Bank of China (UK) Limited

Annual Report and Financial Statements

For the year ended 31 December 2014

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Chairman's Statement

This has been a very positive year for the UK economy which has largely recovered from the international financial crisis and achieved growth of over 3% overall. The pace of the UK`s recovery is however still threatened by lower levels of growth in the EU generally, which is this country`s main export market. A strong positive factor in the UK`s favour is the continued growth in the strength of the relationship between the UK and China. Last year, bilateral trade reached USD 80.9 billion and Chinese direct investment into the UK was USD 5.1 billion. An area of concern is however UK investment into China which at only USD 1.35 billion, is where the UK lags behind many other advanced economies.

Bank of China is ideally placed to benefit from this increasing Sino-British relationship in trade and investments through its active support of `outgoing` Chinese companies and also its established relationships with major UK and EU companies that have investments or business in China. Although we have already seen impressive growth in this area of our business, it remains a key focus going forward.

The major challenge for the bank`s management in 2014 was completion of the BOC Group Overseas System Integration and Transformation Project (OSIT) which was achieved in October 2014. The size and complexity of this project presented a real challenge to all of our staff and the management team is to be congratulated on completing this important task without major problems. The bank now has a suitable platform on which to deliver products and services of the highest standard to its customers and business partners.

It was disappointing that the bank`s financial performance for the year did not meet the Board`s expectations. However, given the importance assigned at Group level to a successful implementation of the OSIT project, a reduction in Net Profits to £26.0 million from £31.8 million in the previous year, is acceptable to the Board, in the circumstances.

At a meeting on the 19th December 2014, Board members accepted the nomination of Mr Yu Sun as Chief Executive Officer of the bank, subject to UK regulatory approval, in succession to Mr Wenjian Fang. I should like to take this opportunity to thank Mr Fang on behalf of Board members for his outstanding service to the bank, firstly as Director and Chief Risk Officer from the bank`s inception in 2007 and subsequently from March 2011, through his appointment as Chief Executive Officer.

Considering the outlook for 2015, there are clearly many external factors that affect the economic environment in which the bank operates, creating both challenges and opportunities. The Board of Directors has every confidence that the management team in London will be able to take full advantage of these opportunities to further develop the bank`s business in the UK.

Yi Yue
Chairman of the Board of Directors

Chief Executive Officer's Statement

This has been a challenging year for the bank in which considerable resources were dedicated to supporting Group efforts to strengthen our risk control and transaction processing capabilities and as a result, we were unable to maintain the profit growth achieved in previous years. Profit after Tax for the year was £26.0 million, a reduction of 15.4% compared with the same figure in the previous year, although the bank`s Total Assets reached a new high of £1.22 billion and key performance indicators for the underlying business were very positive; a 42% increase in deposit from customers, a 32.6% increase in Retail Loans and Advances (mainly in mortgages) and a 32.9% increase in interest income from customers.

From a business perspective, we had considerable success in developing the diversity of both our corporate and FI relationships. We assign a high priority to supporting `outgoing` Chinese companies, particularly those involved with major inward investment into the UK. In addition, we successfully maintained the development of our products and services in the offshore RMB market where we maintain a leading role in London. It is also a key feature of our business model that we engage constructively with `local` companies in the UK and the rest of the EU, particularly those listed in the FTSE 250 and FTSE 100 to whom we provide banking services.

In terms of the bank`s infrastructure and its service delivery capabilities, the successful implementation of the BOC Group Overseas System Integration and Transformation Project (OSIT) on the 27th October 2014 was an important development. This new platform comprises a range of "best of breed" system applications that deliver an enhanced service and product development capability to support the bank`s current activities and its further expansion. I want to take this opportunity to thank all members of staff for their efforts throughout 2014 in ensuring the successful delivery of this key project on time and without major problems. This represented a significant effort by the whole team in London but I also wanted to acknowledge the important support provided by our Parent Bank.

Looking ahead, there are a number of external factors that may present a challenge to the bank`s future performance, such as; the continuing uncertainty in the EU regarding the status of Greece, the UK General Election in May 2015 and the proposed referendum on the UK`s EU membership. On the other hand, Sino-British trade continues to flourish as do the economic and cultural ties between UK and China, which offer enormous opportunities for the bank. In addition, the wider economic prospects for the UK are generally positive, compared with other member countries in the EU and I am confident that the management team in London will be able to make full use of this challenging economic environment to further develop the bank`s business in the UK.

Yu Sun
Chief Executive Officer
Board Director

Directors' report

Principal Activities

Bank of China (UK) Limited ("BOC UK" 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 regulated by the Prudential Regulation Authority and Financial Conduct Authority and authorised by the Prudential Regulation Authority.

BOC UK was incorporated in England and Wales as a private company with limited liability on 29 March 2007. The bank's registration number at Companies House is 6193060.

Our corporate and trade finance business encompasses funding and advisory services for Chinese corporates 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 standard high street retail banking services including current accounts, savings accounts, debit and credit cards, mortgage products and personal and business loans.

Future Developments

The directors intend to maintain the strategy and policies that have resulted in the growth of the business in recent years

The bank is subject to a number of factors that could cause its future results to differ materially from current expectations. These factors are of uncertainties concerning the current and future business/economic climate, and risks which are naturally inherent in a banking environment.

The current business climate is subject to uncertainties in 2015 and beyond, most notably:

- The rate and sustainability of the recovery of the UK and Eurozone economies
- The potential impact of consumer price changes on economic growth and corporate profitability
- The rate and extent of the rise of interest rates
- The potential property bubble

Dividends

The directors recommend the payment of a dividend of £25,955,000 in 2015 (31 December 2013; £31,873,000).

Directors' Interest

The directors of the bank who were in office during the year and up to the date of signing the financial statements were:

Mr. Yi Yue	Chairman
Mr. Wenjian Fang	Chief Executive Officer (resigned 10 March 2015)
Mr. Yu Sun	Chief Executive Officer (appointed 10 March 2015)
Mr. Stephen Hinds	Chief Operating Officer
Mr. Shiwei Liu	Chief Risk Officer
Mr. Christopher Fitzgibbon	Non-Executive
Ms. Li Ren	Non-Executive
Mr. Jonathan Spence	Non-Executive

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' Remuneration

Information on remuneration of the directors of BOC UK, in accordance with the Companies Act 2006, is disclosed in Note 14 to the financial statements.

Directors' report (continued)

Directors' Indemnities

The BOC UK 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 2014 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.

Going concern assessment

The Board has given its consideration to the going concern status of the bank as at the reporting 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.

Charitable and Political Contributions

For the year ended 31 December 2014, 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, liquidity risk and market risk are set out in Note 6, pages 29 to 37, to the financial statements.

Employees

Average number of employees	**31 December 2014**	31 December 2013
Retail Banking	**113**	119
Corporate Banking	**62**	51
Support Functions	**170**	143
Total average number of employees	**345**	313

- Diversity

The bank is committed to employment policies, which follow best practice, based on equal opportunities for all employees, irrespective of sex, race, colour, disabilities or marital status. The bank gives full and fair consideration to applications for employment from disabled persons, having regard to their particular aptitudes and abilities. Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled persons employed by the bank. If members of staff become disabled the bank continues employment either in the same or an alternative position, with appropriate retraining being given if necessary.

- Employee involvement

The bank systematically provides employees with information on matters of concern to them, consulting them or their representatives regularly, so that their views can be taken into account when making decisions that are likely to affect their interests. Employee involvement in the bank is encouraged, as achieving a common awareness on the part of the employees of the financial and economic factors affecting the bank plays a major role in maintaining its performance. The bank encourages the involvement of the employees by means of an employee representative forum which is held on a quarterly basis and chaired by a member of the Executive Management Committee.

Directors' report (continued)

Disclosure of Information to the Auditors

The directors who held office at the date of approval of this Directors' Report confirm that:

- So far as they are each aware, there is no relevant audit information of which the bank's auditors are unaware.
- 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 418 (2) of the Companies Act 2006.

Ernst & Young LLP have indicated their willingness to continue in office and a resolution that they be reappointed will be proposed at the 2015 AGM.

1 Lothbury
London
EC2R 7DB

8 April 2015

On behalf of the Board,

Yu Sun
Chief Executive Officer
Board Director

Strategic report of the Directors

Business Review

As at 31 December 2014 the bank had total assets of £1,215,116,000 (2013: £1,050,075,000).

The bank's assets are primarily financed by retail and intra-group deposits. The bank continues to focus its attention on developing the customer deposits base 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 year ended 31 December 2014, the bank generated a post-tax profit of £25,955,000 (2013: £31,873,000).

The bank disposed of its investment in Bank of China (Suisse) S.A. during 2012 but continues to enjoy a share of income from the client base that existed on the signing of the sale and purchase agreement dated 20 July 2012. Under the terms of the agreement, this arrangement will persist until the year ending 31 December 2016.

Retail Banking

The bank continued to build its brand awareness and increase its customer base in the UK retail market. The bank's buy-to-let mortgage product was selected as a "Best Service from a Buy to Let Mortgage Provider; commended" for the fourth consecutive year by Moneyfacts, an independent organisation that monitors financial products. These accolades contributed towards a steady increase in the mortgage loan book. The bank continues to lend prudently in a challenging market.

The bank also achieved further growth in personal deposits, especially in high net worth customers personal deposits. High net worth customers contributed significantly to personal deposits business.

In addition to traditional retail products, the bank focused its attention on Renminbi ("RMB") denominated business, providing a number of RMB services including currency exchange, current accounts, remittances and a range of other accounts. During the year the bank further developed the Wealth Management Centre which provides a unique platform to serve its high net worth customers.

Corporate Banking

Seizing on the opportunity of China's strong economic growth as well as fast growing Sino-British bilateral trade, the bank continued to develop its relationships with existing and targeted corporate clients by offering a comprehensive range of banking products and services including credit facilities, deposits, trade services, cash management, foreign exchange and RMB business. As well as addressing the UK market, the bank is also focused on targeting new relationships in Europe, the Middle East and Africa.

A key objective for our corporate banking business is to be a major bank servicing local companies involved in trade and investment between UK and China and China's "Going Out" enterprises in the UK, Europe and Africa regions.

Financial Markets

The Financial Markets and Financial Institutions department comprise three divisions: foreign exchange, money market and fixed income investments. During the year, these activities continued to focus upon efficient liquidity management, the funding requirements of the bank's activities and servicing client needs. There was no proprietary trading activity during the year under review.

Principal Risks and Uncertainties

The effect of one or a combination of the above factors could make the business environment a challenging one with regard to possible credit impairments being incurred and difficulty in identifying new assets/business opportunities that meet the bank's risk appetite.

Principal Risks: The bank is exposed to a number of financial and non-financial risks namely credit risk, market risk liquidity risk and operational risk. Of these risks, credit risk and liquidity risk are deemed to be the principal risks which the bank is exposed to.

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 is considered a principal risk due to the composition of the bank's balance sheet and lending being its primary business.

Strategic report of the Directors (continued)

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.

Further information on the management of credit risk is disclosed in Note 6 (a) of the notes to the financial statements.

Liquidity risk is the risk that the bank is unable to meet its obligations as they fall due resulting in an inability to support normal business activity and/or failing to meet liquidity regulatory requirements. 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, as part of the going concern assessment, took additional comfort from the Letter of Support from the bank's parent company which, by direct implication, has a significant impact on the bank's assessment of its exposure to liquidity risk. A further mitigating factor is a committed short-term loan facility granted by the bank's parent company which is in support of the Intra Group Liquidity Modification granted to the bank by the PRA. Further information on the management of liquidity risk is disclosed in Note 6 (b) of the notes to the financial statements.

Key Performance Indicators

The bank's main Key Performance Indicator ("KPI") is monitoring its financial performance against financial targets set at the beginning of the financial year. The financial targets monitored include the main income streams of the bank by income type and business department, personnel and business expenses and net profit after tax.

1 Lothbury
London
EC2R 7DB

8 April 2015

On behalf of the Board,

Yu Sun
Chief Executive Officer
Board Director

Corporate Governance Statement

Bank of China (UK) Limited ("BOC UK" or the "bank") is committed to the principles of corporate governance contained in the UK Corporate Governance Code (the "Governance Code") issued by the Financial Reporting Council on 28 September 2012. Although the bank is not required to comply with the Governance Code, it observes aspects of that code as a matter of good governance.

Corporate Governance Framework

The bank's corporate governance framework centres on the Board of Directors (the "Board"), which provides guidance and effective oversight of the senior management of the bank and of its subsidiaries. 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.

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 year ended 31 December 2014, 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
- 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.

Board Effectiveness (continued)

The Board is also responsible for ensuring that management maintain systems of internal control that provide assurance of effective and efficient operations, internal financial controls and compliance with UK laws and regulations and fulfilled its obligation by assessing their effectiveness during the year. 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 Governance 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 behavior is 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
- Understands the bank's business and affairs, to enable them to properly 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 businesses of the bank
- Training and awareness of external technical matters

Information and Professional Development (continued)

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 program 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.

During 2014, the Board was provided with regular updates on Corporate Governance and Regulatory Responsibilities.

Performance Review

As with the previous year, annual performance contracts were established for the executive Directors for 2014 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, the Board 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 control is also subject to regulatory oversight.

Remuneration Committee Report

The Remuneration Committee ("the Committee") currently comprises two directors, Mr Jonathan Spence (non executive director) the Committee Chairman, Mr Wenjian Fang (Chief Executive Officer until 10 March 2015) and Ms Tracey Rutherford, Head of Human Resources ("HR").

The Committee is responsible for supporting and overseeing the implementation of an effective remuneration programme within the bank and ensuring that the bank meets all applicable statutory and regulatory requirements within an effective human resource function.

The Committee aims to meet on a quarterly basis and met on four occasions in 2014. Key activities undertaken were as follows:

- Review, approval and monitoring of the HR annual work plan (including corporate culture project, implementation of the succession planning framework, implementation of online induction software, annual reward programmes and implementation of an executive development programme).

Remuneration Committee Report (continued)

- Review of the headcount budget for 2014 and achievement of headcount increase in alignment with business strategy and staff turnover data throughout 2014 with appropriate actions being taken should anything adverse be noted.

- In conjunction with staff development strategies, the Committee approved the Training and Development plan for 2014 to primarily focus on various technical training programmes including:
  - Overseas System Integration and Transformation Project
  - Internal regulatory training including: Anti Money Laundering ("AML"), Anti Bribery & Corruption, Enhanced AML training
  - IT skills training
  - Cultural Awareness training
  - Language Skills
  - Reputational Risk/Conduct Risk
  - SME Credit Lending
  - Management Development including: Results focus through people, Performance Management, Assertiveness in Management
  - Mergers & Acquisition
  - Health & Safety (Fire Warden and First Aid)
  - Continued implementation of a professional banking qualification provided by CIOBS (Chartered Institute of Bankers in Scotland)

- In alignment with Performance Management strategies, the Committee approved the continual review of the Performance Management process to streamline and clarify measurement/target application, weighting application and moderation of performance ratings and ensure it achieves the bank's and the employees' objectives.

- The Committee approved the year-end performance management process which was also aligned to the annual salary review and discretionary bonus allocations.

- The Committee continued to review the implementation of the FCA Remuneration Code and the impact on the bank and employees and reviewed the Remuneration Policy and application and impact of Capital Requirements IV Directive. In addition, they considered the application of the European Banking Authority's Regulatory Technical Standards and the impact on the bank and employees upon implementation.

The Committee reviewed the implementation of the Group HR Management Reform programme completed in 1st quarter 2014 including new organisational structure, grading structure, remuneration structure and revised terms and conditions of employment for employees.

Audit Committee Report

The Audit Committee (the "Committee") comprises two non-executive directors who are voting members; Mr Christopher Fitzgibbon (Chairman) and Mr Jonathan Spence, and two non-voting members; Mr Stephen Hinds, Chief Operating Officer and Mr Xiaoke Ma, Head of Internal Audit. The Committee meets at least quarterly and four meetings were held in 2014; the external auditors were in attendance at each meeting. During the course of the year, the Committee considered the effectiveness of the bank's internal control system, risk management and compliance with financial services legislation and regulations. In addition the following key activities were undertaken:

Audit Committee Report (continued)

- 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 Internal Audit Department Plan was considered and approved and its ongoing performance monitored.
- Regular reports and updates from the Internal Audit Department were received and considered.
- Reports were received from the Risk Management and Legal and Compliance Departments and these were reviewed and discussed.

Board Risk Committee Report

The Board Risk Committee ("the Committee") comprises three directors: Mr Jonathan Spence (non-executive director) Chairman and Mr Wenjian Fang (Chief Executive Officer until 10 March 2015) are voting members; Mr Shiwei Liu (Chief Risk Officer) is a non-voting member.

The Committee is responsible for the oversight and implementation of risk strategy and risk appetite within the bank, oversight of risk management performance and the executive committees including Compliance Committee, Operational Risk Committee, Assets and Liabilities Management Committee, Credit Risk Policy Committee and Credit Committee. The Committee also approves all credit limits, provisions (and/or write-offs) above the delegated limits of the Chief Executive Officer.

The Committee has regular meetings on a quarterly basis. During the course of these meetings it has also reviewed, discussed and challenged the bank's Risk Appetite Statement, Individual Capital Adequacy Assessment ("ICAAP") and Individual Liquidity Adequacy Assessment ("ILAA") documents prior to them being presented to the Board for approval.

In addition, during 2014 a further nine committee meetings were held to consider specific credit proposals.

Country by Country Reporting

Further information regarding the bank's approach to the requirements of increased financial and tax transparency of the Capital Requirements Directive ("CRD IV"), as enacted by the Financial Services and Markets Act 2000, will be published on the bank's website shortly after the approval of these financial statements at www.bankofchina.com/uk.

Pillar III Disclosures

Further information regarding the bank's approach to risk management and its capital adequacy are contained in the unaudited disclosures made under the requirements of Basel II Pillar 3 (the Pillar 3 disclosures). These disclosures will be published on the bank's website shortly after the approval of these financial statements at www.bankofchina.com/uk.

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

The directors are responsible for preparing the Directors' report, strategic 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 directors have prepared the financial statements in accordance with International Financial Reporting Standards (the "IFRSs") as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the bank for that period. In preparing these financial statements the directors are required to:

- 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 as adopted by the European Union.
- 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 adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Going concern

The directors have assessed, in the light of current and ongoing uncertain economic conditions, the bank's ability to continue as a going concern. The directors confirm they are satisfied that the bank has adequate resources, together with parental support, to continue in business for the foreseeable future and continue to adopt the "going concern" basis for preparing the financial statements.

Directors' Responsibilities Statement

On behalf of the directors of BOC UK, 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 of the bank.

2. The Directors' Report includes a fair review of the principal activities and likely future development.

3. The Strategic Report contains a fair review of the performance of the bank, the activities it undertakes and the principal risks associated with the environment it operates in.

Yu Sun
Chief Executive Officer
Board Director
8 April 2015

Independent Auditors' Report to the Members of Bank of China (UK) Limited

We have audited the financial statements of Bank of China (UK) Limited for the year ended 31 December 2014 which comprise the Income Statement, the Statement of Other Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 34. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 13, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Independent Auditors' Report to the Members of Bank of China (UK) Limited (continued)

Matters on which we are required to report by exception

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

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

Ernst & Young LLP

Kenneth Eglinton (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
10 April 2015

Notes:

1. The maintenance and integrity of the Bank of China (UK) Limited web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Income Statement

£000	Note	12 months to 31 December 2014	12 months to 31 December 2013
Interest income from financial investments		**654**	1,294
Other interest income		**25,428**	17,430
Interest expense		**(3,635)**	(2,800)
Net interest income	8	**22,447**	15,924
Fee and commission income		**8,943**	9,445
Fee and commission expense		**(1,022)**	(580)
Net fee and commission income	9	**7,921**	8,865
Net fair value gain(loss) on financial instruments	10	**(1,413)**	826
Foreign exchange gain		**266**	554
Other operating income	11	**42,403**	42,508
Loss on sale of debt securities		**(3)**	(436)
Profit on sale of impaired loan		**-**	2,158
Non-interest income		**41,253**	45,610
Total income		**71,621**	70,399
Staff costs	12	**(30,178)**	(24,489)
Other expenses	13	**(6,402)**	(4,957)
Depreciation of plant and equipment	22	**(859)**	(831)
Amortisation of intangible assets	23	**(129)**	(77)
Impairment charges	20 (c)	**(722)**	(60)
Gain/(loss) on disposal of subsidiary		**-**	1,632
Profit before income tax		**33,331**	41,617
Income tax expense	15	**(7,376)**	(9,744)
Profit for the year		**25,955**	31,873

Statement of Other Comprehensive Income

£000	Note	**12 months to 31 December 2014**	12 months to 31 December 2013
Profit for the year		**25,955**	31,873
Other comprehensive income			
Amounts that will be reclassified to the income statement			
Net change in fair value of available for sale financial assets	20 (b)	**(351)**	(2)
Net change in fair value of available for sale financial assets transferred to profit or loss	20 (b)	**-**	-
Net (loss)/gain on available for sale financial assets		**(351)**	(2)
Income tax income/(expense) relating to components of other comprehensive income	15	**75**	-
Other comprehensive (expense)/income for the year, net of income tax		**(276)**	(2)
Total comprehensive income for the year		**25,679**	31,871

Statement of Financial Position

£000	Note	31 December 2014	31 December 2013
Assets			
Cash and cash equivalents	16	**199,854**	159,219
Loans and advances to banks	18	**207,026**	168,898
Loans and advances to customers	19	**722,307**	581,030
Derivative financial instruments	17	**16,173**	41,502
Prepayments, accrued income and other assets	25	**27,820**	66,602
Available for sale financial investments	21	**37,469**	28,754
Deferred tax assets	24	**751**	276
Property, plant and equipment	22	**3,390**	3,765
Intangible assets	23	**326**	29
Investment in subsidiary companies	32	**-**	-
Total assets		**1,215,116**	1,050,075
Liabilities			
Deposits from banks	26	**40,270**	72,132
Deposits from customers	27	**765,899**	537,699
Derivative financial instruments	17	**21,489**	42,505
Other liabilities	29	**18,089**	23,757
Accruals and deferred income	30	**4,016**	3,759
Current tax liabilities		**3,873**	2,521
Deferred tax liabilities	24	**-**	28
Subordinated liabilities	28	**60,000**	60,000
Total liabilities		**913,636**	742,401
Equity	31		
Authorised and called up share capital		**250,000**	250,000
Retained earnings		**50,913**	56,831
Available for sale reserve		**567**	843
Total shareholders' equity		**301,480**	307,674
Total shareholders' equity and liabilities		**1,215,116**	1,050,075

The financial statements on pages 16 to 56 were approved by the Board of Directors of Bank of China (UK) Limited and authorised for issue on 8 April 2015.They were signed on its behalf by:

Yu Sun
Chief Executive Officer
Board Director

Statement of Changes in Equity

£000	Issued share capital	Retained earnings	Available for sale reserve	Total
As of 1 January 2014	**250,000**	**56,831**	**843**	**307,674**
Unrealised loss on available for sale investments net of income tax	**-**	**-**	**(276)**	**(276)**
Dividend paid	**-**	**(31,873)**	**-**	**(31,873)**
Profit for the financial year	**-**	**25,955**	**-**	**25,955**
Total comprehensive income	**-**	**(5,918)**	**(276)**	**(6,194)**
Issue of ordinary shares	**-**	**-**	**-**	**-**
As at 31 December 2014	**250,000**	**50,913**	**567**	**301,480**
As of 1 January 2013	250,000	24,958	845	275,803
Unrealised loss on available for sale investments net of income tax	-	-	(2)	(2)
Profit for the financial year	-	31,873	-	31,873
Total comprehensive income	-	31,873	(2)	31,871
Issue of ordinary shares	-	-	-	-
As at 31 December 2013	250,000	56,831	843	307,674

Statement of Cash Flows

£000	Note	12 months to 31 December 2014	12 months to 31 December 2013
Cash flows from operating activities			
Profit on ordinary activities before taxation		**33,331**	41,617
Adjustments for non cash items			
Depreciation and amortisation of plant and equipment and intangible assets		**988**	908
Net impairment loss on loans and advances		**730**	60
Interest receivable from financial investments		**(654)**	(1,294)
Other interest receivable		**(25,428)**	(17,430)
Interest payable		**3,635**	2,800
Loss on disposal of fixed assets		**3**	-
Loss on the sale of debt securities		**3**	435
Exchange-rate movements on available for sale investments		**1,721**	(487)
Changes in operating assets and liabilities			
Change in derivative financial instruments assets held for risk management		**25,329**	(39,553)
Change in loans and advances to banks		**(38,459)**	(120,119)
Change in loans and advances to customers		**(141,927)**	(116,611)
Change in other assets		**38,117**	(1,637)
Change in derivative financial instruments liabilities held for risk management		**(21,016)**	39,070
Change in deposits from banks		**(31,862)**	9,748
Change in deposits from customers		**228,200**	139,460
Change in other liabilities and provisions		**(5,507)**	3,226
Adjustment for cash items			
Interest and coupon received		**28,126**	18,671
Dividend paid		**(31,873)**	-
Interest paid		**(3,895)**	(2,461)
Income tax paid		**(6,670)**	(10,980)
Net cash generated from operating activities		**52,892**	(54,577)
Cash flows from investing activities			
Acquisition of investment securities		**(26,932)**	-
Proceeds from sale of investment securities		**15,590**	16,739
Acquisition of property and equipment		**(489)**	(565)
Acquisition of intangible assets		**(426)**	-
Net cash from investing activities		**(12,257)**	16,174
Cash flows from financing activities			
Proceeds from the issue of ordinary shares		**-**	-
Net cash from financing activities		**-**	-
Net increase (decrease) in cash and cash equivalents		**40,635**	(38,403)
Cash and cash equivalents at beginning of period		**159,219**	197,622
Cash and cash equivalents at year end	**16**	**199,854**	159,219

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

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1. Reporting entity

Bank of China (UK) Limited ("BOC UK" or the "bank") is a company domiciled and incorporated in the United Kingdom (the "UK") with its registered office at 1 Lothbury, London EC2R 7DB. The bank is primarily involved in retail and corporate banking. These financial statements present information for the company and not its subsidiaries.

Accounting policies for the year ended 31 December 2014

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

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"), IFRIC interpretations and the Companies Act 2006.

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 IFRSs. 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 8 April 2015.

(b) Basis of measurement

The financial statements have been prepared on a going concern basis under the historical cost convention 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 presentational 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.

(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.

(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 fees, 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 (g)).

Fees and commissions which are not an integral part of the effective interest rate are 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.

Other operating income is recognised when the bank is entitled to receive that income.

(b) Available for sale financial assets

Debt securities are classified as available for sale and recognised in the statement of financial position 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 statement of financial position 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 the income statement as a component of net fair value gain (loss) on 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 the income statement.

(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 residential and commercial mortgages, originated and syndicated loans.

(f) Loan commitments, guarantees and other financial facilities

Provision is made for undrawn loan commitments, guarantees and other financial facilities if it is probable that the facility will be drawn and result in the recognition of an asset as an amount less than the amount advanced.

Issued financial guarantees are initially recognised at fair value and adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition they are measured at the higher of the amount initially recognised less cumulative amortisation (determined in accordance with IAS 18 Revenue where relevant) and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. Subsequent to initial measurement, changes in the amount of the guarantee are recognised in the income statement.

(g) Impairment of financial assets

At each reporting 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.
- Other objective evidence indicating impairment of the financial asset.

(g) Impairment of financial assets (continued)

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 carrying amount 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 mortgages, 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.

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.

(h) 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.

(i) Derecognition of financial liabilities

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

(j) 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.

A subsidiary is derecognised when the bank loses control over the subsidiary. The carrying value of the subsidiary is measured against the fair value of the consideration received with any resulting gain or loss being recognised through the income statement.

(k) Property, plant and equipment

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 a straight-line method to allocate the difference between cost and residual value over their estimated useful lives, as follows:

Property (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:

- Furniture and equipment: 4-5 years
- Computer equipment: 4 years
- Motor vehicles: 4 years

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

(l) Intangible assets

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

Amortisation is recognised in the income statement 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.

(m) Cash and cash equivalents

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

(n) Leases

The bank enters into operating leases as the lessee and rentals on these leases 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.

(o) Offset

Financial assets and liabilities are offset and the net amount reported in the statement of financial position 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.

(p) 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.

(q) Employee benefits

(i) Defined contribution plans

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

(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 statement of financial position as a liability.

(r) 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.

(s) Taxation

Income tax on the profit for the year comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or equity.

Current tax is the tax expected to be paid on the taxable profit for the year, calculated using tax rates enacted or substantially enacted at the reporting date.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The carrying amount of deferred tax assets is reviewed at each reporting 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.

(t) 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.

(u) Share capital and reserves

Ordinary shares are classified as equity. 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(g).

(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 judgement. In making this judgement, 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 year, 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 year market prices continued to be impacted by liquidity and indicative prices were obtained for certain ABS and MBS held by the bank.

5. New pronouncements

New and amended standards and interpretations:

Issued but not effective for the financial year beginning 1 January 2014 and not early adopted.

- IFRS 9 Financial Instruments, issued in July 2014, introduces new requirements for classifying and measuring financial assets, hedge accounting and impairments and is likely to affect the bank's accounting for financial assets. The standard is effective from 1 January 2018, however, the standard has not yet been endorsed by the EU. The bank is yet to assess IFRS 9's full impact .

- IFRS 15 Revenue from contracts with customers replaces existing revenue requirements and outlines a five step model an entity must apply to measure and recognise revenue. The standard is effective for annual periods beginning on or after 1 January 2017. The bank will assess the impact of these requirements in due course.

6. 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.

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 Board Risk Committee ("BRC") which is responsible for the oversight and implementation of risk strategy and risk appetite within the bank, oversight of risk management performance and the executive committees including, Asset and Liability ("ALCO"), Credit Risk Policy, Credit and Operational Risk Committees. These committees are responsible for developing and monitoring the bank's risk management policies in their specified areas. 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. 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.

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.

(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 clear authority and responsibilities for monitoring compliance with policies, procedures and limits, based on the principle of 'Three Lines of Defence'.

The business units are responsible for the day-to-day management of credit risk with the Risk 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 BOC UK. The Board has delegated its authority to the Board Risk Committee, and the Chief Executive Officer (the "CEO") of the bank. The CEO of the bank has delegated credit approval authority to Branch Managers, subject to Board approval.

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 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 Risk Committee. Consideration must be taken and compliance must be adhered to these three concentration risk management areas either during initiating a transaction or maintaining and managing the portfolio quality.

The bank's 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 bank's 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.

Where loans are classified as impaired and impairment allowances are raised, they are separately analysed and excluded from the categories listed above. Impairment usually occurs when loans have been classified in categories 4 or 5.

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.

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 a publicly available 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. Collateral held as security cannot be sold or repledged in the absence of a default.

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:

(a) Credit risk (continued)

£000	**31 December 2014**	31 December 2013
On statement of financial position		
Cash and cash equivalents	**198,349**	157,482
Loans and advances to banks	**207,026**	168,898
Loans and advances to customers	**722,307**	581,030
Derivatives and other financial instruments	**16,173**	41,502
Available for sale financial investments	**37,469**	28,754
Total financial assets	**1,181,324**	977,666
Loan commitments	**367,059**	333,758
Guarantees	**6,549**	48,206
Total contingent liabilities and commitments	**373,608**	381,964
Total exposure	**1,554,932**	1,359,630

The fair value of collateral held at 31 December 2014 against amounts due from customers was £985,139,000 (31 December 2013; £663,477,000). The collateral is in the form of real estate properties and this collateral reduces the maximum amount of credit risk by £434,192,000 as at 31 December 2014 (31 December 2013; £329,935,000).

Cash and cash equivalents include exposures to the parent company of £36,836,000 (31 December 2013: £32,287,000). No other significant concentration of credit risk exposure exists. Cash and cash equivalents exclude cash in hand of £1,505,000 (2013: £1,737,000) for the purposes of the assessment of credit risk.

Credit risk exposure

The tables below present further detail on the bank's exposure to credit risk.

(a) Based on external credit rating system

£000	**31 December 2014**		31 December 2013	
	Cash and cash equivalents	**Available for sale financial investments**	Cash and cash equivalents	Available for sale financial investments
Gross exposure	**198,349**	**37,469**	157,482	28,754
Individually impaired	**-**	**-**	-	-
Allowance for impairment	**-**	**-**	-	-
Carrying amount	**-**	**-**	-	-
Past due but not impaired	**-**	**-**	-	-
Ageing profile:				
0-3 months	**-**	**-**	-	-
4-6 months	**-**	**-**	-	-
7-9 months	**-**	**-**	-	-
10-12 months	**-**	**-**	-	-
Neither past due nor impaired	**198,349**	**37,469**	157,482	28,754
Credit rating:				
AAA	**-**	**-**	-	-
Aa1 - Aa3	**18,936**	**26,979**	3,660	-
A1 - A3	**178,121**	**-**	153,416	-
Baa1 - Baa3	**1,292**	**10,490**	406	28,754
Ba1 - Ba3	**-**	**-**	-	-
Total carrying amount	**198,349**	**37,469**	157,482	28,754

(a) Credit risk (continued)

(b) based on internal loan grading system mapped against external credit ratings

Loans and advances to banks

£000	31 December 2014	31 December 2013
Gross exposure	**207,357**	168,898
Allowance for collective impairment	**(331)**	-
Carrying amount	**207,026**	168,898
Neither past due nor impaired	**207,026**	168,898
Credit rating:		
Aa1 – Aa3	44,960	-
A1 - A3	51,238	99,840
Baa1 - Baa3	104,656	48,120
Ba1 – Ba3	6,423	-
Unrated	(251)	20,938
Total carrying amount	**207,026**	168,898

Loans and advances to customers

£000	31 December 2014	31 December 2013
Gross exposure	722,712	581,052
Allowance for collective impairment	(405)	-
Carrying amount	**722,307**	581,052
Individually impaired	5	22
Allowance for impairment	(5)	(22)
Carrying amount	**-**	-
Past due but not impaired	**11,949**	9,003
Ageing profile:		
0-3 months	**9,325**	8,126
4-6 months	**2,613**	877
7-9 months	**4**	-
10-12 months	**7**	-
Neither past due nor impaired	**710,358**	572,027
Performing	**692,512**	555,709
Aa1 - Aa3	**-**	3,991
A1 - A3	**14,393**	17,584
Baa1 - Baa3	**31,887**	9,608
Ba1 - Ba3	**-**	-
Unrated	**646,232**	524,526
Special mention	**17,106**	16,313
Unrated	**17,106**	16,313
Substandard	**740**	2
Unrated	**740**	2
Doubtful	**-**	3
Unrated	**-**	3
Loss	**-**	-
Unrated	**-**	-
Total carrying amount	**722,307**	581,030

(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 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 Financial Management department who monitor the liquidity risk and provide regular reports to management and the Prudential Regulation Authority (the "PRA").

The following are the contractual (undiscounted) maturities of financial liabilities, including the next expected 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 2014						
Non-derivative financial liabilities:						
Deposits from banks	**40,270**	**(40,453)**	**(40,453)**	**-**	**-**	**-**
Deposits from customers	**765,899**	**(766,337)**	**(722,566)**	**(27,916)**	**(15,675)**	**(180)**
Subordinated liabilities	**60,000**	**(60,128)**	**-**	**(128)**	**-**	**(60,000)**
Derivative financial instruments:	**21,489**	**-**	**-**	**-**	**-**	**-**
Cash outflows		**(345,145)**	**(329,290)**	**(3,617)**	**(6,370)**	**(5,868)**
Cash inflows		**329,640**	**329,640**	**-**	**-**	**-**
	887,658	**(882,240)**	**(762,486)**	**(31,661)**	**(22,045)**	**(66,048)**
Loan commitments	**367,059**	**(367,059)**	**(367,059)**	**-**	**-**	**-**
	1,251,317	**(1,249,299)**	**(1,129,545)**	**(31,661)**	**(22,045)**	**(66,048)**
31 December 2013						
Non-derivative financial liabilities:						
Deposits from banks	72,132	(72,167)	(66,733)	(5,434)	-	-
Deposits from customers	537,699	(538,011)	(494,614)	(30,776)	(12,621)	-
Subordinated liabilities	60,000	(60,122)	-	(122)	-	(60,000)
Derivative financial instruments:	42,505	-	-	-	-	-
Cash outflows		(285,003)	(237,782)	(5,462)	(16,334)	(25,425)
Cash inflows		237,943	237,943	-	-	-
	712,336	(717,360)	(561,186)	(41,794)	(28,955)	(85,425)
Loan commitments	333,758	(333,758)	(333,758)	-	-	-
	1,046,094	(1,051,118)	(894,944)	(41,794)	(28,955)	(85,425)

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's expected cash flows on these instruments vary significantly from this analysis and hence this table shows 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.

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).

(c) Market risk

Foreign exchange risk

Foreign exchange risk is the risk that movements in the various currencies could materially impact the financial Statements. To manage its exposure to foreign exchange risk the bank enters into derivative transactions

The following table shows the foreign exchange positions as at 31 December 2014 and 2013.

£000

31 December 2014	Sterling	US Dollar	EURO	Other	Total
Cash and cash equivalents	**161,475**	**20,586**	**8,011**	**9,782**	**199,854**
Loans and advances to banks	**245**	**127,960**	**28,629**	**50,192**	**207,026**
Loans and advances to customers	**523,750**	**172,431**	**26,101**	**25**	**722,307**
Derivatives financial instruments (asset)	**1,250**	**14,923**	**-**	**-**	**16,173**
Available for sale financial investments	**-**	**-**	**10,490**	**26,979**	**37,469**
Other assets	**26,647**	**811**	**73**	**4,756**	**32,287**
Deposits from banks	**(3,092)**	**(9,960)**	**(3)**	**(27,215)**	**(40,270)**
Deposits from customers	**(599,650)**	**(108,170)**	**(32,830)**	**(25,249)**	**(765,899)**
Derivatives financial instruments (liability)	**(1,863)**	**(19,626)**	**-**	**-**	**(21,489)**
Other liabilities	**(22,535)**	**(2,056)**	**(32)**	**(1,355)**	**(25,978)**
Subordinated liabilities	**(60,000)**	**-**	**-**	**-**	**(60,000)**
Total shareholder equity	**(300,804)**	**-**	**(771)**	**95**	**(301,480)**
Net financial assets/(liabilities)	**(274,577)**	**196,899**	**39,668**	**38,010**	**-**
Net forward foreign exchange positions	**332,187**	**(260,111)**	**(42,929)**	**(29,147)**	**-**
Loan commitments	**235,531**	**103,146**	**28,382**	**-**	**367,059**

£000

31 December 2013	Sterling	US Dollar	EURO	Other	Total
Cash and cash equivalents	137,133	15,479	3,965	2,642	159,219
Loans and advances to banks	-	150,901	17,997	-	168,898
Loans and advances to customers	372,373	176,926	27,256	4,475	581,030
Derivative financial instruments (asset)	309	41,193	-	-	41,502
Available for sale financial investments	-	-	28,754	-	28,754
Other assets	60,730	1,297	489	8,156	70,672
Deposits from banks	-	(57,451)	-	(14,681)	(72,132)
Deposits from customers	(388,545)	(97,391)	(28,656)	(23,107)	(537,699)
Derivative financial instruments (liability)	(1)	(40,318)	(2,186)	-	(42,505)
Other liabilities	(25,139)	(2,530)	(781)	(1,615)	(30,065)
Subordinated liabilities	(60,000)	-	-	-	(60,000)
Total shareholder equity	(306,647)	-	(1,027)	-	(307,674)
Net financial assets/(liabilities)	(209,787)	188,106	45,811	(24,130)	-
Net forward foreign exchange positions	213,190	(191,017)	(46,659)	24,753	267
Loan commitments	181,031	117,788	34,939	-	333,758

Sensitivity analysis

A 1% percent weakening of the following currencies against Sterling at 31 December 2014 would have increased (decreased) equity and the income statement by the amounts shown below. This calculation assumes that the change occurred at the reporting 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.

Foreign exchange risk (continued)

	Other Comprehensive Income		Income statement	
£000	**31 December 2014**	31 December 2013	**31 December 2014**	31 December 2013
GBP	**(3,210)**	(389)	**-**	-
US Dollars	**-**	-	**(2,419)**	(112)
EURO	**8**	10	**(412)**	(30)
Other	**(1)**	-	**(379)**	(247)

A 1% percent strengthening of the above currencies against Sterling at 31 December 2014 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.

Exposure to interest rate risk

The bank does not operate a trading book.

The principal exposure 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 the cumulative interest rate gap position and by having pre-approved limits for the time bands. The ALCO is the monitoring body for compliance with these limits and is assisted by the Financial Management department in its day-to-day monitoring activities. A summary of the bank's interest rate gap position 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 2014							
Assets							
Cash	199,854	135,000	-	-	-	-	64,854
Loans and advances to banks	207,026	46,989	43,363	117,005	-	-	(331)
Loans and advances to customers	722,307	462,923	6,179	17,141	192,989	42,850	225
Derivative financial instruments	16,173	-	-	-	-	-	16,173
Available for sale financial investments	37,469	-	-	-	37,469	-	-
Other assets	32,287	-	-	-	-	-	32,287
Total assets	**1,215,116**	**644,912**	**49,542**	**134,146**	**230,458**	**42,850**	**113,208**
Equity and liabilities							
Liabilities	**913,636**	**761,909**	**88,156**	**15,238**	**179**	**-**	**48,154**
Deposits from banks	40,270	40,270	-	-	-	-	-
Deposits from customers	765,899	721,639	28,156	15,238	179	-	687
Derivative financial instruments	21,489	-	-	-	-	-	21,489
Other liabilities	25,978	-	-	-	-	-	25,978
Subordinated liabilities	60,000	-	60,000	-	-	-	-
Equity							
Shareholders' equity	**301,480**	-	-	-	-	-	**301,480**
Total equity and liabilities	**1,215,116**	**761,909**	**88,156**	**15,238**	**179**	-	**349,634**
Effect of derivatives held for risk management	-	**(10,909)**	**-**	**10,909**	**-**	**-**	-
Interest rate sensitivity gap	-	**(127,906)**	**(38,614)**	**129,817**	**230,279**	**42,850**	**(236,426)**
Cumulative gap	-	**(127,906)**	**(166,520)**	**(36,703)**	**193,576**	**236,426**	**-**

Exposure to interest rate risk (continued)

£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 2013							
Assets							
Cash	159,219	120,000	-	-	-	-	39,219
Loans and advances to banks	168,898	40,696	64,058	64,144	-	-	-
Loans and advances to customers	581,030	394,206	108,182	33,685	-	44,338	619
Derivative financial instruments	41,502	-	-	-	-	-	41,502
Available for sale financial investments	28,754	-	17,412	-	11,342	-	-
Other assets	70,672	-	-	-	-	-	70,672
Total assets	1,050,075	554,902	189,652	97,829	11,342	44,338	152,012
Equity and liabilities							
Liabilities	742,401	330,575	96,109	12,521	-	-	303,196
Deposits from banks	72,132	61,927	5,432	-	-	-	4,773
Deposits from customers	537,699	268,648	30,677	12,521	-	-	225,853
Derivative financial instruments	42,505	-	-	-	-	-	42,505
Other liabilities	30,065	-	-	-	-	-	30,065
Subordinated liabilities	60,000	-	60,000	-	-	-	-
Equity							
Shareholders' equity	307,674	-	-	-	-	-	307,674
Total equity and liabilities	1,050,075	330,575	96,109	12,521	-	-	610,870
Effect of derivatives held for risk management	-	(33,128)	16,630	60,836	-	(44,338)	-
Interest rate sensitivity gap	-	191,199	110,173	146,144	11,342	-	(458,858)
Cumulative gap	-	191,199	301,372	447,516	458,858	458,858	-

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

At the reporting 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 2014	**(1,114)**	**1,114**
31 December 2013	3,821	(3,821)
Sensitivity of reported equity to interest rate movements at		
31 December 2014	**225**	**(225)**
31 December 2013	31	(31)

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

Reference is made below to the Prudential Regulation Authority ("PRA") which was the bank's regulator from the 1 April 2013. Prior to this, the bank's regulator was the Financial Services Authority.

The PRA sets and monitors capital requirements for the bank. The parent company is 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 risk and basic indicator approach for operational risk in the calculation of the bank's capital requirement as prescribed under the Basel II framework. As the bank does not have a trading book the capital requirement for the foreign exchange risk inherent in the banking book is the bank's only market risk, which is also calculated on the standardised approach.

The bank's regulatory capital comprises of tier 1 and tier 2 capital as set out in the table below.

There are various limits applicable to elements of the capital base. The only limit applicable to the bank's capital, due to the nature of the capital structure, is that qualifying term subordinated loan capital (tier 2) may not exceed 50 percent of tier 1 capital. The bank does not have any deductions from either tier 1 or tier 2 capital.

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.

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 2014 was as follows:

£000	**2014 Basel II Actual**	2013 Basel II Actual
Tier 1 capital		
Ordinary share capital	**250,000**	250,000
Retained earnings	**50,913**	56,831
Tier 2 capital		
Qualifying subordinated liabilities	**60,000**	60,000
Total regulatory capital	**360,913**	366,831

Management uses regulatory capital ratios in order to monitor its capital base, and these capital ratios remain the international standards for measuring capital adequacy. The PRA'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 PRA also sets individual capital guidance ("ICG") for the bank which is in excess of the minimum Capital Resources Requirement. A key input to the ICG setting process was the bank's Internal Capital Adequacy Assessment Process ("ICAAP"). The bank submitted its ICAAP document to the PRA in October 2011 and the ICG was agreed with the PRA in March 2012. The agreed ICG was in force as at the reporting date and remains confidential between each bank and the PRA in accordance with accepted practice.

7. 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 at the reporting date 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 2014						
Assets						
Cash and cash equivalents	-	**199,854**	-	-	**199,854**	**199,854**
Cash and balances with banks	-	198,349	-	-	198,349	198,349
Cash in hand	-	1,505	-	-	1,505	1,505
Loans and advances to banks	-	**207,026**	-	-	**207,026**	**207,026**
Loans and advances to customers	-	**722,307**	-	-	**722,307**	**722,423**
Corporate loans and advances	-	277,552	-	-	277,552	277,668
Retail loans and advances	-	444,755	-	-	444,755	444,755
Derivative financial instruments	**16,173**	-	-	-	**16,173**	**16,173**
Interest rate swaps	651	-	-	-	651	651
Cross currency swaps	599	-	-	-	599	599
Other derivatives	14,923	-	-	-	14,923	14,923
Available for sale investments	-	-	**37,469**	-	**37,469**	**37,469**
Debt securities	-	-	37,469	-	37,469	37,469
Asset backed securities	-	-	-	-	-	-
Total financial assets	**16,173**	**1,129,187**	**37,469**	-	**1,182,829**	**1,182,945**
Liabilities						
Deposits from banks	-	-	-	**40,270**	**40,270**	**40,270**
Deposits from customers	-	-	-	**765,899**	**765,899**	**765,899**
Retail customers	-	-	-	531,068	531,068	531,068
Corporate customers	-	-	-	234,831	234,831	234,831
Derivative financial instruments	**21,489**	-	-	-	**21,489**	**21,489**
Interest rate swaps	1,565	-	-	-	1,565	1,565
Cross currency swaps	298	-	-	-	298	298
Other derivatives	19,626	-	-	-	19,626	19,626
Subordinated liabilities	-	-	-	**60,000**	**60,000**	**60,000**
Total financial liabilities	**21,489**	-	-	**866,169**	**887,658**	**887,658**

The value of financial assets and liabilities that are not accounted for at fair value are deemed to be equal to their carrying value. The interest rates on these financial assets and liabilities re-price on a regular and short term basis resulting in the fair value calculation being not materially different from the carrying value.

Fair values of financial instruments (continued)

£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 2013						
Assets						
Cash and cash equivalents	-	159,219	-	-	159,219	159,219
Cash and balances with banks	-	157,482	-	-	157,482	157,482
Cash in hand	-	1,737	-	-	1,737	1,737
Loans and advances to banks	-	168,898	-	-	168,898	168,898
Loans and advances to customers	-	581,030	-	-	581,030	581,412
Corporate loans and advances	-	245,501	-	-	245,501	245,883
Retail loans and advances	-	335,529	-	-	335,529	335,529
Derivative financial instruments	41,502	-	-	-	41,502	41,502
Interest rate swaps	1,889	-	-	-	1,889	1,889
Cross currency swaps	270	-	-	-	270	270
Other derivatives	39,343	-	-	-	39,343	39,343
Available for sale investments	-	-	28,754	-	28,754	28,754
Debt securities	-	-	28,754	-	28,754	28,754
Asset backed securities	-	-	-	-	-	-
Total financial assets	41,502	909,147	28,754	-	979,403	979,785
Liabilities						
Deposits from banks	-	-	-	72,132	72,132	72,132
Deposits from customers	-	-	-	537,699	537,699	537,699
Retail customers	-	-	-	534,821	534,821	534,821
Corporate customers	-	-	-	2,878	2,878	2,878
Derivative financial instruments	42,505	-	-	-	42,505	42,505
Interest rate swaps	2,660	-	-	-	2,660	2,660
Cross currency swaps	2	-	-	-	2	2
Other derivatives	39,843	-	-	-	39,843	39,843
Subordinated liabilities	-	-	-	60,000	60,000	60,000
Total financial liabilities	42,505	-	-	669,831	712,336	712,336

The table below analyses financial assets and liabilities measured at fair value, by valuation method:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

During the reporting period ending 31 December 2014, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of the Level 3 fair value measurements. The carrying value of short term receivables and payables are assumed to approximate to their fair values where discounting is not material.

Fair values of financial instruments (continued)

For financial instruments not traded in an active market for which no quoted market price is available the fair value is determined using valuation techniques. Forward currency exchange contracts fair value was determined using quoted forward exchange rates matching the maturities of the contracts. While for interest rate swaps fair value was determined using discounted cash flow analysis at quoted interest rates.

The fair value of other financial assets and borrowings has been calculated by discounting the expected future cash flows at prevailing market interest rates for instruments with substantially the same terms and characteristics.

Fair value hierarchy

During the financial year ended 31 December 2014 no financial assets or liabilities were transferred between Level 1, Level 2 or Level 3.

£000

31 December 2014	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial instruments:				
Interest rate swaps	-	651	-	651
Cross currency swaps	-	599	-	599
Other derivatives	-	14,923	-	14,923
	-	16,173	-	16,173
Financial investments available for sale:				
Debt securities	37,469	-	-	37,469
Asset backed securities	-	-	-	-
	37,469	-	-	37,469
Total assets	**37,469**	**16,173**	-	**53,642**
Financial liabilities				
Derivative financial instruments:				
Interest rate swaps	-	1,565	-	1,565
Cross currency swaps	-	298	-	298
Other derivatives	-	19,626	-	19,626
Total liabilities	-	**21,489**	-	**21,489**

£000

31 December 2013	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial instruments:				
Interest rate swaps	-	1,889	-	1,889
Cross currency swaps	-	270	-	270
Other derivatives	-	39,343	-	39,343
	-	41,502	-	41,502
Financial investments available for sale:				
Debt securities	28,754	-	-	28,754
Asset backed securities	-	-	-	-
	28,754	-	-	28,754
Total assets	28,754	41,502	-	70,256

Fair value hierarchy (continued)

£000

31 December 2013	Level 1	Level 2	Level 3	Total
Financial liabilities				
Derivative financial instruments:				
Interest rate swaps	-	2,660	-	2,660
Cross currency swaps	-	2	-	2
Other derivatives	-	39,843	-	39,843
Total liabilities	-	42,505	-	42,505

8. Net interest income

£000	31 December 2014	31 December 2013
Interest income from financial investments	**654**	1,294
Other interest income:		
Cash and cash equivalents	**18**	8
Loans and advances to banks	**3,118**	648
Loans and advances to customers	**22,292**	16,774
Total other interest income	**25,428**	17,430
Total interest income	**26,082**	18,724
Interest expense:		
Deposits from banks	**1,413**	1,262
Customers accounts	**1,713**	1,051
Subordinated liabilities	**509**	487
Total interest expense	**(3,635)**	(2,800)
Net interest income	**22,447**	15,924

Included within various line items under interest income for the year ended 31 December 2014 is a total of £nil (31 December 2013: £nil) accrued for non performing impaired financial assets.

9. Net fee and commission income

£000	31 December 2014	31 December 2013
Fee and commission income:		
Retail Banking customer fees	**4,352**	4,371
Corporate Banking credit-related fees	**4,556**	5,019
Other	**35**	55
Fee and commission income	**8,943**	9,445
Inter-bank transaction fees	**487**	21
Other	**535**	559
Fee and commission expense	**(1,022)**	(580)
Net fee and commission income	**7,921**	8,865

10. Net fair value (loss) gain on financial instruments

£000	31 December 2014	31 December 2013
Net fair value (loss) gain on financial instruments held for risk management purposes:		
Interest rate swaps	**(75)**	2,288
Cross currency swaps	**8**	(962)
Other derivatives	**(1,346)**	(500)
	(1,413)	826

There are no financial derivative instruments that qualify for hedge accounting in accordance with IAS39.
At 31 December 2014 unrealised net profit of £15,000 (31 December 2013: net losses of £1,612,000), on currency swap derivative instruments, have been recorded against foreign exchange gains and losses in the income statement, reflecting the effects of these derivatives instruments in mitigating the foreign exchange gains and losses on the net non Sterling assets of the bank held at these dates.

11. Other operating income

£000	31 December 2014	31 December 2013
Related party service charges	**40,433**	42,503
Other	**1,970**	5
	42,403	42,508

The related party service charges represents the net amount receivable by the bank for services provided and received under service level agreements with related parties as disclosed in note 32.

12. Staff costs

£000	31 December 2014	31 December 2013
Wages and salaries	**24,173**	19,456
Contributions to defined contribution plans	**1,384**	1,402
Social security costs	**3,471**	2,179
Other	**1,150**	1,452
	30,178	24,489

See the Directors' Report on page 4 for details of average number of employees.

13. Other expenses

£000	31 December 2014	31 December 2013
Administrative	**4,558**	3,481
Rent on operating leases	**569**	538
Software licensing and other IT costs	**301**	341
Other	**974**	597
	6,402	4,957

13. Other expenses (continued)

Auditor's remuneration:

£000	31 December 2014	31 December 2013
Fees payable to the company's auditors for the audit of the company's financial statements:		
Current year	**135**	110
Prior years	**-**	-
Fees payable to the company's auditor and its associates for other services:		
The audits of the company's subsidiaries, pursuant to legislation	**9**	9
Other services pursuant to legislation	**10**	10
Other services	**-**	1

14. Directors' remuneration

£000	31 December 2014	31 December 2013
Remuneration of directors in respect of services rendered:		
Remuneration	**970**	679
Pension contributions	**17**	15
Highest paid director:		
Remuneration	**377**	355
Pension contributions	**-**	-

15. Income tax expense

£000	31 December 2014	31 December 2013
Current tax expense		
Current period	**7,701**	9,508
Overseas tax	**186**	123
Adjustments for prior years	**(8)**	155
Total current tax	**7,879**	9,786
Deferred tax expense		
Origination and reversal of temporary differences	**(400)**	(57)
Adjustments for prior years	**(103)**	15
Total deferred tax	**(503)**	(42)
Total income tax expense	**7,376**	9,744

15. Income tax expense (continued)

The tax on the bank's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the bank as follows:

Reconciliation of effective tax rate

£000	31 December 2014	31 December 2013
Profit before income tax	**33,331**	41,617
Income tax using the standard rate of corporation tax in the UK 21.5% (2013: 23.25%)	**7,166**	9,676
Non-deductible expenses	**159**	145
(Loss) on disposal of subsidiary	**-**	(379)
Over (under)-provided in prior years	**(111)**	170
Other - tax rate adjustment	**42**	38
Foreign tax not fully creditable	**120**	94
Total income tax expense in income statement	**7,376**	9,744

Income tax recognised in other comprehensive income

£000	31 December 2014	31 December 2013
Current tax		
UK current tax expense	**(75)**	-
Adjustments for prior years	**-**	-
Total current tax	**(75)**	-
Deferred tax		
Current year deferred tax charge/ (credit)	**-**	-
Adjustments for prior years	**-**	-
Total deferred tax	**-**	-
Total income tax expense	**(75)**	-

The Finance Act 2013 was enacted on 17 July 2014. The reduction to the standard rate of corporation tax from 23% to 21% took effect from 1 April 2014 with a further reduction to 20% taking effect from 1 April 2015. Accordingly, the deferred tax balances at 31 December 2014 have been stated at 20% based on when the temporary differences are expected to reverse.

16. Cash and cash equivalents

£000	31 December 2014	31 December 2013
Cash and cash equivalents with banks	**198,349**	157,482
Cash in hand	**1,505**	1,737
	199,854	159,219

17. Derivative financial instruments

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

£000	31 December 2014		31 December 2013	
	Assets	**Liabilities**	Assets	Liabilities
Instrument type:				
Interest rate swap	**651**	**1,565**	1,889	2,660
Cross currency swap	**-**	**297**	-	2
Foreign exchange forward	**599**	**-**	270	-
Other derivatives	**14,923**	**19,627**	39,343	39,843
	16,173	**21,489**	41,502	42,505

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

The Bank sub-participated a loan but retained the risks and rewards of ownership of the interest strip relating to it. The Bank de-recognised the principal element of the loan as it retained none of the risks or rewards associated with it. The Bank has unrestricted use of interest received from the interest strip however it has also assumed an obligation to pay interest. The Bank is restricted from selling or transferring the interest strip and associated liability to pay interest. At 31 December 2014, the fair value of the interest strip amounted to £14,923,000 (31 December 2013: £39,343,000) and the associated liability was £19,627,000(31 December 2013: £39,843,000).

18. Loans and advances to banks

£000	**31 December 2014**	31 December 2013
Loans and advances to banks	**207,357**	168,898
Collective impairment provision	**(331)**	-
	207,026	168,898

At 31 December 2014 £22,480,000 (31 December 2013: £84,656,000) of loans and advances to banks are expected to be recovered more than twelve months after the reporting date.

19. Loans and advances to customers

£000	**31 December 2014**	31 December 2013
Corporate loans and advances	**277,957**	245,501
Retail loans and advances	**444,760**	335,551
Gross loans and advances	**722,717**	581,052
Less: specific allowance for impairments	**(5)**	(22)
collective allowance for impairments	**(405)**	-
Total allowance for impairment	**(410)**	(22)
Loans and advances to customer net	**722,307**	581,030

At 31 December 2014 £679,374,000 (31 December 2013: £372,753,000) of loans and advances to customers are expected to be recovered more than twelve months after the reporting date.

Loans and advances to customers at amortised cost

£000	31 December 2014			31 December 2013		
	Gross amount	**Impairment allowance**	**Carrying amount**	Gross amount	Impairment allowance	Carrying amount
Corporate loans and advances	**277,177**	**(405)**	**276,772**	245,501	-	245,501
Retail loans and advances	**445,540**	**(5)**	**445,535**	335,551	(22)	335,529
	722,717	**(410)**	**722,307**	581,052	(22)	581,030

20. Allowances for impairment

(a) Loans and advances to banks and customers

	Specific		Collective	
£000	Loans and advances to banks	Loans and advances to customers	Loans and advances to banks	Loans and advances to customers
Balance at 1 January 2014	**-**	**22**	**-**	**-**
Increase in impairment	**-**	**-**	**331**	**405**
Reversal of impairment	**-**	**(14)**	**-**	**-**
Charge in income statement	**-**	**(14)**	**331**	**405**
Amounts written off	**-**	**(3)**	**-**	**-**
Balance at 31 December 2014	**-**	**5**	**331**	**405**
Balance at 1 January 2013	-	12,273	-	-
Increase in impairment	-	60	-	-
Reversal of impairment	-	-	-	-
Charge in income statement	-	60	-	-
Amounts written off	-	(12,311)	-	-
Balance at 31 December 2013	-	22	-	-

(b) Available for sale financial investments

£000	Note	Movement before tax in fair value recognised in equity	Impairment
Balance at 1 January 2014		**(1,027)**	**-**
Changes in fair values		**351**	**-**
Reversal in impairment		**-**	**-**
Amounts written off		**-**	**-**
	21	**351**	**-**
Exchange-rate movements		**-**	**-**
Balance at 31 December 2014		**(676)**	**-**

The cumulative tax charge on this fair value amounts to £109,000 (31 December 2013: £184,000).

Balance at 1 January 2013		(1,029)	3,003
Changes in fair values		2	-
Reversal in impairment		-	(2,955)
Amounts written off		-	-
	21	2	(2,955)
Exchange-rate movements		-	(48)
Balance at 31 December 2013		(1,027)	-

20. Allowances for impairment (continued)

(c) Impairment charges

£000	31 December 2014	31 December 2013
Loans and advances to customers		
Specific	**14**	(60)
Collective	**(405)**	-
Loans and advances to banks		
Specific	**-**	-
Collective	**(331)**	-
Available for sale financial investments	**-**	-
Total impairment charges in income statement	**(722)**	(60)

21. Available for sale investments

At 31 December 2014 there were £37,469,000 of available for sale investments (31 December 2013: £11,342,000) which are expected to be recovered more than twelve months after the reporting date. The available for sale investments balance is comprised of fixed and floating interest rate bonds.

£000	Note	31 December 2014	31 December 2013
Debt securities		**37,469**	28,754
Asset backed securities		**-**	-
		37,469	28,754

Balance at 1 January 2014		**28,754**	46,270
Accrued interest		**(552)**	(827)
Disposals through sale and redemptions		**(15,590)**	(20,084)
Acquisition		**26,932**	-
Gains / (loss) from changes in fair value recognised in equity	20 (b)	**(351)**	(2)
Movements in impairment amounts	20 (b)	**-**	2,955
Amortisation of premium		**(3)**	(45)
Exchange-rate movement		**(1,721)**	487
Balance at 31 December 2014		**37,469**	28,754

22. Property, plant and equipment

£000	Property, plant and fixtures	Furniture and equipment	Computer equipment	Motor vehicles	Total
Cost					
Balance at 1 January 2014	**7,202**	**1,908**	**1,068**	**138**	**10,316**
Additions	**11**	**89**	**393**	**-**	**493**
Disposals	**(2,324)**	**(501)**	**(125)**	**-**	**(2,950)**
Balance at 31 December 2014	**4,889**	**1,496**	**1,336**	**138**	**7,859**
Balance at 1 January 2013	7,055	1,770	605	100	9,530
Additions	157	165	497	38	857
Disposals	(10)	(27)	(34)	-	(71)
Balance at 31 December 2013	7,202	1,908	1,068	138	10,316

22. Property, plant and equipment (continued)

Balance at 1 January 2014	**4,814**	**978**	**675**	**84**	**6,551**
Additions	**-**	**9**	**-**	**-**	**9**
Depreciation for the year	**363**	**273**	**210**	**13**	**859**
Disposals	**(2,323)**	**(502)**	**(125)**	**-**	**(2,950)**
Balance at 31 December 2014	**2,854**	**758**	**760**	**97**	**4,469**
Balance at 1 January 2013	4,335	656	431	76	5,498
Additions	-	114	179	-	293
Depreciation for the year	491	234	98	8	831
Disposals	(12)	(26)	(33)	-	(71)
Balance at 31 December 2013	4,814	978	675	84	6,551
Net carrying values at **31 December 2014**	**2,035**	**738**	**576**	**41**	**3,390**
31 December 2013	2,388	930	393	54	3,765

As at 31 December 2014 and 31 December 2013 the bank identified no events or circumstances that would indicate that the bank's tangible fixed assets might be impaired.

23. Intangible assets

£000	IT Software	Total
Cost		
Balance at 1 January 2014	**1,394**	**1,394**
Additions	**426**	**426**
Disposals	**(2)**	**(2)**
Balance at 31 December 2014	**1,818**	**1,818**
Balance at 1 January 2013	680	680
Additions	714	714
Disposals	-	-
Balance at 31 December 2013	1,394	1,394
Depreciation		
Balance at 1 January 2014	**1,365**	**1,365**
Depreciation for the year	**129**	**129**
Additions	**-**	**-**
Disposals	**(2)**	**(2)**
Balance at 31 December 2014	**1,492**	**1,492**
Balance at 1 January 2013	574	574
Depreciation for the year	77	77
Additions	714	714
Disposals	-	-
Balance at 31 December 2013	1,365	1,365
Net carrying value at **31 December 2014**	**326**	**326**
31 December 2013	29	29

As at 31 December 2014 and 31 December 2013 the bank identified no events or circumstances that would indicate that the bank's intangible assets might be impaired.

24. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

£000	**31 December 2014**			31 December 2013		
	Assets	**Liabilities**	**Net**	Assets	Liabilities	Net
Property and equipment, and software	**42**	**-**	**42**	-	(28)	(28)
Deferred employees' benefits	**709**	**-**	**709**	276	-	276
Net tax assets	**751**	**-**	**751**	276	(28)	248

There were no unrecognised deferred tax assets as at 31 December 2014 and 31 December 2013.

Movements in temporary differences during the year

£000	**Opening balance 1 January 2014**	**Recognised in profit or loss**	**Recognised in equity**	**Closing balance 31 December 2014**
Property and equipment, and software	**(28)**	**70**	**-**	**42**
Deferred employees' benefits	**276**	**433**	**-**	**709**
	248	**503**	**-**	**751**

£000	Opening balance 1 January 2013	Recognised in profit or loss	Recognised in equity	Closing balance 31 December 2013
Property and equipment, and software	33	(61)	-	(28)
Deferred employees' benefits	173	103	-	276
	206	42	-	248

25. Prepayments, accrued income and other assets

£000	**31 December 2014**	31 December 2013
Accrued income	**1,622**	2,369
Prepaid expenses	**571**	396
Receivable from related party	**19,514**	54,777
Other	**6,113**	9,060
	27,820	66,602

26. Deposits from banks

£000	31 December 2014	31 December 2013
From subsidiaries	-	-
Other deposits from banks	**40,270**	72,132
	40,270	72,132

At 31 December 2014 £nil (31 December 2013: £nil) of deposits from banks are expected to be settled more than twelve months after the reporting date.

27. Deposits from customers

£000	31 December 2014	31 December 2013
Retail customers:		
Term deposits	**105,197**	127,753
Notice deposits	**70,401**	60,435
Current deposits	**354,071**	343,278
Other	**1,399**	3,355
	531,068	534,821
Corporate customers:		
Notice deposits	**41,549**	-
Current deposits	**186,105**	2,337
Other	**7,177**	541
	234,831	2,878
	765,899	537,699

At 31 December 2014 £179,000 (31 December 2013: £nil) of deposits from customers are expected to be settled more than twelve months after the reporting date.

28. Subordinated liabilities

£000	31 December 2014	31 December 2013
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 reporting date (31 December 2013: £60,000,000).

On 20 September 2007 the bank issued a £60,000,000 subordinated loan. Interest is payable on 31 March, 30 June, 30 September and 31 December at the three-month London Interbank Bank Offered Rate plus 30 basis points. The rate applicable to the loan as at the reporting date was 0.82% (31 December 2013: 0.82%). 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.

29. Other liabilities

(a) Other liabilities

£000	31 December 2014	31 December 2013
Creditors and accruals	**16,413**	22,316
Other	**1,676**	1,441
	18,089	23,757

(b) Defined benefit obligations

The bank makes contributions to a group defined benefit scheme, the Bank of China Pension & Life Assurance Scheme (the "Scheme"), that provides pension benefits for employees upon retirement. The Scheme entitles a retired employee to receive an annual payment equal to 1/60th 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 Scheme as at 31 December 2014 and 2013. 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.

Changes in the present value of the Scheme's liabilities:

£000	31 December 2014	31 December 2013
Benefit obligations at beginning of year	**43,111**	45,208
Interest costs	**1,936**	1,896
Current service costs	**897**	853
Members' contributions	**126**	123
Actuarial loss (gain)	**2,373**	(4,531)
Effects of curtailments or settlements	**-**	-
Benefits paid	**(1,206)**	(438)
Benefit obligations at the end of the year	**47,237**	43,111

The benefit obligation arising from Schemes that are wholly un-funded and wholly or partly funded as follows:

£000	31 December 2014	31 December 2013
Un-funded obligations	3,689	1,951
Wholly or partly funded obligations	-	-
Total	**3,689**	1,951

(b) Defined benefit obligations (continued)

Changes in Scheme assets:

£000	31 December 2014	31 December 2013
Market value of assets at beginning of year	**41,160**	38,211
Expected return on Scheme assets	**1,861**	1,667
Actuarial gain/(loss)	**184**	176
Members' contributions	**1,447**	1,447
Employer's contributions	**126**	123
Effects of settlements	**(24)**	(26)
Benefits paid	**(1,206)**	(438)
Market value of assets at end of year	**43,548**	41,160

Scheme assets as a percentage of total assets:

	31 December 2014	31 December 2013
Equities	**23.50%**	23.60%
Bonds	**25.20%**	25.10%
Property	**4.90%**	4.50%
Cash	**46.40%**	46.80%

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 2014	31 December 2013
Discount rate	**3.70%**	4.50%
Price inflation	**3.20%**	3.50%
Rate of increase in salaries	**2.80%**	4.30%
Rate of increase for pensions in payment (LPI)	**3.10%**	3.40%
Post retirement mortality table	**PM/FA 92 YOB**	PM/FA 92 YOB
	(Long Cohort)	(Long Cohort)
Expected return on assets	**3.70%**	4.50%

The bank expects to pay £759,000 (31 December 2013: £761,000) in contributions to defined benefit plans in 2014.

30. Accruals and deferred income

£000	31 December 2014	31 December 2013
Deferred income	**3,683**	3,166
Accrued interest	**333**	593
	4,016	3,759

31. Equity

(a) Capital

At 31 December 2014 the authorised share capital comprised 250,000,000 ordinary shares (31 December 2013 :250,000,000). 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.

(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

A dividend of £25,955,000 has been recommended for the year ended 31 December 2014 (31 December 2013; £31,873,000)

32. 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 year ended 31 December 2014 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

Significant companies of the bank are; Subsidiaries of the bank, subsidiaries and associated companies of the immediate parent company.

Related party transactions occurred between the bank and the London Branch of Bank of China Limited. At 31 December 2014 the bank received £36,836,000 (31 December 2013: £72,127,000) which is 5% (31 December 2013: 12%) 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.

32. Related parties (continued)

£000	Nature of related party: Significant influence	Significant company
Balance at 31 December 2014		
Cash and cash equivalents	**45,504**	**-**
Loans and advances to banks	**5,480**	**-**
Loans and advances to customers	**12,808**	**-**
Derivative financial instruments	**1,250**	**-**
Prepayments, accrued income and other assets	**19,514**	**17**
Deposits from banks	**36,836**	**-**
Deposits from customers	**-**	**10,126**
Derivative financial instruments	**1,863**	**-**
Other liabilities	**3,750**	**110**
Subordinated liabilities	**60,000**	**-**
Included in the income statement for the period		
Interest receivable	**45**	**-**
Interest payable	**(754)**	**-**
Other operating income	**40,153**	**280**
Net loss on derivative financial instruments	**(911)**	**-**
Balance at 31 December 2013		
Cash and cash equivalents	32,291	-
Loans and advances to customers	5,274	1
Derivative financial instruments	1,701	-
Prepayments, accrued income and other assets	54,663	114
Deposits from banks	72,127	5
Deposits from customers	-	8,518
Derivative financial instruments	2,662	-
Other liabilities	4,097	-
Subordinated liabilities	60,000	-
Included in the income statement for the period		
Interest receivable	52	-
Interest payable	(1,029)	-
Other operating income	42,165	337
Net loss on derivative financial instruments	(1,681)	-

(b) Investment in non-consolidated subsidiaries

	Country of incorporation	Ownership interest: 31 December 2014	31 December 2013
China Bridge Group (UK) Limited	United Kingdom	100%	100%
China Visa Services Italy SRL[1]	Italy	100%	100%

[1]Indirect holding via China Bridge Group (UK) Limited

At 31 December 2014, the bank held an investment of £1 in China Bridge Group (UK) Limited (31 December 2013: £1). This entity is wholly-owned, with head quarters at 12 Old Jewry, London, United Kingdom. The bank has availed itself of the consolidation exemption (refer to Note 2) and therefore does not consolidate these subsidiaries.

32. Related parties (continued)

(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 2014 comprised of salaries and other short term benefits in the amount of £2,071,000 (31 December 2013: £1,518,000).

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

(d) Transactions with key management

£000	**31 December 2014**	31 December 2013
Loans and advances	**554**	463

33. Contingent liabilities and commitments

(a) Loan commitments, guarantees and other financial facilities

£000	**31 December 2014**	31 December 2013
Loan commitments	**367,059**	333,758
Guarantees	**6,549**	48,206
Total	**373,608**	381,964

(b) Operating lease commitments

Where the bank is the lessee, the future aggregate minimum lease payments under non-cancellable operating leases on buildings are as follows:

£000	**31 December 2014**	31 December 2013
Less than one year	**540**	534
Between one and five years	**1,903**	1,934
More than five years	**555**	1,455
Total	**2,998**	3,923

33. Contingent liabilities and commitments (continued)

(c) Legal claims

On the 20 July 2012 the bank entered into a sale and purchase agreement ("SPA") to dispose of its investment in Bank of China (Suisse) S.A. ("BOCS"). The SPA contained provisions for the purchaser to be indemnified against additional costs relating to third party claims in two circumstances.

Firstly, for litigation claims identified at the date of the SPA and where the cost of settlement or court judgement exceeded the provisions made for these claims as recorded in the accounts of BOCS as at the closing date.

Secondly, for any claim, action, arbitration, investigation or proceeding by or before any court, tribunal or arbitral body, administrative board, commission or other authority against BOCS by third parties for events that occurred whilst the bank had control of BOCS. The period of this indemnity is for 5 years starting from the closing date being 1 October 2012. At the date of approval of these financial statements certain matters have been advised by the purchaser to the bank under this clause. At present it is not possible to predict the ultimate outcome of these claims, including the financial impact, and no provision has been recognised in respect of these items because the bank does not currently expect the final outcome of any such claims to have a material adverse effect on the bank's financial position.

34. Going concern assessment

The Board has given its consideration to the going concern status of the bank as at the reporting 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.