnel compensation for the period ended 31 December 2008 comprised of salaries and other short-term benefits in the amount of £1,306,762 (30 September 2007: £nil).

The bank does not provide non-cash benefits to any of the key management personnel.

(d) Transactions with key management

	31 December 2008	30 September 2007
£000		
Loans and advances	2	–

Notes to the Financial Statements

36. Lease commitments

Non-cancellable operating lease rentals are payable as follows:

£000	31 December 2008	30 September 2007
Less than one year	433	–
Between one and five years	1357	–
More than five years	115	–

37. Subsequent events

There were no subsequent events after the balance sheet date.

Bank of China Limited

Bank of China was formally established in February 1912 following the approval of Dr. Sun Yat-sen. In the following 37 years until the founding of the People's Republic of China in 1949, the Bank served as the central bank, international exchange bank and specialised foreign trade bank of the country. As the pillar of the financial industry during a period of turmoil in the country's history, Bank of China was committed to serving the public and developing the nation's financial industry. It made significant achievements in many areas of its business operations through prudent management and progressive reforms. After the founding of the People's Republic of China, Bank of China became the state-designated specialised foreign exchange and foreign trade bank. While maintaining a strong entrepreneurial spirit, the Bank contributed substantially to the development of the country's foreign trade and the national economy.

In 1994, Bank of China was transformed from a specialised foreign exchange and foreign trade bank into a state-owned commercial bank. Following being selected as a pilot bank for the joint stock reform campaign of state-owned commercial banks in 2003, Bank of China Limited was incorporated in August 2004. It was listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange in June and July 2006 respectively, becoming the first A and H dual listed Chinese commercial bank.

Bank of China Limited is one of China's largest state-controlled commercial banks. It provides a comprehensive range of financial services to customers worldwide. The Bank is involved in commercial banking including corporate banking, personal banking and financial markets business. It is also engaged in investment banking through BOCI, one of its wholly-owned subsidiaries. Its insurance business is run through BOCG Insurance and its subsidiaries and associate companies. The fund management business is undertaken through the Bank's shareholding in BOCIM and the direct investment and investment management business through BOCG Investment, a wholly-owned subsidiary. In 2006, the Bank acquired Singapore Aircraft Leasing Enterprise, a leader in this field in Asia, and renamed it BOC Aviation Private Limited. The Bank thus became the first Chinese bank to be involved in the global aircraft leasing sector. In terms of tier one capital, it ranked 10th among the world's top 1,000 banks by *The Banker* magazine in 2008.

With a history of nearly 100 years in China's financial industry, Bank of China is well-known for business innovation as well as an emphasis on prudence in its operations. It is widely recognised by its peers and customers in international settlement, foreign exchange and trade finance, among other services. Bank of China is the most internationalised bank in China and the forerunner in recruiting international experts and introducing modern business management concepts into its operations with a view to becoming a leading international bank.

As the sole banking partner of the Beijing 2008 Olympic Games and Paralympic Games, Bank of China provided exclusive onsite financial services at all Olympic venues and designated service outlets. The staff of Bank of China, in a spirit of patriotism and in the pursuit of excellence and quality and efficient professional services, successfully met the challenges encountered to provide outstanding Olympic services and, in doing so, enhanced the corporate image and social value of the Bank.



中國銀行(英國)有限公司
BANK OF CHINA (UK) LIMITED



Bank of China (UK) Limited

Bank of China (UK) Limited is registered in England under Number 6193060 with its Registered Office at 90 Cannon Street, London EC4N 6HA.

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