

**Bank of China (UK) Limited**

**Annual Report and Financial Statements**

**For the year ended 31 December 2021**

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### Chairman's Statement

This is my first report as the Chairman of Bank of China (UK) Limited and I look forward to working with my fellow Directors and the Executive Management team. I would like to take this opportunity to express my sincere thanks to Mr Sun Yu for his excellent stewardship of the Bank during his term in office as Chairman.

The year 2021 was another challenging year. The Covid-19 pandemic maintains a grip on the world. While vaccines were widely rolled out, Covid-19 mutations brought about new uncertainties. Some countries have wrestled with significant outbreaks, and many more imposed various restrictions at different times, resulting in an asymmetrical post-pandemic recovery of the global economy. Although in 2021, the world's economy bounced back from the pandemic with the strongest post-recession expansion in 80 years, the gains are expected to decelerate. As recent data suggested, the UK's economic outlook for the rest of 2022 has deteriorated by a historically high level of inflation since 1982, the rising cost of living, the Russian-Ukraine crisis, and many more.

Although the Bank has been through a crucible of challenges during the lingering pandemic, continuing to provide excellent service remains at its strategic core. The Bank still endeavours to establish itself as a specialist mortgage lender, to remain the primary choice for the local Chinese community and domestic Chinese enterprises with operations in the UK, and focus on expanding its client base in the UK. The Bank will keep enhancing the enterprise risk management framework, strive to meet all legal and regulatory obligations, and pave the path toward digital transformation. Most importantly, the Bank is committed to a sustainable future and will embrace the green transition as a pillar of our ambitions.

As the Bank stands in the midst of uncertainties brought by 2022, it is essential to reflect on the crisis-resaped landscape in an ever-changing time. The unprecedented crisis has turbocharged the transformation in the business environment for every company. First and foremost, the rapid shift to remote and hybrid work dramatically accelerates how technology is reshaping business and life. Moreover, the momentum for the transition towards a net-zero, resilient future continues to grow. In this constantly evolving time, the only constant is change. As a result, Banks that have quickly responded and prepared for this global transition will distinguish themselves in the market, inspiring confidence that they can adapt their business models to any dramatic changes.

Despite the vicissitudes of the past two years, the Bank continues to deliver robust results. I would like to express my gratitude to the Board, Executive Management team and all the employees for the great dedication and tremendous efforts to deliver excellent results to the Bank's stakeholders. In the coming year, the impact of the pandemic and geopolitical tensions are expected to persist while new challenges such as elevated inflation, supply chain disruptions and high energy prices cast additional layers of shadow on the Bank. The Bank will remain alive to the potential impacts and continue to remain agile in responding to external risks. I believe the resilience that has been built into the business will enable the Bank to navigate changes and adversities during such testing time.

Jiuzhong Li

Chairman of the Board of Directors

### Chief Executive Officer's Statement

The Bank delivered a robust financial result in 2021 despite the pandemic and the considerable economic uncertainties. The Bank's total assets increased from £1.9 billion as of year-end 2020 to £2.2 billion as of year-end 2021. Total income has increased slightly from £120.1 million to £124.0 million in 2021. The Bank's total profit after tax has decreased from £35.2 million in 2020 to £31.5 million mainly as a result of additional impairment charges on the corporate lending portfolio.

As well as delivering solid financial performance, the Bank continues to bring value to the greater society. As the first Chinese bank going global, the Bank has always served as the connecting bridge between the UK and China. In the past year, the Bank demonstrated its continued commitment to the City of London by hosting and participating in a series of events which promote UK-China relations. The Bank has been a corporate partner of the Lord Mayor's Appeal since 2019 and actively participated in the City's annual City Giving Day since 2015. We are also proud to support the City of London's Green Horizon Summit for two consecutive years since 2020. Most notably, the Bank is moving firmly toward the ESG transition. The Bank established a dedicated ESG working group to formulate ESG development strategy and corresponding action plan, accelerating the embedment of ESG in every aspect of the Bank's operation and business.

In 2022, the trajectory for global recovery continues to present new constraints on the business outlook. Political uncertainty and growing economic stress, including spiraling inflation and threat of a recession, are weighing heavily on the Bank's business development. However, it is vitally important to remain flexible and resilient when uncertainties prevail. As the world sees a tectonic shift toward technology and sustainability, the engine for future growth will be defined by how quickly the Bank adapts to the new normality. To embrace changes and emerge stronger, we must change, adapt and act expeditiously.

In the coming years, the Bank's strategy will focus on expanding the core competency, resources and assets in the following areas: First, continue to enhance the operational resilience under the hybrid working model triggered by the pandemic. Second, to enhance the Bank's risk management framework and achieve further alignment with regulatory expectations. Third, to carry good business momentum into 2022 in serving a closer China-UK trade relationship. Fourth, the Bank will continue implementing the BOC Group's Green Finance Strategy and accelerating its decarbonisation journey. Last but not least, the Bank strives to ensure the health and safety of all employees.

The year 2022 marks the first year of rolling out the Bank's newly established five-year development plan. The macroeconomic conditions brought a set of challenges to the Bank over the past two years. However, the Bank has proved its competence in delivering robust results and has emerged more resilient. I would like to express how grateful I am to all my colleagues. They have once again demonstrated their professionalism, their resilience, and above all, their exceptional commitment to deliver strong results. As we evolve around these ongoing changes, the key to our success has been: collaboration. I believe only through such a dynamic and inclusive culture could we withstand the adversities and unlock future growth potential.

Wenjian Fang

Chief Executive Officer

Board Director

# Bank of China (UK) Limited

## Financial Statements for the year ended 31 December 2021

### 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 registered in England and Wales and is a private company limited by shares which 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 06193060.

In accordance with Schedule 7 of the Companies Act 2006, reference is made to the existence of the Dublin Branch outside the UK, until 1 September 2021, disclosed in the Strategic Report on page 11.

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 business loans. Our corporate and trade finance business encompasses funding for Chinese companies seeking to expand in the UK.

#### Future Developments

The directors intend to maintain the strategy and policies that have generated growth and preserved the value of the business in recent years by continuing to provide banking services to the Chinese community based in the UK.

The bank is subject to a number of factors that could cause its future results to differ materially from current expectations. These factors are 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 2022 and beyond, most notably:

- The potential impact of consumer price changes on economic growth and corporate profitability;
- Rate and extent of anticipated interest rate changes;
- The risk of potential decline in property values;
- The economic impact arising from Covid-19;
- The economic effects of the conflict in Ukraine
- The rate and sustainability of growth in relevant economies, particularly the UK and the Eurozone.

#### Dividends

The directors declared a dividend of £31,700,000 for the period (2020:67,000,000) to be paid in 2022.

#### Directors' Interest

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

Mr. Jiuzhon Li	Chairman & Non-Executive Director – (Appointed 13/09/2021)
Mr Yu Sun	Chairman & Non-Executive Director – (Resigned 20/09/2021)
Ms. Li Ren	Non-Executive Director – (Resigned 08/07/2022)
Mr Huabin Wang	Non-Executive Director – (Appointed 01/10/2022)
Mr. Wenjian Fang	Chief Executive Officer & Executive Director
Mrs. Wei Shi	Chief Risk Officer & Executive Director
Mr. Stewart Trussler	Chief Financial Officer & Executive Director
Mr. Jonathan Spence	Senior Independent Non-Executive Director
Mr. Charles Hardy	Independent Non-Executive Director
Dr. Gerard Lyons	Independent Non-Executive Director

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.

During the year, the board determined that Mr. Jonathan Spence, Mr. Charles Hardy, and Dr. Gerard Lyons performed their roles as Independent Non-Executive Directors.

**Directors' report (continued)**

**Board and Committee Meetings 2021**

	Board	Remuneration Committee	Audit Committee	Risk Committee
Scheduled Meetings	4	4	4	5
Attended Meetings:				
Mr. Wenjian Fang	4	3	-	4
Mr. Jiuzhon Li	2	-	-	-
Yu Sun	2	-	-	-
Mr. Stewart Trussler	4	-	4*	5*
Mrs. Wei Shi	3	-	3*	5*
Ms. Li Ren	2	-	-	-
Mr. Jonathan Spence	4	-	4	5
Mr. Charles Hardy	4	4	4	5*
Dr. Gerard Lyons	4	4	-	5

\*By invitation.

Directors' attendance at these meetings are either as members or observers.

**Directors' Remuneration**

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

**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 2021 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. The board considered financial forecasts running out to December 2023 which included the latest business assumptions. The Board has taken in to consideration the current economic environment, the bank's business model, financial forecast and capital requirements and is satisfied that it has the resources to continue in business for a period of at least 12 months from the date of this report. In addition the going concern assessment also considered the potential effects of the current conflict in the Ukraine and the ongoing specific Covid-19 stresses including the bank's ability to continue to meet customer's needs. The Board further considered various additional stress scenarios including stresses on the bank's mortgage and aircraft portfolios, and significant downward revisions to the financial forecast over the assessment period. These stresses were identified as the most likely challenging scenarios the bank would face should there be a resurgence of the Covid-19 pandemic and this have a higher economic impact than currently anticipated with the forecast. The Board considered the effect of these stresses on the bank's capital and liquidity resources, which remain strong.

After due consideration the Board is of the opinion that the bank will continue as a going concern for a period of at least 12 months from the date of this report, generating cash flows from its continuing operations, but taking additional comfort from a two year financial forecast and a strong capital position to support this assumption.

Furthermore, the Board is not aware of any material uncertainties that may cast significant doubt on the bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

**Directors' report (continued)**

**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 of the financial statements.

**Employees**

- 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, sexual orientation 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.

**Engagement with suppliers, customers and others**

The directors are aware of the importance of building good business relationships with customers, suppliers and others. The bank publishes payment practices report biannually and is committed to treating our customers fairly. The directors are also aware of the role the bank plays within the community and are committed to playing an important role within the local economy. The directors make business decisions whilst considering the effects on all these relationships.

**Streamlined Energy and Carbon Reporting**

Management of resources and the need to embed sustainability is an important issue for the bank. The 2019 UK Government Environmental Reporting Guidelines and the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) were followed. The 2021 UK Government GHG Conversion Factors for Company Reporting were used in emission calculations as these relate to the majority of the reporting period. The energy data was collated using existing reporting mechanisms. Invoices have been utilised where available, and wgroup's share areas of buildings are leased, sub metering data has been used. For business mileage in company owned and employee-owned vehicles, expense and mileage records have been used. These methodologies provided a continuous record of electricity, natural gas, and transport fuel use. Gross calorific values were used except for mileage energy calculations as per Government GHG Conversion Factors.

The emissions are divided into mandatory and voluntary emissions according to the 2018 Regulations, then further divided into the direct combustion of fuels and the operation of facilities (scope 1), indirect emissions from purchased electricity (scope 2) and further indirect emissions that occur as a consequence of company activities but occur from sources not owned or controlled by the organisation (scope 3).

Directors' report (continued)

Streamlined Energy and Carbon Reporting (continued)

Breakdown of energy consumption used to calculate emissions (kWh):

Energy type	2021	2020
<b>Mandatory requirements:</b>		
Natural Gas	652,382	658,844
Purchased Electricity	2,660,293	2,718,159
Petrol	2,478	1,384
Diesel	7,883	5,257
Transport Fuel Employee-Owned Vehicles	6,022	1,684
<b>Total energy (mandatory)</b>	<b>3,329,058</b>	<b>3,585,328</b>

Breakdown of emissions associated with the reported energy use (tCO<sub>2</sub>e)

Emission source	2021	2020
<b>Mandatory requirements:</b>		
<u>Scope 1</u>		
Natural Gas	119.5	121.1
Petrol	0.6	0.3
Diesel	2.0	1.3
<u>Scope 2</u>		
Purchased Electricity	564.9	633.7
<u>Scope 3</u>		
Transport – Business travel in employee-owned vehicles	1.5	0.4
<b>Total gross emissions (mandatory)</b>	<b>688.5</b>	<b>756.8</b>

**Directors' report (continued)**

**Streamlined Energy and Carbon Reporting (continued)**

**Intensity ratios (mandatory emissions only)**

<b>Tonnes of CO2e per 1,000 m2 occupied floor area</b>	<b>2021</b>	<b>2020</b>
Lothbury HQ	67.5	76.9
Cannon Street - 6th floor	74.0	-
Cannon Street - 4th floor	52.5	32.6
Princes St - 7th floor	18.2	44.1
Gresham Street - 3rd floor	21.1	6.5
Gresham Street - 6th floor	16.8	-
Manchester Branch	27.3	31.0
London Chinatown Branch	35.1	42.0
Glasgow Branch	24.9	31.2
Birmingham Branch	21.7	36.7
Residential Flats	1.4	7.6
All Sites and Transport	54.3	62.6

**Intensity Ratio**

The primary intensity ratio is total gross emissions in metric tonnes CO2e (mandatory emissions) per 1,000 m2 of occupied floor area. This metric is considered relevant to the Company's energy consuming activities and provides a good comparison of performance over time and across different sectors of the business.

**Streamlined Energy and Carbon Reporting**

**Energy efficiency action during current financial year**

The management of resources and the need to embed sustainability is an important issue for Bank of China. In the period 1 January 2021 to 31 December 2021, the focus has been on LED lighting upgrades, improving energy efficiency at the following locations:

- 1 Lothbury - upgrade of all emergency lighting to LED
- 6th floor Cannon Street - Full refurbishment and LED lighting upgrade

**Political Donations**

The bank made no political donations during the year (£nil 31 December 2020)

**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.

1 Lothbury  
London  
EC2R 7DB

On behalf of the Board,



Wenjian Fang  
Chief Executive Officer  
Board Director

20 October 2022

# Bank of China (UK) Limited

## Financial Statements for the year ended 31 December 2021

### Strategic report

#### Business Review

As at 31 December 2021, Bank of China (UK) Limited (“BOC UK” or the “bank”) had total assets of £2,151 million (2020: £1,893 million).

The bank’s assets are primarily financed by retail and corporate deposits. The bank continues to focus its attention on developing its customer deposits base and this reflects its determination to develop corporate banking services to help in meeting the bank’s funding requirements.

The bank generated a post-tax profit of £31.5 million during 2021 (2020: £35.2 million).

#### Covid-19

To assess the economic impact arising as a result of the coronavirus the bank has performed an internal risk assessment of its corporate customers, with the airline and travel industry identified as particularly at risk. The bank has also considered the potential future impact as part of the going concern assessment (see page 6). The bank will continue to monitor and stress test movements in credit ratings to mitigate risks as they evolve.

#### Dublin Branch

The Dublin Branch commenced operation in July 2017 focusing on corporate lending to customers operating in Ireland. Due to the UK’s exit from the EU the Bank lost its passporting rights. As a consequence with effect from 1 September 2021 the Bank’s Dublin Branch’s operations were transferred to another BOC Group entity incorporated in the EU.

#### Retail Banking

As the first line of client interaction the bank’s Personal Banking business continues its direct support and implementation of the Group’s commercially global strategy, which remains “to build BOC into a world-class bank in the new era”, whilst also improving the bank’s proposition and maintaining its leading peer position amongst local Chinese banks. In accordance with the bank’s clear strategic development plan, and with strong support from BOC Group, the bank is well positioned to support its clients’ interests in the region and add value to the retail customer experience in the UK.

Throughout 2021 this area has made significant progress in balancing prudent business expansion and solutions to improve the bank’s growing financial services platform, and enhancing its oversight arrangements with strict adherence to the local compliance and risk management requirements. New innovations in digital transformation have been launched within mobile banking, through electronic statements, biometric payments and password free remittance. Additionally the bank’s smart outlet initiative has seen humanoid robots deployed in two branches, with the all in one acquiring service embedding QR code payments, the introduction of local card production as well as finalising the technical pathways for the bank’s attestation and open banking solutions. Commercial focus has been on improving the bank’s scenario based services specifically in the four areas of savings, investing, cross-border and local consumption for ongoing business development, with a strong compliance culture at its core and high discipline in achieving the bank’s goals despite challenging market conditions. The practical delivery of the 1.5 line of defence model has further enhanced the bank’s risk and compliance management generally, building on existing robust controls, with working groups and scheduled operational inspections having been fully embedded into the bank’s daily operations. Additionally the bank’s wider contributions and valuable second line collaborations, in areas such as the Enterprise-wide Risk Management (“ERM”), culture and conduct risk initiatives, leave the business with the improved tools to support its clients more effectively in the future, reinforcing strong foundations and adding to the bank’s record of delivering on its commitments in this sector.

**Strategic report (Continued)**

**Business Review (Continued)**

**Corporate Banking**

While the pandemic stretched and challenged the banking industry, the bank continued to provide diverse commercial banking products services to corporate customers, including credit facilities, deposits, trade services, online banking, cash management, foreign exchange and RMB related products. Currently, the bank is actively seeking opportunities to expand the customer base which is primarily made up of Chinese clients in the UK and Chinese clients with cross-border requirements and “Going Out” businesses. Throughout the year, the bank focused on providing green finance to low-carbon projects, and promoting existing corporate customers to take actions to contribute to the decarbonisation initiative through incentive mechanisms on product offerings.

**Principal Risks and Uncertainties**

The effect of one or a combination of factors, referred to on page 5 under future developments, could make the business environment a challenging one with regard to possible credit impairments and present difficulties 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, operational risk, legal & compliance risk, IT risk, strategic risk and reputational risk. Of these risks, credit risk and liquidity risk are deemed to be the principal risks which the bank is exposed to.

The Board, Board level Committees and other senior key staff carry out a continual assessment of the principal risks facing the bank and are of the opinion that systems and controls are sufficiently robust to identify threats to its business model, future performance, solvency or liquidity.

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.

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 its 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 monitors the mismatch of maturity dates and holds a stock of liquid assets which could be sold at short notice if the need arose. In addition to meeting Pillar 1 and Pillar 2 liquidity regulatory requirements, the bank assesses its compliance with the overall liquidity adequacy rule (OLAR) on an ongoing basis and under a number of severe and plausible stress scenarios. The Board, as part of the going concern assessment, took additional comfort from a two year financial forecast which also provided comfort 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. Further information on the management of liquidity risk is disclosed in Note 6 (b) of the notes to the financial statements.

**Strategic report (continued)**

**Business culture**

The bank acts on its responsibility to protect customers, communities and stakeholders.

Anti-bribery and corruption

The bank is committed to high standards of ethical behaviour and operates a zero tolerance approach to bribery and corruption. The bank considers such activity to be unethical and contrary to good corporate governance.

Human rights

The bank is committed to respecting human rights principally as they apply to the employees, customers, suppliers and other stakeholders through business activities.

**Strategic report of the Directors (continued)**

**Section 172 Companies Act 2006 statement**

The Board of Directors (“Board”) gives regard to the Wates Corporate Governance Principles for Large Private Companies (“Wates Principles”), published by the Financial Reporting Council in December 2018. Under 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 its shareholder, and in doing so, to have regard (amongst other matters) to the following (“S172(1) matters”):

- the likely consequences of any decision in the long term;
- the interests of the Company’s employees;
- the need to foster the Company’s business relationships with suppliers, customers and others;
- the impact of the Company’s operations on the community and the environment;
- the desirability of the Company maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between members of the Company.

Engaging with stakeholders to deliver long-term success is a key area of focus for the Board, thus the Board takes into account the impact on a wide range of stakeholders when making decisions by relying on information which reflected stakeholders’ views.

**Long-term Strategy and Vision**

The Board operates an agenda of standing items appropriate to the bank’s operating and reporting cycles as influenced by legal, regulatory and other imperatives. Items for Board approval or information only are defined clearly.

The Board annually approves a rolling five year strategic plan (“Plan”). The most recent version of the Plan is for 2021-2025 and it contains a long-term vision to 2035. The Board monitors the Plan’s implementation through detailed management information on operating and financial performance. Before approving the Plan, the Executive Management Committee engages the Directors in strategy town hall meetings and a ‘deep dive’ session on the draft Plan. The Board considers factors as wide as the UK and China macro-economic conditions, the Pandemic, the competition and political and market conditions.

In setting the Plan, the Board considers the following key stakeholders:

**Employees**

Recent years have witnessed an enhanced menu of flexible benefits and wellbeing initiatives on offer to employees. Virtual ‘Stay Connected’ and Wellness sessions were held regularly and fitness sessions organised by the bank were held daily during 2021.

To further connect people, the bank’s former quarterly staff newsletter became a monthly publication in 2021. It continued to share best practice, achievements and success throughout the bank, to promote a sense of togetherness. The annual staff Christmas Party and Staff Recognition Ceremony and Chinese New Year Event continued, albeit virtually.

In 2021, the bank undertook Employee Sentiment Surveys and rolled out its first People Charter. A Diversity and Inclusion Framework was also created.

Members of the Board also took every opportunity to maintain visibility despite the restriction caused by the Pandemic, to ensure the right tones were set and communicated consistently to all levels of the workforce. The Board members joined Zoom events organised by the bank to boost morale and promoting an ethical corporate culture.

A virtual annual Senior Management Performance Self-Assessment Presentation was delivered to staff representatives, which provided a comprehensive briefing on Executive Management performance. A ‘speak up’ and ‘listen up’ culture is always encouraged. If any employee wishes to highlight any potential breaches to the Code of Conduct or other wrongdoings, they can contact the independent whistleblowing hotline or contact the Whistleblowers’ Champion directly.

**Strategic report of the Directors (continued)**

**Section 172 statement (continued)**

**Customers**

In supporting our customers during 2021, the bank has made the following efforts to ensure good outcome, in alignment of its strategic vision of remaining the first choice for China-related business in the local market and its ambition in the Environmental, Social and Governance (“ESG”) sphere:

- Enhancing customer experience - Mobile banking capabilities were further enhanced. Password-free remittance and biometric payment significantly improved the customer experience. Call Centre operating hours were extended;
- Enabling Chinese market access – local corporate clients were invited to join the 4<sup>th</sup> China International Import Expo (“CIIE”) matchmaking event via an online platform, bringing more business opportunities and Chinese market access for UK companies;
- Improving processing capability – in the area of consumer finance, the bank has strengthened its infrastructure, improving both policy and procedures to ensure that our customers could embrace the UK stamp duty stimulus of 2021;
- Easing financial difficulty – the successful introduction of our Mortgage Payment Holiday solution helped customers in financial difficulty, and
- Providing financial education - organised UK financial training sessions for students, embassy and cross-border customers to enhance their understanding of the UK financial system.

**Suppliers**

The bank engages with its suppliers through its contractual arrangements and requirements to ensure prompt payment, adhering to the Small Business, Enterprise and Employment Act 2015 (Section 3) to report on the bank’s payment performance biannually.

**Regulators**

The Board recognises the importance of continuous open and honest dialogue with our regulators. During 2021, the bank has maintained frequent contact with the UK regulators, reporting and receiving feedback on matters such as heightened credit risk, fraud risk and risks associated with Working-from-Home arrangements, as well as protecting vulnerable customers, protecting the wellbeing of staff who continued to work onsite, etc.

In the past year, the Executive Directors and other members of EMC attended regular virtual meetings with the PRA. The PRA and the FCA were also provided with timely management information.

**Shareholder**

The direction of the BOC UK’s sole shareholder continued to cascade down into the strategy planning of the bank. Following the establishment of the bank’s ESG Working Group in November 2020, the CEO continued to chair the meetings of this Working Group, echoing the shareholder’s strong commitment to this area.

Due to the constraint of the Pandemic, the Board was not able to hold a Board meeting in China, to gain additional direct access to the shareholder, as would be the case under normal circumstance. However, iNEDs continued to be provided with relevant information about the shareholder when requested. Directors also receive a regular in-house research publication China Economic Watch which covers Chinese key economic indicators, macro-economic trends, key regulatory pronouncements and topical issues.

**Strategic report of the Directors (continued)**

**Section 172 statement (continued)**

**Communities and Environment**

The bank continued to take an active part in the local communities. Our retail branches remained open throughout the lockdown periods to support our clients' needs.

The bank has also been active in supporting various initiatives of the Lord Mayor's Appeal. Taking the annual City Giving Day for example, 2021 saw another new record of funds raised by our colleagues. The bank also integrated the promotion of Diversity and Inclusion into the City Giving Day event.

Moreover, the bank continued to support culture exchange between China and the UK, by supporting Chinese New Year celebrations in London, Manchester and Edinburgh. The bank also sponsored the Chinese Language Competition for Foreign Students for the 10th consecutive year.

The bank continued to support the Group's Green Finance Strategy, actively assisting in the COP26 summit in Glasgow, continue to seek ESG improvements. The bank also sponsored the City of London's Green Horizon Summit.

The Board takes the bank's corporate citizenship seriously and ensure the required level of transparency through the approval and the publication of the following:

**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](http://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](http://www.bankofchina.com/uk).

**Modern Slavery Act**

Further information regarding the bank's approach to modern slavery are contained in the Slavery and Human Trafficking Statement made under the requirements of the Modern Slavery Act 2015. This statement will be published on the bank's website shortly after the approval of these financial statements at [www.bankofchina.com/uk](http://www.bankofchina.com/uk).

**Gender Pay**

Further information relating to the bank's Gender Pay Gap was published on its website [www.bankofchina.com/uk](http://www.bankofchina.com/uk) and the designated government website [www.gov.uk/genderpaygap](http://www.gov.uk/genderpaygap) in April 2021 in compliance with the Equality Act 2010 (Gender Pay Gap Information) Regulations 2017.

1 Lothbury  
London  
EC2R 7DB

On behalf of the Board,



Wenjian Fang  
Chief Executive Officer  
Board Director

20 October 2022

## Corporate Governance Report

The Board of Directors (the “Board”) gives regard to the Wates Corporate Governance Principles for Large Private Companies (“Wates Principles”), published by the Financial Reporting Council in December 2018, which are applicable to companies reporting for financial years starting on or after 1 January 2019.

Whilst not meeting the criteria as a Large Private Company the bank is committed to best practice in corporate governance and have adopted the Wates Principles.

The following summarises how the bank has applied the principles over the past year:

### Principle 1 – Purpose and Leadership

The bank was incorporated in 2007 and together with Bank of China Limited London Branch (“London Branch”), has been one of the preferred choices for both Chinese “Going-out” customers and local customers seeking to establish relationships with Chinese banks.

The refreshed Board Terms of Reference (“ToR”) state that the purpose of the Board is to provide entrepreneurial leadership of the bank within a framework of prudent and effective controls. The Board sets the strategic objectives and risk appetite for the bank and its subsidiary, China Bridge Group (UK) Limited, and is responsible for approving capital and operating plans presented by the EMC. 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.

The bank shares its Parent’s (Bank of China Limited) mission, which is “Bridge China and the World for the Common Good” and aligns its core values with its Parent’s, i.e. Provide Excellent Service, Innovate with Prudence, Uphold Openness & Inclusiveness, Collaborate for Mutual Growth, which build on the bank’s existing commitment to good governance and social responsibility.

The Board ensures that the bank’s obligations to its shareholder and other key stakeholders are understood and met. To achieve that outcome, the Board considers the views and interests of all other key stakeholders during Board discussions and decision-making.

### Principle 2 – Board Composition

The Board comprises a Chairman, CEO, CFO, CRO, a Group Non-Executive Director, and three Independent Non-Executives (“iNEDs”), one of them being the Senior Independent Director (“SID”). The size and composition of the Board is appropriate to the bank’s size and nature of business. With four Chinese nationals, four British nationals, and two being women, we consider the diversity on the Board is good. The Board is also committed to making the bank an increasingly inclusive environment.

The bank modernised its Articles of Association (“AoA”) in 2021, to reflect the latest good practice. Following the provisions in the AoA, the appointment or removal of a member of the Board requires the approval of the sole shareholder. iNEDs are appointed for three-year renewable terms. The independence of any iNED who had served on the Board beyond nine years from the date of his appointment should be subject to particularly rigorous review.

**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 EMC led by the CEO. The CEO is responsible for recommending strategy to the Board, leading the Executive Directors and for making and implementing operational decisions.

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 judgement and scrutiny being asked of the Board, providing objective challenge to EMC. 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.

**Corporate Governance Report (continued)**

**The independence of a Non-Executive Director** is determined by assessing against the following essential criteria:

- 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 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.

Further iNeds are appointed for an initial three year term which can be extend twice only so as not to serve for a total of more than 9 years. Mr Jonathan Spence 9<sup>th</sup> year term expired in June 2022 and will step down as an iNed once his successor has been granted regulatory approval.

All directors must report any changes in their circumstances to the Board and the bank's sole shareholder reserves 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.

The iNEDs attend and act as respective chairs to relevant Board committees (as noted on pages 20 to 22) so that they are able to effectively challenge and influence diverse areas of the bank.

**Directors update their skills, knowledge and familiarity** with the bank by engaging with EMC, Heads of Department, and by attending appropriate external seminars and training courses, albeit mostly by virtual means during 2021.

A three-part training programme was in place for Non-Executive Directors. This comprised:

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

In the initial phase of training, Non-Executive Directors were provided with guidance outlining their responsibilities as a director of a UK limited company and also an overview of the bank and its businesses.

All Directors have access to the advice and services of the Company Secretary and may, if they wish, take professional advice at the company's expense. During 2021, the Board was provided with regular updates on Corporate Governance and Regulatory Responsibilities.

**Principle 3 – Director Responsibilities**

**Clear lines of Accountability and Responsibility supports effective decision-making.** Management Responsibilities Maps and Statements of Responsibilities introduced by the Senior Managers Regime ensure that Board members have a clear understanding of their respective accountability and responsibilities.

The Board has a programme of four regular Board meetings every year, plus ad hoc meetings and potentially additional time for strategic planning such as a virtual two-day Strategic Development Event in June 2021.

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.

### Corporate Governance Report (continued)

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, the SID and/or the CEO at any time.

During the year ended 31 December 2021, it was considered that all Directors contributed the time necessary to discharge their responsibilities to the Board. Potential conflicts of interest were declared and managed. During 2021, all Board meetings were conducted virtually due to Covid-19 difficulties.

The Board pays close attention to the **Integrity of Information** as it relies on good management information (“MI”) to monitor and challenge the performance of the bank and make informed decisions. 2021 has seen further improvement to the MI packs presented to respective Board committees and the Board. As part of the actions driven by the Enterprise Risk Management and Control Effectiveness Review (“ERM Review”), the bank has issued standard templates of meeting agendas and minutes to achieve a level of consistency in recording decisions across all committees. Guidance on MI was issued to ensure that the information provided to the committees was fit for purpose.

The Implementation Steering Committee chaired by the SID continued to provide an oversight of implementation of recommendations arising from internal and external reviews including the above ERM Review and the Culture Programme.

### Principle 4 – Opportunity and Risk

The Board promotes a prudent approach to risk whilst seeking out opportunity. Long term strategic opportunities are highlighted in the rolling Five-Year Strategic Plan, which is presented to the Board for approval every year. Short term opportunities are discussed at management committee levels at a more regular interval.

The bank’s key risks, uncertainties and mitigations are outlined in the Strategic Report on page 11. The company’s systems and controls are designed to manage, rather than to entirely eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not an absolute assurance against a risk materialising.

The Board is responsible for the bank’s system of **internal control**. The Board receives regular reports and updates from the EMC and the Board Audit Committee on the effectiveness of the bank’s internal control system. The system of internal control is also subject to regulatory oversight.

### Principle 5 – Remuneration

The Board established a Remuneration and Nominations Committee to discharge its responsibilities for ensuring the Board and EMC retain appropriate structure, size and balance of skills, and designing remuneration structures and policies, to support the strategic objectives and values of the bank. It benefits from the Chairmanship of an iNED to ensure that executive remuneration structures are aligned to the long-term health of the company, taking into account pay and conditions elsewhere in the industry, the local market and shareholder influence.

The Remuneration and Nominations Committee’s work in detail is set out on pages 20 to 21. The Directors’ remuneration is disclosed on page 98.

### Principle 6 – Stakeholder Relationships and Engagement

The Board recognises the importance of stakeholder engagement, which means good relationships with all our stakeholder community including our sole shareholder, employees, regulators, customers, suppliers and the local communities. More details are contained in the S172(1) Statement within the Strategic Report on pages 14 to 16.

## Board Committee Reports

### Board Audit Committee Report

The Audit Committee comprises two iNEDs: Mr. Charles Hardy, Chairman, and Mr. Jonathan Spence, who are the only voting members. The CRO, the CFO, the COO, the Chief Compliance Officer (“CCO”) and the Head of Internal Audit Department are standing attendees together with the heads of the second line risk departments. During 2021, four meetings were held, on a quarterly basis. The external auditors rotated during the year but, between the two firms, attended all four meetings.

During the course of the year, the Committee considered the effectiveness of the bank’s internal control systems (including the impact of remote working and other difficulties brought about by the Bank’s response to the COVID epidemic), risk management, and compliance with financial services legislation and regulations, via the following key activities:

- The Committee received and reviewed all internal audit reports issued during the year. Progress in resolving the issues arising from those reports was monitored;
- During the year, the Internal Audit Department has also had a vital role to play in validating the remedial actions identified in the ERM review, and the Committee has received regular updates on the progress of this important exercise;
- Quarterly updates were received from the Credit Management, Risk Management, Legal and Company Secretariat and Financial Crime and Compliance Departments and these were considered and discussed.

In addition, the Committee:

- Considered and approved the annual Internal Audit Department Plan;
- Participated in the process for appointing the new external auditors, including receiving a presentation from the preferred candidate, and subsequently made a recommendation to Board;
- Approved the scope of the external auditors’ work and separately assessed the effectiveness of the prior year process;
- Approved non-audit services;
- Commenced an assessment of the effectiveness of the Internal Audit Department which is ongoing. The adequacy of the resources available to the Internal Audit Department was also considered and an increase in the approved headcount was noted. The effectiveness of the Audit Committee itself was considered as part of the Board assessment process;
- Reviewed in detail the annual financial statements and the quality and acceptability of the related accounting policies, practices and financial reporting disclosures.

After each meeting, a report to the Board was presented on the principal matters discussed to ensure all Directors were informed of the Committee’s work.

In addition, the Committee considered and reviewed its ToR.

### Board Remuneration and Nominations Committee Report

The Remuneration and Nominations Committee comprises three Directors: Dr. Gerard Lyons, Chairman and Mr. Charles Hardy are voting members (iNEDs) and Mr. Wenjian Fang (Executive Director) is a non-voting member.

Ms. Tracey Rutherford, Head of Human Resources (“HR”), and Ms. Wen Liu, Deputy Head of HR have a standing invitation to attend the Committee meetings but will not have authority to vote.

Board Remuneration and Nominations Committee Report (continued)

The Committee is responsible for supporting and overseeing the implementation of an effective remuneration programme within the bank and ensuring that the bank operates an effective HR function that meets all applicable statutory and regulatory requirements. The Committee is not involved in setting the remuneration of its members. The Committee aims to meet on a quarterly basis and met on six occasions in 2021 (four quarterly Committee meetings and two ad hoc meetings).

The Committee has reviewed its ToR in order to focus on areas consistent with that needed for a HR function to support the bank's Five-Year Strategic Plan. This has led to a number of developments including the continued improvement of the MI pack which now addresses a wider range of issues and better assessment of the increased staff turnover in the bank, which has seen an increase in 2021.

Key activities undertaken in 2021 were reviewing and monitoring the Culture Programme and Business As Usual deliverables, including:

- Supporting business development initiatives and relevant organization development;
- Undertaking annual reward programmes;
- Undertaking the annual Employee Recognition Programme;
- Undertaking the annual performance management process;
- Continued implementation of the Learning and Development initiatives including participation in "Learning at Work" week, internal stay connected sessions, and technical and soft skills programmes to continue to develop internal capabilities;
- Continued implementation of a Management Development Programme with an external business school aligned to the bank's succession planning framework;
- Continued consideration of the impact of the Senior Manager & Certification Regime;
- Implementation of the HR Payroll system to align with the HRIS (MyHR);
- Review of the annual flexible benefits scheme;
- Review of the headcount budget for 2021 and achievement of headcount increase in alignment with business strategy inclusive of Enterprise Risk Management and Regionalisation, and staff turnover data throughout 2021 with appropriate actions being taken should anything adverse be noted;
- Continued review of the implementation of the FCA Remuneration Code and the impact on the bank and employees as well as the Remuneration Policy and application and impact of Capital Requirements V Directive;
- Continued focus on embedding the People Charter across the bank.

There are a number of priority areas that the Committee plans to continue to focus on in forthcoming meetings, including:

- Continued focus on the Culture Programme with the implementation and embedding of relevant initiatives such as Diversity & Inclusion;
- Implementation of a Continuous Professional Development policy across the bank with a focus on learning and development across all departments;
- Implementation of a Health and Wellbeing strategy to continue supporting employees with relevant tools and resources
- Continued focus on the resourcing strategy of the bank;
- Continued focus on succession planning for the bank;
- A reassessment of the year end performance management process to ensure it is aligned fully to the annual salary review and discretionary bonus allocations.

**Corporate Governance Report (continued)**

**Board Risk Committee Report**

The Board Risk Committee comprises three Directors: two iNEDs, Mr. Jonathan Spence, Chairman, Dr. Gerard Lyons, voting members and one Executive Director, Mr. Wenjian Fang, voting member. The Chairman of Board Audit Committee, the CRO, the CFO, COO, the CCO, the General Manager of IT Centre Europe, Head of Risk Management Department, Head of Credit Management Department and Head of Financial Crime and Compliance Department were standing attendees.

During 2021, five meetings were held (including one ad-hoc meeting) on a quarterly basis. The Committee is responsible for the oversight and implementation of risk strategy and risk appetite within the bank. It exercises its oversight of risk management performance via the following key activities:

- Consider any matters within the operation of the London Branch that could have a material impact on the bank, which fall within the purview of the Committee, as and when they are raised to the Committee, and determine whether such matters need to be raised with the Board for recommendation or observation to the General Manager of the London Branch;
- Review, approve and recommend to the Board for approval of the Risk Appetite Framework of the bank;
- Review, approve and recommend to the Board for approval qualitative statements of risk appetite for all key risks and quantitative risk appetite measures for those key risks, all in accordance with the Risk Appetite Framework;
- Review, approve and recommend to the Board for approval the ICAAP, ILAAP stress testing framework prior to approving ICAAP and ILAAP;
- Review, approve and recommend to the Board for approval the Recovery Plan;
- Review, approve and recommend to the Board for approval the bank's important business services, impact tolerances and written self- assessment document;
- Review and recommend to the Board for approval the annual Slavery and Human Trafficking Statement;
- Review and recommend to the Board for approval an annual statement confirming that the bank's Single Customer View (the "SCV") arrangements are effective and satisfy all relevant SCV requirements;
- Review and approve delegated discretionary powers to the CRO;
- Oversee risk management performance across the bank, including:
  - Credit Risk
  - Market Risk
  - Operational Risk
  - Liquidity Risk
  - Compliance Risk
  - Financial Crime Risk
  - Conduct Risk
  - Legal Risk
  - Strategic and Reputational Risk
  - Operational Resilience Risk
  - IT Risks
  - Cyber Security Risk
  - Data Security Risk
  - Climate Risk
- Report to the Board Remuneration and Nominations Committee on any material failure of risk or compliance management which may be taken into account in the assessment of the discretionary bonus allocations of certified staff and identified Material Risk Takers or employees;

**Corporate Governance Report (continued)**

- Provide direct oversight to the Risk Management & Internal Control Committee ("RMICC") and review its updates on a quarterly basis, integrated from the following risk related committees under RMICC (to which the Committee shall provide indirect oversight):
  - Credit Risk Management & Decision Committee ("CRDC")
  - Operational Risk Committee ("ORC")
  - Compliance Committee
  - Operational Resilience & Controls Committee ("ORCC")
  - Asset and Liability Management Committee ("ALCO") – Market Risk and Liquidity Risk only
  - IT Management Committee ("ITMC") – IT Risks, and Cyber Security and Data Security Risks

After each meeting, a report to the Board was presented on the principal matters discussed to ensure all directors were informed of the Committee's work.

**Annual Performance Review Process**

The effectiveness of the Board and the three Board level committees is assessed annually. The Board undertook its 2021 effectiveness review via a focused questionnaire, facilitated by external advisors, following its 2020 review via interviews by the same independent external advisor. The result of these self-assessments concluded that the Board was generally seen as functioning well.

**Statement of Directors' Responsibilities in Respect of the Financial Statements**

The following statement, which should be read in conjunction with the independent auditors report on page 25 to 32, is made by the directors to explain their responsibilities in relation to the preparation of the Directors' Report, Strategic Report and Financial Statements.

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with UK-adopted international accounting standards.

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

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

The directors are responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are responsible for the maintenance and integrity of the Bank's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



Wenjian Fang  
Chief Executive Officer  
Board Director  
20 October 2022

## Report on the audit of the financial statements

### Opinion

In our opinion, Bank of China (UK) Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 December 2021; the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity and the Statement of Cash Flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Board Audit Committee.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in note 13 to the financial statements, we have provided no non-audit services to the company or its controlled undertakings in the period under audit.

### Our audit approach

#### Context

We were first appointed as auditor by the directors for the year ended 31 December 2021. The core business activities of the company have not significantly changed in the year. In designing our audit, we understood the company's key processes and business activities, including obtaining an understanding of the company's control environment. As part of our initial audit procedures we reviewed the predecessor auditor's working papers. The company is based wholly in the United Kingdom, and does not prepare consolidated financial statements. We therefore audited the company as a standalone entity.

## **Overview**

### Audit scope

- As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. The scope of our audit and the nature, timing and extent of audit procedures performed were determined by our risk assessment and other qualitative factors.

### Key audit matters

- Expected credit losses on loans and advances to customers
- Valuation of level 3 financial instruments recorded at fair value

### Materiality

- Overall materiality: £3,109,000 based on 1% of net assets.
- Performance materiality: £2,332,000.

## **The scope of our audit**

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

### **Key audit matters**

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
<p><b>Expected credit losses on loans and advances to customers</b></p> <p>Refer to the company's accounting policy in note 3(h), and management's critical estimates and judgements set out in note 4(b).</p> <p>Impairment allowances represent management's best estimate of expected credit loss (ECL) within each portfolio at the balance sheet date. The identification and the determination of allowances is inherently judgemental. Under IFRS 9 management is required to determine ECLs that are expected to occur based on possible default events over a 12 month period or the remaining life of the asset, depending on the categorisation of the individual asset. This categorisation is determined by an assessment of whether there has been a significant increase in credit risk (SICR) of the borrower since loan origination. It is also necessary to consider the impact of different future macroeconomic conditions in the determination of ECLs. Management uses a number of models to achieve compliance with the requirements of IFRS 9. The determination of ECLs is complex and a number of significant assumptions are used in the estimation process.</p> <p>The overall macroeconomic environment remains challenging, given the ongoing impact of COVID-19, inflationary pressures and the interest rate rises. As a result, uncertainty still remains around the measurement of ECLs.</p> <p>The company has a corporate loan portfolio of loans and advances to customers amounting to £186.9m at 31 December 2021 with an associated allowance for ECL of £27.6m. We consider the following assumptions used in the determination of ECL for the corporate loan portfolio to be significant and consequently they were an area of focus in our audit work:</p>	<p>We have performed the following audit procedures:</p> <p>We understood and evaluated the design of the key controls over the determination of ECLs. We tested the review and approval of periodically assessed risk ratings for individual corporate borrowers.</p> <p>We noted no significant exceptions in the design or operating effectiveness of the above control.</p> <p>In addition, we performed the substantive procedures described below.</p> <p><b>Internal credit ratings for corporate borrowers</b></p> <p>For a sample of internal credit ratings, we obtained management's internal credit rating assessments and, supported by our independent analysis, tested whether the ratings were in accordance with the bank's ratings framework, including whether the assessment considered the current economic circumstances.</p> <p><b>Individually assessed cases</b></p> <p>For a sample of credit impaired loans, we evaluated the specific circumstances of the borrower, including the latest developments, and the scenarios and weightings used to measure the impairment provision, and whether key judgements were appropriate.</p> <p>We tested the valuation of collateral held and challenged management on significant assumptions and key inputs. Where applicable, we engaged our aviation experts to assess the collateral valuation methodology used by management experts.</p> <p>We also assessed the disclosures in note 4(b), regarding the critical judgments and accounting estimates involved in determining ECL and found them to be appropriate.</p>

Key audit matter	How our audit addressed the key audit matter
<p><b>Expected credit losses on loans and advances to customers (continued)</b></p> <ul style="list-style-type: none"> <li>the determination of internal risk ratings for corporate borrowers from higher risk industries affected by ongoing impact of COVID-19.</li> <li>In the corporate loan portfolio, individual impairment assessments are performed for credit impaired loans and advances which are categorised as Stage 3. Our focus was on the significant assumptions applied by management in estimating impairment allowances for Stage 3 credit impaired loans such as the valuation of collateral including the cash flow assumptions.</li> </ul>	<p>Whilst we noted certain observations in relation to application of internal risk rating for corporate borrowers and certain assumptions in relation to collateral valuation, our testing did not highlight any material differences and therefore we found management's judgements used in the determination of the ECLs to be reasonable.</p>
<p><b>Valuation of level 3 financial instruments recorded at fair value</b></p> <p>The company has a portfolio of loans which are recorded at a fair of £64.6m as at 31 December 2021. The loans are classified as Level 3 in the fair value hierarchy because the fair value estimation contains unobservable inputs.</p> <p>The estimation of the fair value of the loans requires models which utilise both observable and unobservable inputs. The financial instruments are classified as Level 3, per the IFRS 13 fair value hierarchy as the significant inputs are unobservable. The most significant assumption used in estimating the fair value relates to the determination of an appropriate discount rate, which we have considered as a significant risk and was an area of focus in our audit work.</p>	<p>We have performed the following audit procedures:</p> <ul style="list-style-type: none"> <li>We understood and evaluated the design and implementation of controls relating to estimating the fair value of the loans;</li> <li>We assessed the overall reasonableness of the methodology used;</li> <li>We engaged our aviation experts to assess the appropriateness of the discount rate used within the valuation model;</li> <li>We derived our own independent estimate of the discount rate and compared this to that used by management;</li> <li>On a sample basis we agreed other key inputs to the valuation, such as estimated future cash flows and related due dates, to the underlying contractual agreements;</li> <li>We tested the mathematical accuracy of the fair value calculations; and</li> <li>We also assessed the disclosures in note 4(a), regarding the critical judgments and accounting estimates involved in determining fair value and found them to be appropriate.</li> </ul> <p>Whilst we noted observations in relation to the discount rate used by management, our testing did not highlight any material differences, and we concluded that the estimated fair value of the level 3 financial instruments was reasonable.</p>

**Independent auditors' report to the members of Bank of China (UK) Limited (continued)**

**How we tailored the audit scope**

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

All of the company's activities are based in the UK. The scope of our audit and the nature, timing and extent of audit procedures performed were determined by our risk assessment. We performed audit procedures over all material account balances and financial information of the company, with reference to the materiality level set out below.

**Materiality**

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

<i>Overall company materiality</i>	£3,109,000
<i>How we determined it</i>	1% of Net assets
<i>Rationale for benchmark applied</i>	We considered net assets to be the most appropriate benchmark. The company is a wholly owned subsidiary of Bank of China Limited. The principal stakeholders include the shareholders and directors of the parent company who have their equity invested, and regulators who would be focussed on the adequacy of capital resources. Also, net assets, although a financial accounting measure, is more closely aligned with regulatory capital. Accordingly, we concluded that net assets is the more relevant measure considering the principal stakeholders of the company, and is an accepted auditing benchmark.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £2,332,000 for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount in the middle of our normal range was appropriate.

We agreed with the Board Audit Committee that we would report to them misstatements identified during our audit above £155,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

## Conclusions relating to going concern

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- a detailed risk assessment to identify factors that could impact the going concern basis of accounting, including the effect of COVID-19;
- Consideration of the company's regulatory capital and liquidity positions and forecasts thereof, regulatory correspondence and reports provided to Board Risk Committee;
- Evaluation of the results of stress testing performed by management;
- Evaluation of the liquidity facilities available to the company, for example from the immediate parent company; and
- Reviewing the appropriateness of the disclosures in the Annual Report.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

## Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

## Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

## Responsibilities for the financial statements and the audit

### Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

### Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to the relevant rules of the Prudential Regulatory Authority ('PRA') and Financial Conduct Authority ('FCA'), and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries and management bias in accounting estimates and judgements. Audit procedures performed by the engagement team included:

- Discussions with management and those charged with governance including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Reading key correspondence with regulatory authorities such as the FCA and the PRA;
- Reading minutes of the Board and Board Audit Committee to identify any matters of audit relevance;
- Identifying and testing journal entries, in particular journal entries posted by senior management and journals posted with descriptions indicating a higher level of risk;
- Incorporating unpredictability into the nature, timing and/or extent of our testing; and
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to the expected credit losses for loans and advances to customers and valuation of level 3 financial instruments recorded at fair value (see related key audit matters above).

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

**Independent auditors' report to the members of Bank of China (UK) Limited (continued)**

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

**Use of this report**

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

**Other required reporting**

**Companies Act 2006 exception reporting**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

**Appointment**

Following the recommendation of the audit committee, we were appointed by the directors on 21 October 2021 to audit the financial statements for the year ended 31 December 2021 and subsequent financial periods. This is therefore our first year of uninterrupted engagement.



Ajay Kabra (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

21 October 2022

Bank of China (UK) Limited  
Financial Statements for the year ended 31 December 2021

**Income Statement**

£000	Note	2021	2020 Restated
Interest income from loans and advances at amortised cost		<b>36,936</b>	37,223
Other interest income		-	13
Interest expense		<b>(3,650)</b>	(6,453)
<b>Net interest income</b>	8	<b>33,286</b>	30,783
Gross fee and commission income		<b>4,294</b>	3,627
Gross fee and commission expense		<b>(1,319)</b>	(1,549)
<b>Net fee and commission income</b>	9	<b>2,975</b>	2,078
Net fair value loss on financial Instruments	10	<b>1,923</b>	117
Foreign exchange gain		<b>2,590</b>	1,489
Other operating income	11	<b>83,274</b>	85,636
<b>Non-interest income</b>		<b>87,787</b>	87,242
<b>Total income</b>		<b>124,048</b>	120,103
Staff costs	12	<b>(50,154)</b>	(47,607)
Other expenses	13	<b>(8,924)</b>	(18,816)
Depreciation of plant and equipment	22	<b>(1,802)</b>	(2,342)
Amortisation of intangible assets	23	<b>(237)</b>	(256)
Provision for expected credit losses	20	<b>(23,665)</b>	(3,172)
<b>Profit before income tax</b>		<b>39,266</b>	47,910
Income tax expense	15	<b>(7,788)</b>	(12,745)
<b>Profit for the year</b>		<b>31,478</b>	35,165

Bank of China (UK) Limited  
 Financial Statements for the year ended 31 December 2021

**Statement of Comprehensive Income**

£000	Note	2021	2020
<b>Profit for the year</b>		<b>31,478</b>	<b>35,165</b>
<b>Other comprehensive income</b>			
<b>Amounts that will be reclassified to the income statement</b>			
Income and deferred tax credit relating to components of other comprehensive income	15	-	-
Foreign currency translation		<b>134</b>	<b>(59)</b>
<b>Other comprehensive income/(expense) for the year, net of income and deferred tax credit or expense</b>		<b>134</b>	<b>(59)</b>
<b>Total comprehensive income for the year</b>		<b>31,612</b>	<b>35,106</b>

Bank of China (UK) Limited  
Financial Statements for the year ended 31 December 2021

Statement of Financial Position

£000	Note	31 December 2021	31 December 2020 Restated
<b>Assets</b>			
Cash and cash equivalents	16	716,133	481,379
Loans and advances to banks	18	69,065	110,446
Loans and advances to customers	19	1,194,653	1,138,583
Derivative financial instruments	17	11	3
Prepayments, accrued income and other assets	25	87,868	78,769
Financial assets at fair value through profit and loss	21	64,659	77,482
Deferred tax assets	24	1,283	1,227
Property, plant and equipment	22	11,167	4,527
Intangible assets	23	362	529
Investment in subsidiary companies	32(b)	-	-
Current tax asset		5,979	-
<b>Total assets</b>		<b>2,151,180</b>	<b>1,892,945</b>
<b>Liabilities</b>			
Deposits from banks	26	396,254	219,378
Deposits from customers	27	1,333,523	1,215,647
Derivative financial instruments	17	5,280	8,764
Other liabilities	29	43,571	36,086
Accruals and deferred income	30	5,657	5,705
Current corporation tax liabilities		-	4,891
Impairment provision on off balance sheet products		119	310
Subordinated liabilities	28	60,000	60,000
<b>Total liabilities</b>		<b>1,844,404</b>	<b>1,550,781</b>
<b>Equity</b>			
	31		
Authorised and called up share capital		250,000	250,000
Retained earnings		56,776	92,164
<b>Total shareholders' equity</b>		<b>306,776</b>	<b>342,164</b>
<b>Total shareholders' equity and liabilities</b>		<b>2,151,180</b>	<b>1,892,945</b>

The financial statements on pages 33 to 111 were approved by the Board of Directors of Bank of China (UK) Limited and authorised for issue on 20 October 2022. They were signed on its behalf by:



Wenjian Fang  
Chief Executive Officer  
Board Director

Bank of China (UK) Limited  
 Financial Statements for the year ended 31 December 2021

**Statement of Changes in Equity**

£000	Issued share capital	Retained earnings	Foreign Currency translation reserve	Total
<b>As of 1 January 2021</b>	<b>250,000</b>	<b>92,228</b>	<b>(64)</b>	<b>342,164</b>
Profit for the financial year	-	<b>31,478</b>	-	<b>31,478</b>
Foreign exchange and other	-	-	<b>134</b>	<b>134</b>
<b>Total comprehensive income</b>	-	<b>31,478</b>	<b>134</b>	<b>31,612</b>
<b>Dividend paid</b>	-	<b>(67,000)</b>	-	<b>(67,000)</b>
<b>As at 31 December 2021</b>	<b>250,000</b>	<b>56,706</b>	<b>70</b>	<b>306,776</b>
As of 1 January 2020	250,000	57,063	(5)	307,058
Profit for the financial year	-	35,165	-	35,165
Foreign exchange and other	-	-	(59)	(59)
Total comprehensive income	-	35,165	(59)	35,106
Dividend paid	-	-	-	-
As at 31 December 2020	250,000	92,228	(64)	342,164

Bank of China (UK) Limited  
Financial Statements for the year ended 31 December 2021

**Statement of Cash Flows**

£000	2021	2020 Restated
<b>Cash flows from operating activities</b>		
Profit on ordinary activities before taxation	39,266	47,910
Adjustments for non cash items		
Depreciation and amortisation of plant and equipment and intangible assets	2,039	2,598
Net impairment loss on loans and advances	23,665	3,172
Exchange rate movements on plant and equipment	(1)	(79)
Exchange rate movements on equity	135	(59)
Net fair value loss / (gain) on financial instruments	2,656	(2,661)
Changes in operating assets and liabilities		
Change in derivative financial instruments assets	(8)	4,611
Change in loans and advances to banks	41,381	(25,199)
Change in loans and advances to customers	(79,736)	(77,408)
Change in financial assets at amortised cost/fair value	10,167	9,107
Change in other assets	(9,099)	(20,364)
Change in derivative financial instruments liabilities	(3,484)	(7)
Change in deposits from banks	176,876	90,788
Change in deposits from customers	117,876	83,454
Change in other liabilities and provisions	1,456	(5,881)
Income taxes paid	(18,895)	(8,969)
<b>Net cash generated from operating activities</b>	<b>304,294</b>	<b>101,013</b>
<b>Cash flows from investing activities</b>		
Proceeds from maturity of investment securities	-	50,431
Acquisition of property, plant and equipment	(1,349)	(519)
Acquisition of intangible assets	(86)	(51)
Proceeds from disposal of property, plant and equipment	272	56
Proceeds from disposal of intangible assets	16	23
<b>Net cash from investing activities</b>	<b>(1,147)</b>	<b>49,940</b>
<b>Cash flows from financing activities</b>		
Dividend paid	(67,000)	-
Repayment of principal portion of lease liabilities*	(1,393)	(2,116)
<b>Net cash used in financing activities</b>	<b>(68,393)</b>	<b>(2,116)</b>
<b>Net increase in cash and cash equivalents</b>	<b>234,754</b>	<b>148,837</b>
Cash and cash equivalents at beginning of period	481,379	332,542
<b>Cash and cash equivalents at year end</b>	<b>16 716,133</b>	<b>481,379</b>

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

Bank of China (UK) Limited  
Financial Statements for the year ended 31 December 2021

\* Certain cash flows have been reclassified from cash flows from operating activities to cash flows from financing activities to align the cash flows with the nature of the underlying activities. 2020 comparatives have been restated.

**Additional Cash Flow Information**

**Changes in liabilities arising from financing activities**

£000	2021	2020 Restated
Balance of 1 January	<b>5,051</b>	7,167
Cash flow items:		
Repayments	<b>(1,393)</b>	(2,116)
Non-cash flow items:	<b>7,364</b>	-
Balance of 31 December	<b>11,022</b>	5,051

Bank of China (UK) Limited  
Financial Statements for the year ended 31 December 2021

**Notes to the Financial Statements**

<b>Note</b>	<b>Note</b>
1. Reporting entity	29. Other liabilities
2. Basis of preparation	30. Accruals and deferred income
3. Significant accounting policies	31. Equity
4. Critical estimates and judgements	32. Related parties
5. Changes in accounting policies and disclosures	33. Provisions and commitments
6. Financial risk management	34. Subsequent events
7. Financial assets and financial liabilities	35. Company as Lessor
8. Net interest income	
9. Net fee and commission income	
10. Net fair value gain on financial instruments	
11. Other operating income	
12. Staff costs	
13. Other expenses	
14. Directors' remuneration	
15. Income tax expense	
16. Cash and cash equivalents	
17. Derivative financial instruments	
18. Loans and advances to banks	
19. Loans and advances to customers	
20. Allowances for expected credit losses	
21. Financial investments	
22. Property, plant and equipment	
23. Intangible assets	
24. Deferred tax assets	
25. Prepayments, accrued income and other assets	
26. Deposits from banks	
27. Deposits from customers	
28. Subordinated liabilities	

Bank of China (UK) Limited  
Financial Statements for the year ended 31 December 2021

**Notes to the Financial Statements (continued)**

**1. Reporting entity**

Bank of China (UK) Limited (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, corporate and trade finance services. These financial statements present information for the bank and not its subsidiaries.

**Accounting policies for the year ended 31 December 2021**

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

**2. Basis of preparation**

**(a) Statement of compliance**

These financial statements have been prepared in accordance with UK-adopted international accounting standards; and have been prepared in accordance with the requirements of the Companies Act 2006.

The bank has availed itself of the exemption election from Section 401 of the Companies Act 2006 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 20 October 2022.

**(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.

The following items are measured at fair value:

- Fixed rate loans designated at fair value;
- Convertible preference shares;
- Derivative financial instruments.

**(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.

**Notes to the Financial Statements (continued)**

**2. Basis of preparation (continued)**

**(e) Restatement and changes in disclosure**

(i) Statement of Financial Position

The bank revisited its accounting treatment of derivative (interest rate swap) client clearing trades via London Clearing House (LCH). Bank of China (UK) Limited acts as clearer for its affiliates namely Bank of China Limited and Bank of China Limited, London Branch and in order to clear these trades enters into a trade with LCH and an identical back-to-back trade with the affiliate.

As a result of this analysis additional accounting entries were identified namely the recording of variation margin (VM) into separate accounts and the netting of Net Present Value (NPV) of the derivatives.

The VM is cash settled daily based on the current NPV due/ receivable and in this respect is fully cash collateralised.

In considering the netting principles we referred to the provisions of IAS 32 Financial Instruments which discusses the conditions for netting/offsetting namely that a financial asset and a financial liability should be netted/offset and the net amount reported when the reporting entity:

- Has a legally enforceable right to set off the recognised amounts; and
- Intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; and

The bank complies with above provisions stipulated by IAS 32 and on that basis has restated its disclosure of Derivative financial instruments as stated in the table contained in Note 17.

The total prior year restatement amount for derivative assets and derivative liabilities was £48,160,000 respectively, resulting in restated amounts of £3,000 for derivative assets and £8,764,000 for derivative liabilities.

(ii) Income Statement

The interest income and expense related to fair value of loans and interest rate swaps previously reported under interest income from loans and advances at amortised cost and interest expense have been reclassified to net fair value gain on financial instruments.

As a result of all the above adjustments, the net fair value gain on financial instruments has increased by £3,268,000 and the change has decreased interest income from loans and advances at amortised cost and increased interest expense by £3,091,000 and £177,000 respectively.

(iii) Statement of Cash Flows

The presentation of the statement of cash flows has been revised requiring restatement of comparative period for other items including:

- 1) The change in derivative financial instruments assets have increased by £48,160,000 and the change in derivative financial instruments liabilities have reduced by £48,160,000 on account of the restatement of Derivative financial instruments as referred above.
- 2) The interest income and interest expense were disclosed as non-cash items with subsequent adjustment disclosed as "adjustment for cash" within operating activities. The effect of this is interest income of £40,314,000 and interest expense of £ 6,276,000 have been removed from the comparative statement of cash flows.
- 3) Reclassify £2,661,000 net fair value gain on financial instruments to include as a non-cash adjustment within operating activities as this presents the underlying nature of the associated cash flows. The corresponding effect has been included in the change in financial assets at amortised cost/fair value.

As a result of all the above adjustments, the net cash generated from operating activities have increased by £108K from £100,905,000 to £101,013,000 , the net cash from investing activities increased by £429,000 from £49,511,000 to £49,940,000 and the net cash used in financing activities have increased by £538,000 from £(1,578,000) to £(2,116,000) for the comparative period.

**Notes to the Financial Statements (continued)**

**2. Basis of preparation (continued)**

**(f) Going concern**

The Board has given its consideration to the going concern status of the bank as at the reporting date. The board have considered financial forecasts running out to December 2023 which included the latest business assumptions. The Board have taken in to consideration the current economic environment, the bank's business model, financial forecast and capital requirements and is satisfied that it has the resources to continue in business for a period of at least 12 months from the date of this report. In addition the going concern assessment also considered the potential effects of the current conflict in the Ukraine and the ongoing specific Covid-19 stresses including the bank's ability to continue to meet customer's needs. The Board further considered various additional stress scenarios including stresses on the bank's mortgage and aircraft portfolios, and significant downward revisions to the financial forecast over the assessment period. These stresses were identified as the most likely challenging scenarios the bank would face should there be a resurgence of the Covid-19 pandemic and this have a higher economic impact than currently anticipated with the forecast. The Board considered the effect of these stresses on capital resources which remains strong..

After due consideration the Board is of the opinion that the bank will continue as a going concern for a period of at least 12 months from the date of this report , generating cash flows from its continuing operations, but taking additional comfort from a two year financial forecast and a strong capital position to support this assumption.

Furthermore, the Board is not aware of any material uncertainties that may cast significant doubt on the bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

**3. Significant accounting policies**

**(a) Revenue recognition**

The bank calculates interest income by applying the effective interest rate to the gross carrying amount of financial assets other than credit-impaired assets. 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 contractual 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. When a financial asset becomes credit-impaired (as set out in Note 6 (a)) and is, therefore, regarded as stage 3, the bank calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset. If financial assets cure (as outlined in Note 6 (a)) and are no longer credit-impaired, the bank reverts to calculating interest income on a gross basis.

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 accrued monthly and settled quarterly.

IFRS 15 Revenue from Contracts with Customers outlines a five step model an entity must apply to measure and recognise revenue.

The bank earns fee and commission income from a diverse range of financial services it provides to its customers. Fee and commission income is recognised at an amount that reflects the consideration to which the bank expects to be entitled in exchange for providing the services.

**Notes to the Financial Statements (continued)**

**3. Significant accounting policies (continued)**

**(a) Revenue recognition**

The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract. The bank's revenue contracts do not include multiple performance obligations.

Fee and commission income that falls outside the scope of IFRS 15, consists of contractual performance obligations with retail and corporate lending fee income recognized using the effective interest rate method (see above). Fee and commission income in scope of IFRS 15 is assessed using a product driven approach and depicted in the table contained in Note 9. Income is recorded at the point in time when the service is performed or amortised over the service period.

Revenue streams categorised under other, interest income, foreign exchange gain and interest income from financial investments have been assessed as outside the scope of IFRS 15 as they are governed by alternative accounting standards, predominantly IFRS 9 Financial Instruments and IAS 21 The Effects of Changes in Foreign Exchange Rates.

**(b) Derivative financial instruments**

Derivative instruments are held for risk management purposes and do not qualify for hedge accounting according to IFRS 9. 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.

**(c) 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 arising on monetary items at year-end are recognised in the income statement.

**(d) 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 customers 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.

The bank only measures amounts due from banks, loans and advances to customers and other financial investments at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows;
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below.

**Notes to the Financial Statements (continued)**

**3. Significant accounting policies (continued)**

**(d) Loans and advances to banks and customers (continued)**

**Business model assessment**

The bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected);

The expected frequency, value and timing of sales are also important aspects of the bank's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the bank's original expectations, the bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

**The SPPI test**

As a second step of its classification process, the bank assesses the contractual terms of financial assets to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the bank applies judgement and considers relevant factors such as the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

Loans and advances to banks and customers include residential and commercial mortgages, originated and syndicated loans.

**(e) Loans designated at fair value through profit and loss (FVPL)**

Loans classified in this category are those that have been designated by management upon initial recognition. Management may only designate an instrument at FVPL upon initial recognition when the designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis.

Loans at FVPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in net fair value gain on financial instruments in the income statement.

**Notes to the Financial Statements (continued)**

**3. Significant accounting policies (continued)**

**(f) Debt instruments at fair value through other comprehensive income (FVOCI)**

The bank applies IFRS 9 for debt instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets;
- The contractual terms of the financial asset meet the SPPI test.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in other comprehensive income (OCI). Interest income and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost as explained in Note 3(d). The expected credit loss (ECL) calculation for debt instruments at FVOCI is explained in Note 3(h). Where the bank holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

**(g) 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 at an amount less than the total facility.

Issued financial guarantees are initially recognised at fair value and adjusted for transaction costs that are directly attributable to the issuance of the guarantee. The bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the ECL provision. Subsequent to initial measurement, changes in the amount of the guarantee are recognised in the income statement.

**(h) Impairment of financial assets**

**Overview of the expected credit loss principles (ECL)**

The bank records an allowance for expected credit losses for all loans and other debt financial assets not held at FVPL, together with undrawn loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on 12 months expected credit loss (12mECL) as outlined below. The bank's policies for determining if there has been a significant increase in credit risk are set out on page 50.

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments. The bank's policy for grouping financial assets measured on a collective basis is explained in Note 6(a).

The bank has established a policy to perform an assessment, at the end of each quarter, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring since initial recognition of the financial instrument.

Based on the above process, the bank groups its loans into stage 1, stage 2 and stage 3 (refer to the calculation of ECLs below). For financial assets for which the bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

**Notes to the Financial Statements (continued)**

**3. Significant accounting policies (continued)**

**(h) Impairment of financial assets (continued)**

**The calculation of ECLs – General Policy**

The bank calculates ECLs based on a three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the effective interest rate (EIR). A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

PD (Probability of Default) is an estimate of the likelihood of default over a given time horizon.

A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio;

EAD (Exposure at Default) is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments;

LGD (Loss Given Default) is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

The Bank has created PD and LGD models that are able to take into account forward looking information using multiple macro-economic variables.

When estimating the ECLs, the bank considers three scenarios (a base case, an upside, a downside). Each of these is associated with different PDs, EADs and LGDs. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

With the exception of credit cards and other revolving facilities, for which the treatment is separately set out on page 48, the maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the bank has the legal right to call it earlier.

Provisions for ECLs for undrawn loan commitments are assessed as set out on page 47. The calculation of ECLs (including the ECLs related to the undrawn element) of revolving facilities such as credit cards is explained further on page 48.

**Notes to the Financial Statements (continued)**

**3. Significant accounting policies (continued)**

**(h) Impairment of financial assets (continued)**

**The calculation of ECLs – General Policy (continued)**

The mechanics of the ECL method are summarised below:

Stage 1: When loans are first recognised, the bank recognises an allowance based on 12mECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2. The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The bank calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the three scenarios, as explained above;

Stage 2: When a loan has shown a significant increase in credit risk since origination, the bank records an allowance for the LTECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR;

Stage 3: The bank recognises the lifetime expected credit losses for these loans (LTECLs). The method is similar to that for Stage 2 assets, with the PD set at 100% and is detailed in Note 6.

**Undrawn loan commitments and letters of credit**

When estimating ECLs for undrawn loan commitments, the bank estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability-weighting of the three scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan.

For credit cards and revolving facilities that include both a loan and an undrawn commitment, ECLs are calculated and presented together with the loan. For undrawn loan commitments and letters of credit, the ECL is recognised within provisions as separately disclosed on the liabilities side of the financial position.

**Financial guarantee contracts**

The bank's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the ECL provision. For this purpose, the bank estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The calculation is made using a probability-weighting of the three scenarios. The ECLs related to financial guarantee contracts are recognised within provisions.

**Notes to the Financial Statements (continued)**

**3. Significant accounting policies (continued)**

**(h) Impairment of financial assets (continued)**

**The calculation of ECLs - Credit cards and other revolving facilities**

The bank's product offering includes a variety of corporate and retail overdraft and credit cards facilities, in which the bank has the right to cancel and/or reduce the facilities with one day's notice. The bank does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a four year period which reflects the bank's expectations of the customer behaviour, its likelihood of default and the bank's future risk mitigation procedures, which could include reducing or cancelling the facilities.

The ongoing assessment of whether a significant increase in credit risk has occurred for revolving facilities is similar to other lending products. This is based on shifts in the customer's internal credit grade, as explained in Note 6(a), but greater emphasis is also given to qualitative factors such as changes in usage.

The interest rate used to discount the ECLs for credit cards is based on the average effective interest rate that is expected to be charged over the expected period of exposure to the facilities. This estimation takes into account that many facilities are repaid in full each month and are consequently charged no interest.

The calculation of ECLs, including the estimation of the expected period of exposure and discount rate is made, as explained above, on credit cards and account overdrafts.

**Forward looking information**

In its ECL models, the bank relies on a broad range of forward looking information as economic inputs, such as:

GDP growth;

Unemployment rates;

Central Bank base rates;

House price indices.

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. Detailed information about these inputs and sensitivity analysis are provided in Note 6(a).

**Collateral valuation**

To mitigate its credit risks on financial assets, the bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. Collateral, unless repossessed, is not recorded on the bank's statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-indexed using publicly available data on a quarterly basis. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily. Details of the impact of the bank's various credit enhancements are disclosed in Note 6(a).

To the greatest extent possible, the bank uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on housing price indices.

**Notes to the Financial Statements (continued)**

**3. Significant accounting policies (continued)**

**(h) Impairment of financial assets (continued)**

**Collateral repossessed**

The bank's accounting policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in line with the bank's policy.

In its normal course of business, the bank does not physically repossess properties or other assets in its retail portfolio, but engages external agents to recover funds, generally at auction, to settle outstanding debt. Any surplus funds are returned to the customers/obligors. As a result of this practice, the residential properties under legal repossession processes are not recorded on the balance sheet.

**Write-offs**

Financial assets are written off either partially or in their entirety only when the bank has stopped pursuing recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

**Forborne and modified loans**

Due to the unique market conditions observed during the Covid-19 outbreak, the bank expanded operational practices to provide short-term support to customers under the current credit policy framework.

**Mortgage**

Mortgage Payment Holiday (MPH) was set up to meet the regulatory requirements in response to the potential financial impact on mortgage borrowers due to the pandemic. As of the end of 2020, the bank had a total of 113 MPH cases with total exposure of £28 million. As at 31 December 2021 all of the cases have resumed servicing their mortgages in accordance with the arrangements made at the time.

**Corporate**

The bank determines a Watch List which includes all high (and medium high risk) customers. In 2021, three corporate clients on the Watch List were downgraded to non-performing, resulting the ECL increase during the year of £23m.

Monthly meetings are held to discuss the latest developments and strategies to Watch List names, with the involvements of the first line and second line and respective EMC members. This approach ensures higher risk customers are closely monitored and appropriate solutions are planned in a timely manner.

Risk Classification level affects customer's stage allocation. The bank follows "Corporate Customer Risk Classification General Policy and Procedure" on assessing customer risk levels.

**Notes to the Financial Statements (continued)**

**3. Significant accounting policies (continued)**

**(h) Impairment of financial assets (continued)**

**Determining a significant increase in credit risk since initial recognition**

The bank records an allowance for expected credit loss for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts.

IFRS 9 requires the recognition of 12 months expected credit losses (the portion of lifetime expected credit losses from default events that are expected within 12 months of the reporting date) if credit risk has not significantly increased since initial recognition (stage 1), and lifetime expected credit losses for financial instruments for which the credit risk has increased significantly since initial recognition (stage 2) or which are credit impaired (stage 3). The bank assesses when a significant increase in credit risk has occurred based on quantitative and qualitative assessments. Exposures are considered to have resulted in a significant increase in credit risk and are moved to stage 2 when:

- Quantitative Test

The annualised cumulative weighted average lifetime PD has increased by more than the agreed threshold relative to the equivalent at origination. The relative thresholds are defined as percentage increases and set at an origination score band and segment level have been quantified and are set out in Note 6(a).

- Qualitative Test

Accounts that meet the portfolio's 'high risk' criteria and are subject to closer credit monitoring.

- Backstop Criteria

Accounts that are 30 days past due. The past due criteria is a backstop rather than a primary driver of moving exposures into stage 2.

Exposures move back to stage 1 once they no longer meet the criteria for a significant increase in credit risk and when any cure criteria used for credit risk management are met. This is subject to all payments being up to date and the customer evidencing ability and willingness to maintain future payments. Staging for accounting purposes is aligned with the management of credit risk.

Management overlays and other exceptions to model outputs are applied only if consistent with the objective of identifying significant increases in credit risk.

For the IFRS 9 impairment assessment, the bank's impairment models are used to determine the PD, LGD and EAD. For stage 2 and 3, the bank applies lifetime PDs but uses 12 month PDs for stage 1. The ECL drivers of PD, EAD and LGD are modelled at an account level which considers vintage, among other credit factors. For stage 3 corporate exposures, the impairment charges were assessed individually and incorporated with the factors of collateral value, discount factor, cash recovery, hair cut (i.e. extra cost for selling the collateral). Multi-scenarios were also being considered, i.e. time need to sell the collateral, with assigned weighting applied. Also, the assessment of significant increase in credit risk is based on the initial lifetime PD curve, which accounts for the different credit risk underwritten over time.

According to the IFRS 9 guideline, a facility is generally considered as default when the facility is 90 days past due. The bank uses this 90 day backstop for all its products except for mortgages (see Note 6 (a) (ii)).

**Notes to the Financial Statements (continued)**

**3. Significant accounting policies (continued)**

**(h) Impairment of financial assets (continued)**

**Definition of default**

**Expected life**

Lifetime expected credit losses must be measured over their expected life. This is restricted to the maximum contractual life and takes into account expected prepayment, extension, call and similar options. The exceptions are certain revolver financial instruments, such as credit cards and bank overdrafts, that include both a drawn and an undrawn component where the entity's contractual ability to demand repayment and cancel the undrawn commitment does not limit the entity's exposure to credit losses to the contractual notice period. The expected life for these revolver facilities is their behavioural life. Where data is insufficient or analysis inconclusive, an additional 'maturity factor' may be incorporated to reflect the full estimated life of the exposures, based upon experienced judgement and/or peer analysis. Potential future modifications of contracts are not taken into account when determining the expected life or exposure at default until they occur.

**(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.

**Notes to the Financial Statements (continued)**

**3. Significant accounting policies (continued)**

**(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 assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

**Bank as a lessee**

The bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The bank recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

**Right-of-use assets**

The bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

The right-of-use assets are presented within Note 22 (b) Fixed assets and right-of-use assets and are subject to impairment in line with the bank's policy as described in Note 3 Impairment of financial assets.

**Lease liabilities**

At the commencement date of the lease, the bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the bank and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate.

The bank's lease liabilities are included in Other Liabilities (see Note 29).

**Notes to the Financial Statements (continued)**

**3. Significant accounting policies (continued)**

**(n) Leases (continued)**

**Lease liabilities (continued)**

**Determination of the lease term for contracts with renewal and termination options (bank as a lessee)**

The bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The bank has several lease contracts that include extension and termination options. The bank applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the bank reassesses the lease term if there is a significant event or change in circumstances that is within its control that affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation of the leased asset).

**Estimating the incremental borrowing rate**

The bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ('IBR') to measure lease liabilities. The IBR is the rate of interest that the bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the bank 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The bank estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific adjustments (such as the subsidiary's stand-alone credit rating, or to reflect the terms and conditions of the lease).

**Short-term leases and leases of low-value assets**

The bank applies the short-term lease recognition exemption to its short-term leases of property and equipment (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of equipment that are considered to be of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

**Bank as a lessor**

IFRS 16 does not change substantially how a lessor accounts for leases. Under IFRS 16 leases for which the bank is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an asset to the lessee, the contract is classified as a finance lease. Amounts due from lessees under finance leases are recognised as receivables at the amount of the bank's net investment in the leases.

The bank as an intermediate lessor derecognises the right-of-use asset relating to the head lease that it transfers to the sublessee and recognises the net investment in the sublease. At recognition any differences between the right-of-use asset and the net investment in the sublease is recognised in the profit or loss, and retains the lease liability relating to the head lease which represents the lease payments owed to the head lessor. During the term of the sublease, the bank recognises both finance income on the sublease and interest expense on the head lease.

All other leases are classified as operating. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

**Notes to the Financial Statements (continued)**

**3. Significant accounting policies (continued)**

**(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**

**Defined contribution plans**

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

**Defined benefit plans**

The bank is a Participating Employer in the Bank of China Pension and Life Assurance Plan (“the Plan”) that provides pension benefits for employees upon retirement. The Bank of China Limited is the Principal Employer of the Plan and through its London Branch the sponsor (“the sponsor”). The Plan was closed to new employees in December 2004 and to future accrual in March 2016. There is no contractual obligation on the bank to make good any shortfall between the Plans assets and liabilities, pay any contributions or receive any of the surplus should one exist.

**(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.

**Notes to the Financial Statements (continued)**

**3. Significant accounting policies (continued)**

**(t) Provisions**

The bank operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent to its operations. As a result, it is involved in various litigation, arbitration and regulatory investigations and proceedings both in the UK and in other jurisdictions, arising in the ordinary course of the bank's business.

When the bank can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the bank records a provision against the case. Where the probability of outflow is considered to be remote, or probable, but a reliable estimate cannot be made, a contingent liability is disclosed. However, when the bank is of the opinion that disclosing these estimates on a case-by-case basis would prejudice their outcome, then the bank does not include detailed, case-specific disclosures in its financial statements.

Given the subjectivity and uncertainty of determining the probability and amount of losses, the bank takes into account a number of factors including legal advice, the stage of the matter and historical evidence from similar incidents. Significant judgement is required to conclude on these estimates.

For further details on provisions and other contingencies see Note 33(c).

**(u) Share capital**

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.

**(v) Effective interest rate method**

The bank's EIR method recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected behavioural life of loans and deposits and recognises the effect of potentially different interest rates charged at various stages and other characteristics of the product life cycle (including prepayments and penalty interest and charges). This estimation, by nature, requires an element of judgement regarding the expected behaviour and life-cycle of the instruments, as well expected changes to the UK's base rate and other fee income/expense that are integral parts of the 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 and within Note 6.

**(a) Fair value of financial instruments**

At 31 December 2021, the carrying value of the Bank's loans to customers designated at fair value was £64.6m (31 December 2020: £77.5 m). In accordance with IFRS 13 Fair Value Measurement, the Bank categorises financial instruments carried on the statement of financial position at fair value using a three-level hierarchy. Financial instruments categorised as level 1 are valued using quoted market prices and therefore there is minimal estimation applied in determining fair value. However, the fair value of financial instruments categorised as level 3 is determined using valuation estimation techniques including discounted cash flow analysis and valuation model. The most significant estimation is with respect to discount rates.

Further details, including sensitivities, can be found within the relevant notes to the financial statements.

**Notes to the Financial Statements (continued)**

**4. Critical estimates and judgements (continued)**

**(b) Expected Credit Loss**

The measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The bank's ECL calculations are outputs from complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

The bank's internal credit grading model, which assigns PDs to the individual grades;

The bank's criteria for assessing if there has been a significant increase in credit risk and so whether allowances for financial assets should be measured on a LTECL basis and the qualitative assessment;

Expected proceeds from selling the collaterals and the time needed to liquidate the collateral for stage 3 customers.

**5. Changes in accounting policies and disclosures**

**New and amended standards and interpretations**

**Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform**

The amendments to IFRS 9 and IAS 39 Financial Instruments Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. The bank has elected not to apply hedge accounting.

**LIBOR Transition**

The Bank established an Interbank Offered Rate (IBOR) Transition Working Group (ITWG) in 2019 to manage the transition away from LIBOR to alternative reference rates. The ITWG continues to meet on a regular basis and reports to the ALCO. The Bank had transitioned substantially all of its GBP LIBOR contracts by the end of 2021 and no longer offers any new LIBOR products. The Bank is now focussing on transitioning any outstanding USD LIBOR exposures that expire after the end of June 2023.

The bank has a £60,000,000 subordinated loan as at 31 December 2021 which is referenced to GBP LIBOR and has not yet transitioned to SONIA or an alternative interest rate benchmark.

**Notes to the Financial Statements (continued)**

**5. Changes in accounting policies and disclosures (continued)**

**New and amended standards and interpretations**

**Amendments to IFRS 16 Covid-19 Related Rent Concessions**

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. Effective for annual periods beginning on or after 1 June 2020 (early adoption permitted). The relief was originally limited to reduction in lease payments that were due on or before 30 June 2021. However, the IASB subsequently extended this date to 30 June 2022. This amendment had no impact on the financial statements of the bank.

**Standards issued but not yet effective**

**Amendments to IAS 1: Classification of Liabilities as Current or Non-current**

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The amendments are not expected to have a material impact on the bank.

**Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16**

In May 2020, the IASB issued Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment. The amendments are not expected to have a material impact on the bank.

**Notes to the Financial Statements (continued)**

**5. Changes in accounting policies and disclosures (continued)**

**IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities**

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The bank will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendments are not expected to have a material impact on the bank.

**Notes to the Financial Statements (continued)**

**6. Financial risk management**

**Introduction and overview**

The bank has exposure to the following risks from financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Capital management

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 Risk Management & Internal Control Committee, Credit Risk Management & Decision Committee, Operational Risk Committee, Compliance Committee, Operational Resilience & Controls Committee, Assets and Liabilities Management Committee, and IT Management Committee. 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, loans designated at fair value through profit and loss and debt securities.

**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 Management Department being responsible for risk oversight and ensuring procedural compliance as well as the drafting, reviewing and updating of credit risk management policies and procedures. The Internal Audit function represents the third line of defence.

The Board has the highest credit approval authority for the bank. 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.

**Notes to the Financial Statements (continued)**

**6. Financial risk management (continued)**

**(a) Credit risk (continued)**

**Credit risk measurement and control**

**Loans and advances**

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

There are three main areas of concentration risk that are monitored, reported and managed by the bank; single customer (group), industrial sector and country risk. The bank monitors changes to counterparties' credit risk, quality of the credit portfolio and risk concentrations, and reports regularly to the bank's Executive Management Committee and the Board 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.

**Debt securities and derivatives**

For investment in debt securities and collateralised assets, an 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 amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place covering the acceptability and valuation of each type of collateral. The main types of collateral obtained are, as follows:

For corporate and small business lending, charges over real estate properties, inventory and trade receivables  
For retail lending, mortgages over residential properties with the use of a publicly available index on a portfolio basis

The bank also obtains guarantees from 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.

Management monitors the market value of collateral and will request additional collateral in accordance with the underlying agreement.

At end of 2021, information on collateral as mentioned above can be found in table (x). The bank also held aircrafts as collateral for the fair value loans, and margin deposits for London Clearing House interest rate swap deals.

**Notes to the Financial Statements (continued)**

**6. Financial risk management (continued)**

**(a) Credit risk (continued)**

**(i) Impairment assessment**

The references below show where the bank's impairment assessment and measurement approach is set out in these financial statements. It should be read in conjunction with the summary of significant accounting policies.

- The bank's definition and assessment of default and cure;
- An explanation of the bank's internal grading system;
- How the bank defines, calculates and monitors the probability of default, exposure at default and loss given default) (Note 3(h));
- When the bank considers there has been a significant increase in credit risk of an exposure;
- The bank's policy of segmenting financial assets where ECL is assessed on a collective basis;
- The details of the ECL calculations for stage 1, stage 2 and stage 3 assets.

**(ii) Definition of default and cure**

The bank considers a financial instrument defaulted and therefore stage 3 (credit-impaired) for ECL calculations in all cases when the customer becomes 90 days past due on its contractual payments.

As a part of a qualitative assessment of whether a customer is in default, the bank also considers a variety of instances that may indicate unlikelihood to pay. When such events occur, the bank carefully considers whether the event should result in treating the customer as defaulted and therefore assessed as stage 3 for ECL calculations or whether stage 2 is appropriate. Such events include:

- Internal rating of the customer indicating default or near-default;
- The customer requesting emergency funding from the bank;
- The customer is deceased;
- A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral;
- A material decrease in the customer's turnover or the loss of a major customer;
- A covenant breach not waived by the bank;
- The debtor (or any legal entity within the debtor's group) filing for bankruptcy application/protection.

IFRS 9 does not specify or require any cure period and therefore the bank has opted not to have one. Loans are assessed for creditworthiness on a monthly basis and when a loan moves from unrecoverable to recoverable, the bank moves the loans from stage 3 back into stage 2 and if the loan no longer shows any significant increase in credit risk, the bank moves the loans from stage 2 back into stage 1.

IFRS 9 contains a rebuttable presumption that default occurs no later than when a payment is 90 days past due. The bank uses this 90 day backstop for all its products.

**(iii) The bank's internal rating and PD estimation process**

The bank's independent Credit Management Department operates its internal rating models for corporate lending. The model incorporates both qualitative and quantitative information and, in addition to information specific to the customer, utilise supplemental external information that could affect the customer's behaviour. Where practical, they also build on information from Standard and Poor's Rating Agency. These information sources are first used to determine the PDs within the bank's Basel III framework. The internal credit grades are assigned based on these Basel III grades. PDs are then adjusted for IFRS 9 ECL calculations to incorporate forward looking information and the IFRS 9 stage classification of the exposure. This is repeated for each economic scenario as appropriate. Retail lending, which includes mortgages, does not have internal ratings and data is based on historical past due data.

**Notes to the Financial Statements (continued)**

**6. Financial risk management (continued)**

**(a) Credit risk (continued)**

**Treasury, trading and interbank relationships**

The bank's treasury, trading and interbank relationships and counterparties comprise financial services institutions and banks. For these relationships, the bank's credit management department analyses publicly available information such as financial information and other external data, e.g. the rating of Standard and Poor's Rating Agency, and assigns the internal rating, as shown in the table on page 63.

**Corporate lending**

For corporate lending, the customers are assessed by specialised credit risk employees of the bank. The credit risk assessment is based on a credit scoring model that takes into account various historical, current and forward-looking information such as:

- Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realised and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention;
- Any publicly available information on the clients from external parties. This includes external rating grades issued by rating agencies, independent analyst reports, publicly traded bond or CDS prices or press releases and articles;
- Any macro-economic or geopolitical information, e.g. GDP growth relevant for the specific industry and geographical segments where the client operates;
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance.

The complexity and granularity of the rating techniques varies based on the exposure of the bank and the complexity and size of the customer.

**Retail lending**

Retail lending comprises unsecured personal loans, credit cards and overdrafts. These products along with retail mortgages and some of the less complex small business lending are rated primarily by days past due. Other key inputs into the models are:

- Consumer lending products: use of limits and volatility thereof, GDP growth, unemployment rates;
- Retail mortgages: GDP growth, unemployment rates.

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Notes to the Financial Statements (continued)

6. Financial risk management (continued)

(a) Credit risk (continued)

The bank's internal credit rating grades

Internal Rating Grade	Internal Rating Score	Internal Rating Description	12 Month Basel III PD Range*	Equivalent S&P Rating	Classification
<b>Performing</b>					
aaa1	1	Above Investment Grade - Lowest Default Risk Group - Strongest	0.01%	aaa	Performing
aaa2	2	Above Investment Grade - Extremely Low Default Risk Group - Strong	0.01% - 0.02%	aa+	Performing
aaa3	3	Above Investment Grade - Extremely Low Default Risk Group - Medium	0.01% - 0.03%	aa	Performing
aaa4	4	Above Investment Grade - Extremely Low Default Risk Group - Low	0.02% - 0.05%	aa-	Performing
aaa5	5	Above Investment Grade - Low Default Risk Group - Strong	0.03% - 0.07%	a+	High grade
aaa6	6	Above Investment Grade - Low Default Risk Group - Medium	0.05% - 0.11%	a	High grade
aaa7	7	Above Investment Grade - Low Default Risk Group - Low	0.09% - 0.16%	a-	High grade
aa1	8	Above Investment Grade - Relatively low Default Risk Group - Strong	0.14% - 0.24%	bbb+	High grade
aa2	9	Above Investment Grade - Relatively low Default Risk Group - Medium	0.21% - 0.35%	bbb	High grade
aa3	10	Above Investment Grade - Relatively low Default Risk Group - Low	0.34% - 0.53%	bbb-	High grade
a1	11	Below Investment Grade - Medium Default Risk Group - Strongest	0.53% - 0.79%	bb+	Standard grade
a2		Below Investment Grade - Medium Default Risk Group - Strong			
a3	12	Below Investment Grade - Medium Default Risk Group - Relatively Strong	0.84% - 1.18%	bb	Standard grade
a4		Below Investment Grade - Medium Default Risk Group - Medium			
bbb1	13	Below Investment Grade - Medium Default Risk Group - Medium Low	1.33% - 1.77%	bb-	Standard grade
bbb2		Below Investment Grade - Medium Default Risk Group - Low			
bbb3	14	Below Investment Grade - Medium High Default Risk Group - Strong	2.09% - 2.64%	b+	Standard grade
bb1		Below Investment Grade - Medium High Default Risk Group - Low			
bb2	15	Below Investment Grade - High Default Risk Group - Strong	3.29% - 3.95%	b	Standard grade
b1		Below Investment Grade - High Default Risk Group - Low			
b2	16	Below Investment Grade - Relatively High Default Risk Group - Strong	5.19% - 5.91%	b-	Standard grade
ccc1		Below Investment Grade - Relatively High Default Risk Group - Medium			
ccc2		Below Investment Grade - Relatively High Default Risk Group - Low			
cc1	17	Below Investment Grade - Extremely High Default Risk Group - Strong	8.17% - 9.08%	ccc+	Sub-standard grade
cc2	18	Below Investment Grade - Extremely High Default Risk Group - Medium	12.88% - 14.20%	ccc	Sub-standard grade
c	19	Below Investment Grade - Extremely High Default Risk Group - Low	19.78% - 22.21%	ccc-	Past due (less than 90 days)
<b>Non-Performing</b>					
d		Overdue over 90 days or not able to fully repay	100%	d	Non-performing individually impaired

\*The ranges are derived by taking the maximum and minimum PD values (where different) from the Global, Europe, US and UK regions

**Notes to the Financial Statements (continued)**

**6. Financial risk management (continued)**

**(a) Credit risk (continued)**

**(iv) Exposure at default**

Exposure at default (EAD) represents the gross carrying amount of financial instruments subject to impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too. To calculate the EAD for a Stage 1 loan, the bank assesses the possible default events within 12 months for the calculation of the 12mECL. For Stage 2, Stage 3 and purchased or originated credit-impaired (POCI) financial assets, EAD is considered for events over the lifetime of the instruments.

The bank determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding to the multiple scenarios. The IFRS 9 PDs are then assigned to each economic scenario based on the outcome of the bank's models.

**(v) Loss given default**

Under IFRS 9, LGD rates are estimated for the Stage 1, Stage 2, Stage 3 IFRS 9 segment of each asset class.

For corporate loans, LGD values are assessed by an externally developed model. The credit risk assessment is based on a standardised LGD assessment framework that results in a certain LGD rate. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held.

The bank segments its retail lending products into smaller homogeneous portfolios, based on key characteristics that are relevant to the estimation of future cash flows. The applied data is based on historically collected loss data and involves a wider set of transaction characteristics such as product and collateral types as well as customer characteristics.

Further recent data and forward-looking economic scenarios are used in order to determine the IFRS 9 LGD rate for each group of financial instruments. When assessing forward-looking information, the expectation is based on multiple scenarios. Examples of key inputs involve changes in collateral values, including property prices for mortgages, payment status or other factors that are indicative of losses in the group.

**(vi) Significant increase in credit risk**

The bank continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the bank assesses whether there has been a significant increase in credit risk since initial recognition. The bank considers an exposure to have significantly increased in credit risk when the score, derived from internal rating at the calculation date, has worsened by more than as defined below compared with the score at the time of the contract origination.

S&P Rating	Rating Score	Notches Downgrade Stage 2
aaa	1	9
aa+	2	8
aa	3	7
aa-	4	6
a+	5	5
a	6	4
a-	7	3
bbb+	8	3
bbb	9	2
bbb-	10	1
bb+	11	2
bb	12	1
bb-	13	1
b+	14	1
b	15	1
b-	16	1
ccc+	17	1
ccc	18	1
ccc-	19	1

**Notes to the Financial Statements (continued)**

**6. Financial risk management (continued)**

**(a) Credit risk (continued)**

**(vi) Significant increase in credit risk (continued)**

The bank also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list. In certain cases, the bank may also consider that events are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

When estimating ECLs on a collective basis for a group of similar assets, the bank applies the same principles for assessing whether there has been a significant increase in credit risk since initial recognition.

**(vii) Grouping financial assets measured on a collective basis**

Independent of the factors below, the bank calculates ECLs either on a collective or an individual basis.

Asset classes where the bank calculates ECL on an individual basis include:

- Corporate loans
- Mortgage loans
- Government bonds
- Interbank loans

Asset classes where the bank calculates ECL on a collective basis include:

- Credit cards
- Account overdrafts

**(viii) Risk concentration to industries**

Concentrations indicate the relative sensitivity of the bank's performance to developments affecting a particular industry or geographical location. The bank's concentrations of risk are managed by client/counterparty, geographical region (see table (x)) and industry sector. The maximum credit exposure for corporate business is £131m to transport, storage and utilities (2020: £219m).

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 Notes to the Financial Statements (continued)

6. Financial risk management (continued)

(a) Credit risk (continued)

(ix) Credit exposure loan to value ratios of the mortgage portfolio

The tables below summaries the bank's retail portfolio (gross values of exposures) loan to value (LTV) ratios.

Financial Position Category	Business Model Portfolio	Lending Type	0-30%	30-60%	60-90%	90-100%	100-120%	120+%	Total
			£000	£000	£000	£000	£000	£000	£000
Loans and advances to customers	Housing loans	Buy-to-Let Mortgages	703	1,904	-	-	-	-	2,607
Loans and advances to customers	Mortgage loans	Owner Occupied Mortgages	43,826	90,048	6,334	-	-	-	140,208
Loans and advances to customers	Mortgage loans	Buy-to-Let Mortgages	52,314	470,894	376,121	-	-	-	899,329
Loans and advances to customers	Mortgage loans	Commercial	586	656	-	-	-	-	1,242
<b>At 31 December 2021</b>			<b>97,429</b>	<b>563,502</b>	<b>382,455</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,043,386</b>

Financial Position Category	Business Model Portfolio	Lending Type	0-30%	30-60%	60-90%	90-100%	100-120%	120+%	Total
			£000	£000	£000	£000	£000	£000	£000
Loans and advances to customers	Housing loans	Buy-to-Let Mortgages	1,271	1,803	324	-	-	-	3,398
Loans and advances to customers	Mortgage loans	Owner Occupied Mortgages	29,376	116,799	23,356	-	-	-	169,531
Loans and advances to customers	Mortgage loans	Buy-to-Let Mortgages	29,192	279,826	433,806	-	-	-	742,824
Loans and advances to customers	Mortgage loans	Commercial	717	780	-	-	-	-	1,497
<b>At 31 December 2020</b>			<b>60,556</b>	<b>399,208</b>	<b>457,486</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>917,250</b>

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Notes to the Financial Statements (continued)

6. Financial risk management (continued)

(a) Credit risk (continued)

(x) Analysis of risk concentration in the financial position

Disclosures within Note 6 (a) Credit Risk, are presented excluding balances relating to demand deposits, placements and other receivables with other Bank of China group entities. The amounts excluded are £54.4m of demand deposits (2020: £49.6m), £55.0m of loans and advances to banks (2020: £88.5m) and £9.7m of other receivables (2020: £17.2m). These balances are all allocated to Stage 1 (2020: Stage 1). The expected credit loss allowance related to these balances is immaterial (2020: immaterial).

Business Model Portfolio	Global Stage			Europe Stage			US Stage			UK Stage			Retail Stage			Collateral	Total
	1	2	3	1	2	3	1	2	3	1	2	3	1	2	3		
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cash and cash equivalents																	
Cash balances with bank	-	-	-	-	-	-	-	-	-	568,076	-	-	-	-	-	-	568,076
Other demand deposits	280	-	-	50,763	-	-	37,976	-	-	3,092	-	-	-	-	-	-	92,111
Loans and advances to banks																	
Syndicated loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Loans and advances to customers																	
Wholesale loans	2,189	-	-	-	-	-	-	-	-	181	2,436	-	-	-	-	-	4,806
Housing loans	-	-	-	-	-	-	-	-	-	2,607	-	-	-	-	-	7,777	2,607
Syndicated loans	42,735	-	23,958	33,376	-	-	16,277	-	-	42,264	-	24,994	-	-	-	-	183,604
Factoring financing	3,387	-	-	-	-	-	-	-	-	1,960	-	2,545	-	-	-	-	7,892
Overdraft corporate accounts	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Overdraft personal accounts	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Credit Cards	-	-	-	-	-	-	-	-	-	-	-	-	428	12	9	-	449
Mortgage loans	-	-	-	-	-	-	-	-	-	-	-	-	1,013,774	21,081	563	2,286,493	1,035,418
Financing Order	-	-	-	-	-	-	1,960	-	-	-	-	-	-	-	-	-	1,960
Debt instruments at amortised cost	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Assets																	
Margin Deposits	-	-	-	-	-	-	-	-	-	72,333	-	-	-	-	-	-	72,333
	48,591	-	23,958	84,139	-	-	56,213	-	-	690,513	2,436	27,539	1,014,202	21,093	572	2,294,270	1,969,256
Off Balance Sheet																	
OBS - Letter of credit	-	791	-	598	-	-	-	-	-	-	-	-	-	-	-	-	1,389
OBS - Guarantee	11,819	515	-	-	-	-	-	-	-	3,600	120	-	-	-	-	-	16,054
OBS – Undrawn loan commitments	-	-	-	29,603	-	-	26,642	-	-	62,838	427	-	10,504	607	-	-	130,621
	11,819	1,306	-	30,201	-	-	26,642	-	-	66,438	547	-	10,504	607	-	-	148,064
<b>At 31 December 2021</b>	<b>60,410</b>	<b>1,306</b>	<b>23,958</b>	<b>114,340</b>	<b>-</b>	<b>-</b>	<b>82,855</b>	<b>-</b>	<b>-</b>	<b>756,951</b>	<b>2,983</b>	<b>27,539</b>	<b>1,024,706</b>	<b>21,700</b>	<b>572</b>	<b>2,294,270</b>	<b>2,117,320</b>

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Notes to the Financial Statements (continued)

6. Financial risk management (continued)

(a) Credit risk (continued)

(x) Analysis of risk concentration in the financial position (continued)

Business Model Portfolio	Global			Europe			US			UK			Retail			Collateral	Total
	Stage			Stage			Stage			Stage			Stage				
	1	2	3	1	2	3	1	2	3	1	2	3	1	2	3		
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cash and cash equivalents																	
Cash balances with bank	-	-	-	-	-	-	-	-	-	360,115	-	-	-	-	-	-	360,114
Other demand deposits	414	-	-	30	-	-	36,012	-	-	33,380	-	-	-	-	-	-	69,836
Loans and advances to banks																	
Syndicated loans	21,976	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	21,976
Loans and advances to customers																	
Wholesale loans	2,333	-	-	-	-	-	-	-	-	2,654	-	-	-	-	-	-	4,987
Housing loans	-	-	-	-	-	-	-	-	-	3,229	169	-	-	-	-	11,071	3,398
Syndicated loans	11,116	44,639	-	58,446	-	-	-	-	-	40,174	60,895	-	-	-	-	-	215,270
Factoring financing	-	-	-	-	-	-	-	-	-	-	4,097	-	-	-	-	-	4,097
Overdraft corporate accounts	-	-	-	-	-	-	-	-	-	-	1	-	-	-	-	-	1
Overdraft personal accounts	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Credit Cards	-	-	-	-	-	-	-	-	-	-	-	-	442	5	13	-	460
Mortgage loans	-	-	-	-	-	-	-	-	-	-	-	-	876,173	33,754	3,926	1,871,213	913,852
Financing Order	-	-	-	-	-	-	565	90	-	-	-	-	-	-	-	-	655
Debt instruments at amortised cost																	
Other bonds held to maturity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Assets																	
Margin Deposits	-	-	-	-	-	-	-	-	-	55,338	-	-	-	-	-	-	55,338
	35,839	44,639	-	58,476	-	-	36,577	90	-	494,890	65,162	-	876,615	33,759	3,939	1,882,284	1,649,987
Off Balance Sheet																	
OBS - Letter of credit	-	-	-	-	-	-	-	-	-	-	283	-	-	-	-	-	283
OBS - Guarantee	24,541	-	-	340	-	-	-	-	-	2,625	41,627	-	-	-	-	-	69,133
OBS – Undrawn loan commitments	-	-	-	29,301	-	-	26,371	-	-	116,579	-	-	10,755	822	-	7,228	183,828
	24,541	-	-	29,641	-	-	26,371	-	-	119,204	41,910	-	10,755	822	-	7,228	253,245
<b>At 31 December 2020 (Restated)</b>	<b>60,380</b>	<b>44,639</b>	<b>-</b>	<b>88,117</b>	<b>-</b>	<b>-</b>	<b>62,948</b>	<b>90</b>	<b>-</b>	<b>614,094</b>	<b>107,072</b>	<b>-</b>	<b>887,370</b>	<b>34,581</b>	<b>3,939</b>	<b>1,889,512</b>	<b>1,903,230</b>

**6. Financial risk management (continued)**

**(a) Credit risk (continued)**

**(x) Analysis of risk concentration in the financial position (continued)**

The bank's concentrations of risk are managed by client/counterparty and geographical region. The maximum on balance sheet credit exposure to any client or counterparty as of 31 December 2021 was £39 million (2020: £36 million), before taking into account the fair value of collateral held of £2,294 million (2020: £1,882 million), or other credit enhancements and the maximum off balance sheet credit exposure to any client or counterparty as of 31 December 2021 was £37 million (2020: £49 million). The table above shows the risk concentration by geography for the business model portfolios in the statement of financial position when classified as amortised cost measurement has been made. Additional disclosures for credit quality and the maximum exposure for credit risk per categories based on the bank's internal credit rating system and year-end stage classification are further disclosed below.

Bank of China (UK) Limited  
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6. Financial risk management (continued)

(a) Credit risk (continued)

(xi) Credit loss charges

The table below shows the ECL provisions on financial instruments for the year recorded in the financial position.

Financial Position Category Business Model Portfolio	Global Stage			Europe Stage			US Stage			UK Stage			Retail Stage			Total £000
	1 £000	2 £000	3 £000	1 £000	2 £000	3 £000	1 £000	2 £000	3 £000	1 £000	2 £000	3 £000	1 £000	2 £000	3 £000	
Cash and cash equivalents																
On demand deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Loans and advances to banks																
Syndicated loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Loans and advances to customers																
Wholesale loans	-	-	-	-	-	-	-	-	-	289	-	-	-	-	-	289
Housing loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Syndicated loans	52	-	11,883	-	2,072	-	23	-	-	3	-	10,698	-	-	-	24,731
Factoring financing	-	-	-	-	-	-	-	-	-	-	-	2,545	-	-	-	2,545
Overdraft on corporate accounts	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Overdraft on personal accounts	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Credit Cards	-	-	-	-	-	-	-	-	-	-	-	-	6	-	9	15
Mortgage loans	-	-	-	-	-	-	-	-	-	-	-	-	433	6	-	439
Financing Order	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Debt instruments at amortised cost																
Other bonds held to maturity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Margin Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	52	-	11,883	-	2,072	-	23	-	-	3	289	13,243	439	6	9	28,019
Off Balance Sheet																
OBS - Letter of credit	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
OBS - Guarantee	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1
OBS – Undrawn loan commitments	-	-	-	3	-	-	21	-	-	50	-	-	41	3	-	118
	1	-	-	3	-	-	21	-	-	50	-	-	41	3	-	119
<b>At 31 December 2021</b>	<b>53</b>	<b>-</b>	<b>11,883</b>	<b>3</b>	<b>2,072</b>	<b>-</b>	<b>44</b>	<b>-</b>	<b>-</b>	<b>53</b>	<b>289</b>	<b>13,243</b>	<b>480</b>	<b>9</b>	<b>9</b>	<b>28,138</b>

Bank of China (UK) Limited  
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6. Financial risk management (continued)

(a) Credit risk (continued)

(xi) Credit loss charges (continued)

Financial Position Category Business Model Portfolio	Global			Europe			US			UK			Retail			Total
	Stage			Stage			Stage			Stage			Stage			
	1	2	3	1	2	3	1	2	3	1	2	3	1	2	3	
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cash and cash equivalents																
On demand deposits																
Loans and advances to banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Syndicated loans	30	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Loans and advances to customers																
Wholesale loans	1	-	-	-	-	-	-	-	-	43	-	-	-	-	-	44
Housing loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Syndicated loans	30	1,185	-	159	-	-	-	-	-	92	1,500	-	-	-	-	2,966
Factoring financing	-	-	-	-	-	-	-	-	-	-	40	-	-	-	-	40
Overdraft on corporate accounts	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Overdraft on personal accounts	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Credit Cards	-	-	-	-	-	-	-	-	-	-	-	-	6	-	12	18
Mortgage loans	-	-	-	-	-	-	-	-	-	-	-	-	944	50	70	1,064
Financing Order	-	-	-	-	-	-	1	-	-	-	-	-	-	-	-	1
Debt instruments at amortised cost	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other bonds held to maturity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Assets																
Margin Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	61	1,185	-	159	-	-	1	-	-	135	1,540	-	950	50	82	4,163
Off Balance Sheet																
OBS - Letter of credit	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
OBS - Guarantee	7	-	-	-	-	-	-	-	-	6	105	-	-	-	-	118
OBS – Undrawn loan commitments	-	-	-	30	-	-	9	-	-	104	-	-	45	4	-	192
	7	-	-	30	-	-	9	-	-	110	105	-	45	4	-	310
<b>At 31 December 2020 (Restated)</b>	68	1,185	-	189	-	-	10	-	-	245	1,645	-	995	54	82	4,473

Bank of China (UK) Limited  
Financial Statements for the year ended 31 December 2021  
Notes to the Financial Statements (continued)

6. Financial risk management (continued)

(a) Credit risk (continued)

(xii) Impairment allowance analysis

The following provides an analysis of how significant changes in gross balances over the year have contributed to changes in ECLs.

On Balance Sheet	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
<b>Gross carrying amount as at 1 January 2021</b>	1,502,398	143,650	3,939	1,649,987
New assets originated or purchased	650,149	9	-	650,158
Assets derecognised or repaid (excluding write offs)	(227,538)	(100,916)	(2,802)	(331,256)
Transfers to Stage 1	47,392	(47,392)	-	-
Transfers to Stage 2	(78,219)	81,145	(2,926)	-
Transfers to Stage 3	-	(53,350)	53,350	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	(524)	383	508	367
<b>Gross carrying amount as at 31 December 2021</b>	1,893,658	23,529	52,069	1,969,256

On Balance Sheet	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
<b>Gross carrying amount as at 1 January 2020</b>	1,429,870	22,325	1,777	1,453,972
New assets originated or purchased	446,199	-	-	446,199
Assets derecognised or repaid (excluding write offs)	(237,922)	(8,674)	(335)	(246,931)
Transfers to Stage 1	12,234	(12,234)	-	-
Transfers to Stage 2	(146,324)	146,904	(580)	-
Transfers to Stage 3	-	(3,077)	3,077	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	(1,659)	(1,594)	-	(3,253)
<b>Gross carrying amount as at 31 December 2020</b>	1,502,398	143,650	3,939	1,649,987

Bank of China (UK) Limited  
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6. Financial risk management (continued)

(a) Credit risk (continued)

(xiii) Credit loss expense (continued)

On Balance Sheet	Stage 1	Stage2	Stage 3	Total
	£000	£000	£000	£000
<b>ECL allowance as at 1 January 2021</b>	1,306	2,775	81	4,162
New assets originated or purchased	4,622	-	-	4,622
Assets derecognised or repaid (excluding write offs)	(165)	(175)	-	(340)
Transfers to Stage 1	564	(564)	-	-
Transfers to Stage 2	(4,518)	4,518	-	-
Transfers to Stage 3	-	(5,333)	5,333	-
Impact on year end ECL of exposures transferred between stages during the year	(553)	1,156	19,701	20,304
Unwind of discount	-	-	-	-
Changes to models and inputs used for ECL calculations	(740)	(11)	(3)	(754)
Recoveries	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	2	1	22	25
<b>ECL allowance as at 31 December 2021</b>	<b>518</b>	<b>2,367</b>	<b>25,134</b>	<b>28,019</b>

Bank of China (UK) Limited  
 Financial Statements for the year ended 31 December 2021  
 Notes to the Financial Statements (continued)

6. Financial risk management (continued)

(a) Credit risk (continued)

(xiii) Credit loss expense (continued)

On Balance Sheet	Stage 1	Stage2	Stage 3	Total
	£000	£000	£000	£000
<b>ECL allowance as at 1 January 2020</b>	1,098	77	23	1,198
New assets originated or purchased	1,070	-	-	1,070
Assets derecognised or repaid (excluding write offs)	(61)	(1)	(12)	(74)
Transfers to Stage 1	71	(71)	-	-
Transfers to Stage 2	(847)	847	-	-
Transfers to Stage 3	-	(1)	1	-
Impact on year end ECL of exposures transferred between stages during the year	(62)	1,843	68	1,849
Unwind of discount	-	-	-	-
Changes to models and inputs used for ECL calculations	41	90	1	132
Recoveries	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	(4)	(9)	-	(13)
<b>ECL allowance as at 31 December 2020</b>	<b>1,306</b>	<b>2,775</b>	<b>81</b>	<b>4,162</b>

Bank of China (UK) Limited  
 Financial Statements for the year ended 31 December 2021  
 Notes to the Financial Statements (continued)

6. Financial risk management (continued)

(a) Credit risk (continued)

(xiii) Credit loss expense (continued)

Off Balance Sheet	Stage 1 £000	Stage2 £000	Stage 3 £000	Total £000
<b>Gross carrying amount as at 1 January 2021</b>	210,512	42,732	-	253,244
New assets originated or purchased	56,320	-	-	56,320
Assets derecognised or repaid (excluding write offs)	(120,218)	(41,969)	-	(162,187)
Transfers to Stage 1	763	(763)	-	-
Transfers to Stage 2	(2,459)	2,459	-	-
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	687	-	-	687
<b>Gross carrying amount as at 31 December 2021</b>	145,605	2,459	-	148,064

Off Balance Sheet	Stage 1 £000	Stage2 £000	Stage 3 £000	Total £000
<b>Gross carrying amount as at 1 January 2020</b>	240,046	434	-	240,480
New assets originated or purchased	109,003	-	-	109,003
Assets derecognised or repaid (excluding write offs)	(93,876)	-	-	(93,876)
Transfers to Stage 1	434	(434)	-	-
Transfers to Stage 2	(42,732)	42,732	-	-
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	(2,363)	-	-	(2,363)
<b>Gross carrying amount as at 31 December 2020</b>	210,512	42,732	-	253,244

Bank of China (UK) Limited  
 Financial Statements for the year ended 31 December 2021  
 Notes to the Financial Statements (continued)

6. Financial risk management (continued)

(a) Credit risk (continued)

(xiii) Credit loss expense (continued)

Off Balance Sheet	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
<b>ECL allowance as at 1 January 2021</b>	202	108	-	310
New assets originated or purchased	22	-	-	22
Assets derecognised or repaid (excluding write offs)	(87)	(98)	-	(185)
Transfers to Stage 1	10	(10)	-	-
Transfers to Stage 2	(2)	2	-	-
Transfers to Stage 3	-	-	-	-
Impact on year end ECL of exposures transferred between stages during the year	(10)	-	-	(10)
Unwind of discount	-	-	-	-
Changes to models and inputs used for ECL calculations	(19)	-	-	(19)
Recoveries	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	1	-	-	1
<b>ECL allowance as at 31 December 2021</b>	<b>117</b>	<b>2</b>	<b>-</b>	<b>119</b>

Bank of China (UK) Limited  
 Financial Statements for the year ended 31 December 2021  
 Notes to the Financial Statements (continued)

6. Financial risk management (continued)

(a) Credit risk (continued)

(xiii) Credit loss expense (continued)

Off Balance Sheet	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
<b>ECL allowance as at 1 January 2020</b>	101	1	-	102
New assets originated or purchased	107	-	-	107
Assets derecognised or repaid (excluding write offs)	(21)	-	-	(21)
Transfers to Stage 1	2	(2)	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Impact on year end ECL of exposures transferred between stages during the year	-	109	-	109
Unwind of discount	-	-	-	-
Changes to models and inputs used for ECL calculations	14	-	-	14
Recoveries	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	(1)	-	-	(1)
<b>ECL allowance as at 31 December 2020</b>	<b>202</b>	<b>108</b>	<b>-</b>	<b>310</b>

Bank of China (UK) Limited  
 Financial Statements for the year ended 31 December 2021  
 Notes to the Financial Statements (continued)

6. Financial risk management (continued)

(a) Credit risk (continued)

(xiv) Impairment allowance analysis – internal rating grading

The following provides an analysis of the gross carrying amounts split by the internal rating grade.

On Balance Sheet	Stage 1	Stage 2	Stage 3	Total
	£000	£000	£000	£000
<b>Internal rating grade</b>				
Performing	1,654,612	-	-	1,654,612
High grade	111,246	-	-	111,246
Standard grade	127,800	-	-	127,800
Sub-standard grade	-	23,529	-	23,529
Non-performing individually impaired	-	-	52,069	52,069
<b>Gross carrying amounts as at 31 December 2021</b>	<b>1,893,658</b>	<b>23,529</b>	<b>52,069</b>	<b>1,969,256</b>
<b>Off Balance Sheet</b>				
Off Balance Sheet	Stage 1	Stage 2	Stage 3	Total
	£000	£000	£000	£000
<b>Internal rating grade</b>				
Performing	22,323	514	-	22,837
High grade	85,261	791	-	86,052
Standard grade	38,021	547	-	38,568
Sub-standard grade	-	607	-	607
Non-performing individually impaired	-	-	-	-
<b>Gross carrying amounts as at 31 December 2021</b>	<b>145,605</b>	<b>2,459</b>	<b>-</b>	<b>148,064</b>

**6. Financial risk management (continued)**

**(a) Credit risk (continued)**

**(xiv) Impairment allowance analysis – internal rating grading (continued)**

<b>On Balance Sheet</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Internal rating grade</b>				
Performing	1,236,760	-	-	1,236,760
High grade	240,661	56,769	-	297,430
Standard grade	24,977	53,121	-	78,098
Sub-standard grade	-	33,760	-	33,760
Non-performing individually impaired	-	-	3,939	3,939
<b>Gross carrying amounts as at 31 December 2020</b>	<b>1,502,398</b>	<b>143,650</b>	<b>3,939</b>	<b>1,649,987</b>
<b>Off Balance Sheet</b>				
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Internal rating grade</b>				
Performing	14,861	-	-	14,861
High grade	195,652	40,054	-	235,706
Standard grade	-	1,855	-	1,855
Sub-standard grade	-	822	-	822
Non-performing individually impaired	-	-	-	-
<b>Gross carrying amounts as at 31 December 2020</b>	<b>210,513</b>	<b>42,731</b>	<b>-</b>	<b>253,244</b>

Bank of China (UK) Limited  
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 Notes to the Financial Statements (continued)

6. Financial risk management (continued)

(a) Credit risk (continued)

(xiv) Impairment allowance analysis – internal rating grading (continued)

The following provides an analysis of the ECL split by the internal rating grade.

<b>On Balance Sheet</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Internal rating grade</b>				
Performing	438	-	-	438
High grade	80	-	-	80
Standard grade	-	2,072	-	2,072
Sub-standard grade	-	295	-	295
Non-performing individually impaired	-	-	25,134	25,134
<b>ECL allowance as at 31 December 2021</b>	518	2,367	25,134	28,019
<b>Off Balance Sheet</b>				
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Internal rating grade</b>				
Performing	41	-	-	41
High grade	27	-	-	27
Standard grade	49	-	-	49
Sub-standard grade	-	2	-	2
Past due (less than 90 days)	-	-	-	-
Non-performing individually impaired	-	-	-	-
<b>ECL allowance as at 31 December 2021</b>	117	2	-	119

Bank of China (UK) Limited  
 Financial Statements for the year ended 31 December 2021  
 Notes to the Financial Statements (continued)

6. Financial risk management (continued)

(a) Credit risk (continued)

(xiv) Impairment allowance analysis – internal rating grading (continued)

<b>On Balance Sheet</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Internal rating grade</b>				
Performing	950	-	-	950
High grade	284	544	-	828
Standard grade	73	2,181	-	2,254
Sub-standard grade	-	50	-	50
Non-performing individually impaired	-	-	81	81
<b>ECL allowance as at 31 December 2020</b>	1,307	2,775	81	4,163
<b>Off Balance Sheet</b>				
	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Internal rating grade</b>				
Performing	45	-	-	45
High grade	157	90	-	247
Standard grade	-	14	-	14
Sub-standard grade	-	4	-	4
Non-performing individually impaired	-	-	-	-
<b>ECL allowance as at 31 December 2020</b>	202	108	-	310

Bank of China (UK) Limited  
 Financial Statements for the year ended 31 December 2021  
 Notes to the Financial Statements (continued)

6. Financial risk management (continued)

(a) Credit risk (continued)

(xv) Impairment allowance analysis – base case vs. probability weighted

When estimating the ECLs, the bank considers three scenarios (a base case, an upside, a mild downside ('downside 1') and a more extreme downside ('downside 2')). Each of these is associated with different PDs, EADs and LGDs. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

The following provides an analysis of the ECL if just a base case scenario was used.

On Balance Sheet	Base case	Probability weighted	Difference	Downside	Difference
	£000	£000	£000	£000	£000
<b>ECL allowance as at 31 December 2021</b>	<b>30,873</b>	<b>28,019</b>	<b>(2,854)</b>	<b>32,254</b>	<b>(4,235)</b>
ECL allowance as at 31 December 2020	3,945	4,163	218	4,990	(827)

Off Balance Sheet	Base case	Probability weighted	Difference	Downside	Difference
	£000	£000	£000	£000	£000
<b>ECL allowance as at 31 December 2021</b>	<b>111</b>	<b>119</b>	<b>8</b>	<b>148</b>	<b>(29)</b>
ECL allowance as at 31 December 2020	298	310	12	347	(37)

Represented in the £4,235,000 difference, in the above table, is an increase in the Stage 3 ECL allowance of £3,243,000 in a downward scenario where the time needed to realise the collateral value is modelled to be 5 years.

6. Financial risk management (continued)

(a) Credit risk (continued)

(xvi) Analysis of inputs to the ECL model under multiple economic scenarios per geographic regions

An overview of the approach to estimating ECLs is set out in Note 3. The bank obtains data for the multiple economic from third party sources (Moody's) and the Risk Management Department verifies the accuracy of inputs to the bank's ECL models including determining the weights attributable to the multiple scenarios. The purpose of using multiple scenarios is to model the non-linear impact of assumptions about macroeconomic factors on ECL and that any presented ECL outcomes for different economic scenarios do not represent ECL forecasts.

The following tables set out the key drivers of expected loss and multiple economic scenarios and their assigned probabilities, as at 31 December 2021. The probabilities assigned are based on the midpoint probability weights approach recommended in the Scenario Severity and Probability Weights methodology issued by Moody's Analytics dated October 2017. This approach is used as it is more conservative than other approaches available, consistent with the bank's risk profile. Estimating ECL involves forecasting future economic conditions over a number of years. These longer term forecasts are subject to management judgement and those judgements may be sources of measurement uncertainty that have a significant risk of resulting in a material adjustment to a carrying amount within the next financial year.

31 December 2021		
Key Drivers	ECL Scenario	Assigned Probabilities %
CPI GDP Growth House Price Index Interest Rates Unemployment rates	Upside	30
	Base case	40
	Downside	30

31 December 2021*								
Key Drivers	ECL Scenario	Assigned Probabilities %	2022 %	2023 %	2024 %	2025 %	2026 %	Subsequent Years %
UK CPI Increase	Upside	30	1.13%	0.54%	0.53%	0.52%	0.51%	0.51%
	Base case	40	1.04%	0.43%	0.38%	0.35%	0.35%	0.35%
	Downside	30	0.35%	-0.11%	0.23%	0.21%	0.20%	0.22%
UK GDP Growth	Upside	30	0.28%	0.44%	0.26%	0.31%	0.31%	0.24%
	Base case	40	0.91%	0.61%	0.26%	0.33%	0.36%	0.24%
	Downside	30	1.57%	0.91%	0.46%	0.44%	0.36%	0.24%
UK House Price Index Increase	Upside	30	3.67%	1.42%	0.95%	0.31%	0.17%	0.38%
	Base case	40	1.66%	1.25%	1.24%	0.71%	0.42%	0.38%
	Downside	30	-2.89%	-1.51%	0.13%	1.60%	2.15%	2.05%
UK Interest Rates	Upside	30	0.72%	1.10%	1.58%	2.18%	2.74%	2.87%
	Base case	40	0.61%	0.95%	1.32%	1.82%	2.31%	2.87%
	Downside	30	0.33%	0.36%	0.36%	0.34%	0.66%	1.20%
UK Unemployment Rates	Upside	30	3.88%	3.33%	3.47%	3.81%	4.01%	4.26%
	Base case	40	4.72%	4.39%	4.37%	4.47%	4.52%	4.56%
	Downside	30	6.25%	6.62%	6.52%	6.31%	5.92%	5.57%

\*For conciseness only UK data has been shown since it makes up the majority of the bank's corporate retail lending book.

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 Notes to the Financial Statements (continued)

6. Financial risk management (continued)

(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 a 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 compliance is the main responsibility of the ALCO. Daily management of liquidity is carried out by the Treasury department. Financial Management Department 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 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years
<b>31 December 2021</b>							
Non-derivative financial liabilities:							
Deposits from banks	396,254	(397,152)	(102,251)	(55,139)	(239,762)	-	-
Deposits from customers	1,333,523	(1,334,923)	(1,064,566)	(88,743)	(160,780)	(20,834)	-
Subordinated liabilities	60,000	(60,082)	-	(82)	-	-	(60,000)
Lease liabilities	11,022	(14,312)	(1)	(89)	(269)	(3,240)	(10,713)
Derivative financial instruments:	5,280	-	-	-	-	-	-
Cash outflows		(293,144)	(289,032)	(335)	(1,160)	(2,354)	(263)
Cash inflows		287,702	287,702	-	-	-	-
	<b>1,806,079</b>	<b>(1,811,911)</b>	<b>(1,168,148)</b>	<b>(144,388)</b>	<b>(401,971)</b>	<b>(26,428)</b>	<b>(70,976)</b>
Undrawn loan commitments	130,621	(130,621)	(130,621)	-	-	-	-
	<b>1,936,700</b>	<b>(1,942,532)</b>	<b>(1,298,769)</b>	<b>(144,388)</b>	<b>(401,971)</b>	<b>(26,428)</b>	<b>(70,976)</b>
<b>31 December 2020 (Restated)</b>							
Non-derivative financial liabilities:							
Deposits from banks	219,378	(219,626)	(52,913)	(60,075)	(33,386)	(73,252)	-
Deposits from customers	1,215,647	(1,216,709)	(1,088,749)	(36,836)	(91,124)	-	-
Subordinated liabilities	60,000	(60,048)	-	(48)	-	-	(60,000)
Lease liabilities	5,051	(5,122)	(316)	(51)	(463)	(1,906)	(2,386)
Derivative financial instruments:	8,764	-	-	-	-	-	-
Cash outflows	-	(68,092)	(58,498)	(383)	(1,635)	(5,902)	(1,674)
Cash inflows	-	58,953	58,953	-	-	-	-
	1,508,840	(1,510,644)	(1,141,523)	(97,393)	(126,608)	(81,060)	(64,060)
Undrawn loan commitments	183,828	(183,828)	(183,828)	-	-	-	-
	1,692,668	(1,694,472)	(1,325,351)	(97,393)	(126,608)	(81,060)	(64,060)

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.

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6. Financial risk management (continued)

(b) Liquidity risk (continued)

The contractual cash flows disclosed in the previous table represent 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). The subordinated loan is repayable upon giving 5 years and one day's notice. As at the date of signing the financial statements notice had not been given, therefore making the subordinated loan undated making expected interest payments beyond one year indeterminable.

The bank has the benefit of a committed short-term loan facility granted by its parent company. The facility is repayable at call and £nil drawn at 31 December 2021 (31 December 2020: £nil).

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled:

£000	Within 12 months	After 12 months	Total
<b>31 December 2021</b>			
<b>Assets</b>			
Cash on hand	1,639	-	1,639
Cash balances with the central bank	566,358	1,718	568,076
Other demand deposits	146,418	-	146,418
Loans and advances to banks	55,004	14,061	69,065
Loans and advances to customers	53,750	1,140,903	1,194,653
Derivatives and other financial instruments	11	-	11
Prepayments, accrued income and other assets	72,862	14,000	86,862
Debt instruments at amortised cost	-	-	-
Financial assets at fair value through profit and loss	12,992	51,667	64,659
<b>Total assets</b>	<b>909,034</b>	<b>1,222,349</b>	<b>2,131,383</b>
<b>Liabilities</b>			
Deposits from banks	396,254	-	396,254
Deposits from customers	1,312,693	20,830	1,333,523
Derivatives and other financial instruments	5,280	-	5,280
Other liabilities	32,850	10,721	43,571
Accruals and deferred income	1,011	-	1,011
Subordinated liabilities	-	60,000	60,000
<b>Total liabilities</b>	<b>1,748,088</b>	<b>91,551</b>	<b>1,839,639</b>
<b>Net</b>	<b>(839,054)</b>	<b>1,130,798</b>	<b>291,744</b>

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 Notes to the Financial Statements (continued)

**6. Financial risk management (continued)**

**(b) Liquidity risk (continued)**

£000	Within 12 months	After 12 months	Total
31 December 2020 (Restated)			
<b>Assets</b>			
Cash on hand	1,804	-	1,804
Cash balances with the central bank	359,017	1,098	360,115
Other demand deposits	119,460	-	119,460
Loans and advances to banks	110,446	-	110,446
Loans and advances to customers	52,381	1,086,202	1,138,583
Derivatives and other financial instruments	3	-	3
Prepayments, accrued income and other assets	64,180	14,008	78,188
Debt instruments at amortised cost	-	-	-
Financial assets at fair value through profit and loss	34,097	43,385	77,482
<b>Total assets</b>	<b>741,388</b>	<b>1,144,693</b>	<b>1,886,081</b>
<b>Liabilities</b>			
Deposits from banks	146,125	73,253	219,378
Deposits from customers	1,215,647	-	1,215,647
Derivatives and other financial instruments	8,764	-	8,764
Other liabilities	31,849	4,140	35,989
Accruals and deferred income	631	-	631
Subordinated liabilities	-	60,000	60,000
<b>Total liabilities</b>	<b>1,476,268</b>	<b>64,140</b>	<b>1,540,408</b>
<b>Net</b>	<b>(734,880)</b>	<b>1,080,553</b>	<b>345,673</b>

**(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 2021 and 31 December 2020.

Bank of China (UK) Limited  
 Financial Statements for the year ended 31 December 2021  
 Notes to the Financial Statements (continued)

6. Financial risk management (continued)

(c) Market risk (continued)

Foreign exchange risk (continued)

£000

31 December 2021	Sterling	US Dollar	Euro	Other	Total
Cash and cash equivalents	624,513	64,198	19,895	7,527	716,133
Loans and advances to banks	-	14,062	47,830	7,173	69,065
Loans and advances to customers	1,058,838	125,327	9,454	1,034	1,194,653
Derivatives financial instruments (asset)	11	-	-	-	11
Debt instruments at amortised cost	-	-	-	-	-
Financial assets at fair value through profit and loss	2,590	62,069	-	-	64,659
Other assets	71,529	26,961	8,094	75	106,659
Deposits from banks	(245,175)	(150,726)	(266)	(87)	(396,254)
Deposits from customers	(818,410)	(414,717)	(83,703)	(16,693)	(1,333,523)
Derivatives financial instruments (liability)	(5,280)	-	-	-	(5,280)
Other liabilities	(44,343)	(3,382)	(1,309)	(313)	(49,347)
Subordinated liabilities	(60,000)	-	-	-	(60,000)
Total shareholder equity	(306,776)	-	-	-	(306,776)
Net financial assets/(liabilities)	277,497	(276,208)	(5)	(1,284)	-
Net forward foreign exchange positions	(280,410)	280,010	37	363	-
Undrawn loan commitments	13,283	115,451	-	1,887	130,621

£000

31 December 2020 (Restated)	Sterling	US Dollar	Euro	Other	Total
Cash and cash equivalents	426,562	29,620	15,718	9,479	481,379
Loans and advances to banks	(30)	57,137	44,910	8,429	110,446
Loans and advances to customers	995,518	129,802	11,066	2,197	1,138,583
Derivatives financial instruments (asset)	-	3	-	-	3
Debt instruments at amortised cost	-	-	-	-	-
Financial assets at fair value through profit and loss	5,246	72,236	-	-	77,482
Other assets	48,680	35,104	1,270	(2)	85,052
Deposits from banks	(75,794)	(142,800)	(680)	(104)	(219,378)
Deposits from customers	(892,491)	(232,095)	(73,121)	(17,940)	(1,215,647)
Derivatives financial instruments (liability)	(8,764)	-	-	-	(8,764)
Other liabilities	(41,078)	(3,319)	(2,406)	(189)	(46,992)
Subordinated liabilities	(60,000)	-	-	-	(60,000)
Total shareholder equity	(342,164)	-	-	-	(342,164)
Net financial assets/(liabilities)	55,685	(54,312)	(3,243)	1,870	-
Net forward foreign exchange positions	(6,779)	16,135	(11,385)	2,028	-
Undrawn loan commitments	68,700	115,128	-	-	183,828

6. Financial risk management (continued)

(c) Market risk (continued)

Foreign exchange risk (continued)

Sensitivity analysis

A 1% percent weakening of the following currencies against Sterling at 31 December 2021 and 31 December 2020 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.

£000	Other Comprehensive Income		Income statement	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020 (Restated)
US Dollars	-	-	2,762	543
Euro	-	-	-	32
Other	-	-	13	(19)

A 1% percent strengthening of the above currencies against Sterling at 31 December 2021 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.

Applying the offsetting forward currency positions, unsettled spot and forward trades, with the same 1% percent weakening the resulting impact would be as follows:

£000	Other Comprehensive Income		Income statement	
	31 December 2021	31 December 2020	31 December 2021	31 December 2020
US Dollars	-	-	(38)	382
Euro	-	-	-	145
Other	-	-	9	(39)

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6. Financial risk management (continued)

(c) Market risk (continued)

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
<b>31 December 2021</b>							
<b>Assets</b>							
Cash and cash equivalents	716,133	566,358	-	-	-	-	149,775
Loans and advances to banks	69,065	47,830	21,235	-	-	-	-
Loans and advances to customers	1,194,653	1,065,802	68,187	16,638	31,951	12,075	-
Derivative financial instruments	11	-	-	-	-	-	11
Debt instruments at amortised cost	-	-	-	-	-	-	-
Financial assets at fair value through profit and loss	64,659	-	-	1,812	15,262	44,994	2,591
Other assets	106,659	-	-	-	-	-	106,659
<b>Total assets</b>	<b>2,151,180</b>	<b>1,679,990</b>	<b>89,422</b>	<b>18,450</b>	<b>47,213</b>	<b>57,069</b>	<b>259,036</b>
<b>Equity and liabilities</b>							
<b>Liabilities</b>	<b>1,844,404</b>	<b>194,123</b>	<b>205,015</b>	<b>323,482</b>	<b>20,830</b>	<b>-</b>	<b>1,100,954</b>
Deposits from banks	396,254	98,034	55,060	165,000	-	-	78,160
Deposits from customers	1,333,523	96,089	89,955	158,482	20,830	-	968,167
Derivative financial instruments	5,280	-	-	-	-	-	5,280
Other liabilities	49,347	-	-	-	-	-	49,347
Subordinated liabilities	60,000	-	60,000	-	-	-	-
<b>Equity</b>							
Shareholders' equity	306,776	-	-	-	-	-	306,776
<b>Total equity and liabilities</b>	<b>2,151,180</b>	<b>194,123</b>	<b>205,015</b>	<b>323,482</b>	<b>20,830</b>	<b>-</b>	<b>1,407,730</b>
Interest rate sensitivity gap		1,485,867	(115,593)	(305,032)	26,383	57,069	(1,148,694)
Cumulative gap		1,485,867	1,370,274	1,065,242	1,091,625	1,148,694	-

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6. Financial risk management (continued)

(c) Market risk (continued)

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 2020 (Restated)							
<b>Assets</b>							
Cash and cash equivalents	481,377	474,814	-	-	-	1,098	5,467
Loans and advances to banks	110,446	26,946	83,500	-	-	-	-
Loans and advances to customers	1,138,583	62,330	999,305	4,403	52,082	20,463	-
Derivative financial instruments	3	-	-	-	-	-	3
Debt instruments at amortised cost	-	-	-	-	-	-	-
Financial assets at fair value through profit and loss	77,482	-	-	19	28,679	48,765	19
Other assets	85,052	-	-	-	-	-	85,052
<b>Total assets</b>	<b>1,892,945</b>	<b>564,090</b>	<b>1,082,805</b>	<b>4,422</b>	<b>80,761</b>	<b>70,326</b>	<b>90,541</b>
<b>Equity and liabilities</b>							
<b>Liabilities</b>							
Deposits from banks	219,378	143,701	75,000	-	-	-	677
Deposits from customers	1,215,647	1,088,550	36,580	90,470	-	-	47
Derivative financial instruments	8,764	-	-	-	-	-	8,764
Other liabilities	46,992	-	-	-	-	-	46,992
Subordinated liabilities	60,000	-	60,000	-	-	-	-
<b>Equity</b>							
Shareholders' equity	342,516	-	-	-	-	-	342,516
<b>Total equity and liabilities</b>	<b>1,892,945</b>	<b>1,232,251</b>	<b>171,580</b>	<b>90,470</b>	<b>-</b>	<b>-</b>	<b>398,644</b>
Interest rate sensitivity gap		(668,161)	911,225	(86,048)	80,761	70,326	(308,103)
Cumulative gap		(668,161)	243,064	157,016	237,777	308,103	-

The table below indicates the impact on the income statement for possible change in interest rates, with all other variables held constant.

At the reporting date the sensitivity to interest rate risk was projected to be:

£000	100bps parallel Increase	100bps parallel Decrease
<b>Sensitivity of projected net interest income at</b>		
<b>31 December 2021</b>	<b>12,750</b>	<b>(12,750)</b>
31 December 2020	2,398	(2,398)
<b>Sensitivity of reported equity to interest rate movements at</b>		
<b>31 December 2021</b>	<b>12,750</b>	<b>(12,750)</b>
31 December 2020	2,398	(2,398)

Interest rate movements affect reported equity in the following ways: retained earnings; arising from increases or decreases in net interest income and the fair value changes reported in profit or loss.

**6. Financial risk management (continued)**

**(d) Capital management**

**Regulatory capital**

Reference is made below to the Prudential Regulation Authority (“PRA”) which along with the Financial Conduct Authority (“FCA”) are the bank’s regulators.

The PRA sets capital requirements for the bank in line with international supervisory standards and guidelines known as Basel III which are contained within legislation passed by the EU, i.e. CRD IV Regulation and Directives. The parent company is directly supervised by their local regulators.

In calculating capital requirements, the bank has adopted the standardised approach for credit risk and the basic indicator approach for operational risk. As the bank does not have a trading book, the capital requirement for the foreign exchange risk inherent in the banking book has been captured as market risk, which is also calculated on the standardised approach.

The bank’s regulatory capital resources comprise tier 1 and tier 2 capital as set out in the table below.

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 2021 and 31 December 2020 was as follows:

£000	<b>2021</b> <b>Actual</b>	2020 Actual
<b>Tier 1 capital</b>		
Ordinary share capital	<b>250,000</b>	250,000
Retained earnings *	<b>25,076</b>	25,164
<b>Tier 2 capital</b>		
Qualifying subordinated liabilities	<b>60,000</b>	60,000
<b>Total regulatory capital</b>	<b>335,076</b>	335,164

\* Retained earnings are eligible for inclusion as regulatory Tier 1 capital once audited. Similarly, dividends are deducted from regulatory capital once declared. Therefore, as both events occur after the balance sheet date regulatory capital at the reporting dates will differ to the amounts disclosed in the above table.

The bank maintains a buffer to regulatory minimum capital ratios.

The PRA also sets total capital requirements (“TCR”) for the bank as part of its Supervisory Review and Evaluation Process. The agreed TCR was in force and respected as at the reporting date and remains confidential between each bank and the PRA in accordance with PRA requirements.

## 7. Financial assets and financial liabilities

### Fair values of financial instruments

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

#### Fair values

The carrying value of financial assets and liabilities at amortised cost materially approximates to their fair 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.

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).

The carrying value of short-term receivables and payables are assumed to approximate to their fair values where discounting is not material.

Loans to customers designated at fair value are valued by calculating the net present value of their discounted cash flows.

For derivative 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.

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7. Financial assets and financial liabilities (continued)

Fair value hierarchy

During the financial year ended 31 December 2021, financial assets at fair value were assessed under IFRS 13 criteria for Level 1, Level 2 or Level 3.

£000

31 December 2021	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Designated fair value loans	-	-	64,640	64,640
Derivative financial instruments:				
Interest rate swaps	-	-	-	-
Foreign exchange	-	11	-	11
	-	11	-	11
Financial investments:				
Convertible preference shares	-	-	19	19
	-	-	19	19
<b>Total assets</b>	-	11	64,659	64,670
<b>Financial liabilities</b>				
Derivative financial instruments:				
Interest rate swaps	-	4,091	-	4,091
Foreign exchange	-	1,189	-	1,189
<b>Total liabilities</b>	-	5,280	-	5,280

In accordance with IFRS 13, Level 3 assets includes convertible preference shares in Visa Inc. based on a proxy of Visa Inc.'s quoted share price and the fair value gain or loss on loans designated at fair value during the year (refer to Note 10).

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7. Financial assets and financial liabilities (continued)

Fair value hierarchy (continued)

£000				
31 December 2020 (Restated)	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Designated fair value loans	-	-	77,463	77,463
Derivative financial instruments:				
Interest rate swaps	-	-	-	-
Foreign exchange	-	3	-	3
	-	3	-	3
Financial investments:				
Convertible preference shares	-	-	19	19
	-	-	19	19
<b>Total assets</b>	-	3	77,482	77,485
<b>Financial liabilities</b>				
Derivative financial instruments:				
Interest rate swaps	-	8,096	-	8,096
Foreign exchange	-	668	-	668
<b>Total liabilities</b>	-	8,764	-	8,764

Reconciliation of Level 3 financial assets

£000	31 December 2021	31 December 2020
Balance at 1 January	77,482	83,928
Issues of loans to new counterparties	-	3,663
Repayment of loans	(10,801)	(10,148)
Total (losses)/gains for the period net of exchange differences recognised in the profit and loss	(2,656)	2,661
Exchange gain/(loss) recognised in the profit and loss	634	(2,622)
<b>Balance at 31 December</b>	<b>64,659</b>	<b>77,482</b>

Designated fair value loans are valued using discounted cash flows. At the end of 2021 unrealised gains of Level 3 Assets is £2,571,000 (2020: £5,227,000).

Sensitivity test of Level 3 financial assets

The sensitivity analysis of the fair value loans made on aircraft shows that an increase of 1% in discount rate would decrease the fair value by £1,782,000.

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**8. Net interest income**

£000	31 December 2021	31 December 2020 Restated
Interest income from financial investments	-	13
Interest income from loans and advances:		
Cash and cash equivalents	186	852
Loans and advances to banks	796	701
Loans and advances to customers	35,954	35,670
Total interest from loans and advances	36,936	37,223
Total interest income	36,936	37,236
Interest expense:		
Cash and cash equivalents – Euro interest paid	284	177
Deposits from banks	1,449	2,433
Customers accounts	1,697	3,380
Subordinated liabilities	220	463
Total interest expense	(3,650)	(6,453)
Net interest income	33,286	30,783

Interest income presented above represents interest income calculated using the effective interest method.

**9. Net fee and commission income**

(a) Analysis by business area £000	31 December 2021	31 December 2020
Retail Banking customer fees	1,742	1,578
Corporate Banking credit-related fees	2,329	1,964
Other	223	85
Gross fee and commission income	4,294	3,627
Interbank transaction fees	(312)	(386)
Other	(1,007)	(1,163)
Gross fee and commission expense	(1,319)	(1,549)
Net fee and commission income	2,975	2,078

**9. Net fee and commission income (continued)**

(b) Analysis of gross fee and commission income by product

£000	31 December 2021	31 December 2020
Letter of guarantee	211	298
Remittance	338	339
Account and service fees	163	170
Letter of credit	23	11
Settlement & commitment	162	207
Credit and debit cards	373	312
Other	281	61
Fee and commission income in scope of IFRS 15	<b>1,551</b>	1,398
Syndicated loans	<b>1,301</b>	1,004
Structural financing	<b>307</b>	222
Retail loans	<b>1,135</b>	1,003
Fee and commission income in scope of IFRS 9	<b>2,743</b>	2,229
Gross fee and commission income	<b>4,294</b>	3,627

**10. Net fair value gain on financial instruments**

£000	31 December 2021	31 December 2020 Restated
Net fair value loss on financial instruments:		
Designated fair value loans	(2,655)	2,659
Interest income	2,695	3,268
Interest rate swaps	1,883	(5,812)
Convertible preference shares	-	2
	<b>1,923</b>	117

**11. Other operating income**

£000	31 December 2021	31 December 2020
Related party service charges	<b>83,033</b>	85,026
Other	<b>241</b>	610
	<b>83,274</b>	85,636

The related party service charges represent the net amount receivable by the bank for the following services provided and received under service level agreements with related parties as disclosed in Note 32:

- Income earned by Bank of China Limited, London Branch (the "London Branch") beyond return on capital, repatriated to the bank.
- Expenses incurred directly by the bank that are recharged to the London Branch for services provided.

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**12. Staff costs**

£000	31 December 2021	31 December 2020
Wages and salaries	40,940	38,483
Contributions to defined contribution plans	2,614	2,472
Social security costs	5,183	5,010
Other	1,417	1,642
	<b>50,154</b>	<b>47,607</b>
	<b>31 December 2021</b>	<b>31 December 2020</b>
Average number of employees		
Retail Banking	133	137
Corporate Banking	95	124
Support Functions	310	270
Total average number of employees	<b>538</b>	<b>531</b>

Other staff costs include staff training expenditure and staff benefits costs.

**13. Other expenses**

£000	31 December 2021	31 December 2020 Restated
Administrative	5,328	17,413
Software licensing and other IT costs	368	175
Other	3,228	1,228
	<b>8,924</b>	<b>18,816</b>

Administrative expenses in the prior year contained significant expenses in respect of professional and advisory fees for large projects. These projects were materially completed within 2020 therefore other costs are considerably lower in 2021 by some £6m in relation to these projects. In addition 2021 also includes the reversal of the provisions for claims in respect of the Bank of China (Suisse) SA sale agreement of £4,245,000 provided for in 2019.

Administrative expenses include expenses relating to short-term and low-value asset leases of £180,000 (2020: £95,000).

Auditors' remuneration:

£000	31 December 2021	31 December 2020
Fees payable to the bank's auditors for the audit of the company's financial statements:		
Current year	318	390
Prior year*	240	98
Fees payable to the bank's auditor and its associates for other services:		
The audits of the company's subsidiaries, pursuant to legislation	47	58
Other assurance services	32	21

\* Prior years audit fees relate to the audit performed by Ernst & Young LLP.

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14. Directors' remuneration	31 December 2021	31 December 2020
£000		
Remuneration of directors in respect of services rendered:		
Remuneration	901	924
Pension contributions	7	10
Highest paid director:		
Remuneration	315	290

15. Income tax expense	31 December 2021	31 December 2020
£000		
<b>Current tax expense</b>		
Current period	7,936	12,977
Adjustments for prior years	(92)	208
<b>Total current tax</b>	<b>7,844</b>	<b>13,185</b>
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	(75)	(322)
Adjustments for prior years	19	(118)
<b>Total deferred tax</b>	<b>(56)</b>	<b>(440)</b>
<b>Total income tax expense in income statement</b>	<b>7,788</b>	<b>12,745</b>

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	31 December 2021	31 December 2020
£000		
Profit before income tax	39,266	47,910
Income tax using the standard rate of corporation tax in the UK 27.00% (2020: 27.00%)	10,602	12,936
Non-deductible expenses	(637)	1,790
Allowance against banking tax surcharge	(2,000)	(2,000)
(Over) under provided in prior years	(73)	90
Other - tax rate adjustment	(102)	(72)
Other	(2)	1
<b>Total income tax expense in the income statement</b>	<b>7,788</b>	<b>12,745</b>

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**15. Income tax expense (continued)**

**Income tax recognised in other comprehensive income**

£000	31 December 2021	31 December 2020
<b>Current tax</b>		
UK current tax expense	-	-
<b>Total current tax</b>	<b>-</b>	<b>-</b>
<b>Deferred tax</b>		
Current year deferred tax charge (credit)	-	-
<b>Total deferred tax</b>	<b>-</b>	<b>-</b>
<b>Total income and deferred tax credit in other comprehensive income</b>	<b>-</b>	<b>-</b>

The UK Government has substantively enacted an increase in the rate of corporation tax to 25% from April 2023. A reduction in the rate of corporation tax surcharge on banking companies from 8% to 3%, along with an increase in the banking surcharge allowance from £25m to £100m, was substantively enacted post balance date. Deferred tax has been calculated at the rate it is expected to unwind at, where those rates were substantively enacted by the balance sheet date (27% prior to April 2023, 33% from April 2023).

**16. Cash and cash equivalents**

£000	31 December 2021	31 December 2020
Cash on hand	<b>1,639</b>	1,804
Cash balances with the central bank	<b>568,076</b>	360,115
Other demand deposits	<b>146,418</b>	119,460
	<b>716,133</b>	481,379

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**17. Derivative financial instruments**

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

2021 Offsetting of financial instruments

	Gross amounts	Amounts offset	Net amounts in balance sheet	Cash collateral	Total
<b>Financial assets £000</b>					
Foreign exchange	11	-	11	-	11
Interest rate swaps	58,229	(37,838)	20,391	(20,391)	-
<b>Net assets</b>	<b>58,240</b>	<b>(37,838)</b>	<b>20,402</b>	<b>(20,391)</b>	<b>11</b>
<b>Financial liabilities £000</b>					
Foreign exchange	1,189	-	1,189	-	1,189
Interest rate swaps	62,320	(37,838)	24,482	(20,391)	4,091
<b>Net liabilities</b>	<b>63,509</b>	<b>(37,838)</b>	<b>25,671</b>	<b>(20,391)</b>	<b>5,280</b>

2020 Offsetting of financial instruments

	Gross amounts	Amounts offset	Net amounts in balance sheet	Cash collateral	Total
<b>Financial assets £000</b>					
Foreign exchange	3	-	3	-	3
Interest rate swaps	49,248	(1,982)	47,266	(47,266)	-
<b>Net assets</b>	<b>49,251</b>	<b>(1,982)</b>	<b>47,269</b>	<b>(47,266)</b>	<b>3</b>
<b>Financial liabilities £000</b>					
Foreign exchange	668	-	668	-	668
Interest rate swaps	57,344	(1,982)	55,362	(47,266)	8,096
<b>Net liabilities</b>	<b>58,012</b>	<b>(1,982)</b>	<b>56,030</b>	<b>(47,266)</b>	<b>8,764</b>

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

**18. Loans and advances to banks**

£000	<b>31 December 2021</b>	31 December 2020
Loans and advances to banks	<b>69,065</b>	110,476
Allowance for expected credit losses - collective	-	(30)
	<b>69,065</b>	110,446

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**19. Loans and advances to customers**

£000	31 December 2021	31 December 2020
Corporate loans and advances	186,995	228,625
Retail loans and advances	1,035,677	914,099
Gross loans and advances	<b>1,222,672</b>	1,142,724
Less allowance for expected credit losses		
12 months	(518)	(4,060)
Lifetime	(27,501)	(81)
Total allowance for expected credit losses	<b>(28,019)</b>	(4,141)
Loans and advances to customer net	<b>1,194,653</b>	1,138,583

Loans and advances to customers at amortised cost

£000	31 December 2021			31 December 2020		
	Gross amount	Allowance for ECL	Carrying amount	Gross amount	Allowance for ECL	Carrying amount
Corporate loans and advances	186,995	(27,567)	159,428	228,625	(3,527)	225,098
Retail loans and advances	1,035,677	(452)	1,035,225	914,099	(614)	913,485
	<b>1,222,672</b>	<b>(28,019)</b>	<b>1,194,653</b>	1,142,724	(4,141)	1,138,583

**20. Allowances for expected credit losses**

Allowance (charges)

£000	31 December 2021	31 December 2020
Loans and advances to customers	(23,856)	(3,047)
Loans and advances to banks	-	69
Off balance sheet	191	(207)
Foreign exchange movement	-	13
<b>Total allowance for expected credit losses in income statement</b>	<b>(23,665)</b>	<b>(3,172)</b>

Refer to Note 6 for the movement in the allowance for expected credit losses for the year ended 31 December 2021 and 2020 for on and off balance sheet products.

**21. Financial investments**

Financial assets at fair value through profit and loss

£000	31 December 2021	31 December 2020
Loans designated at fair value	64,640	77,463
Convertible preference shares	19	19
	<b>64,659</b>	77,482

Included in financial assets at fair value through profit and loss is a portfolio of fixed rate corporate loans. The hedges do not meet the criteria for hedge accounting and the loans are recorded at fair value to avoid an accounting mismatch.

The bank holds £19,000 preference shares in Visa Inc. (31 December 2020: £19,000) which are expected to be recovered more than twelve months after the reporting date.

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**22. Property, plant and equipment**

(a) Fixed assets

£000	Property, plant and fixtures	Furniture and equipment	Computer equipment	Motor vehicles	Total
<b>Cost</b>					
<b>Balance at 1 January 2021</b>	<b>6,334</b>	<b>2,177</b>	<b>2,871</b>	<b>260</b>	<b>11,642</b>
<b>Additions</b>	<b>484</b>	<b>220</b>	<b>645</b>	-	<b>1,349</b>
<b>Transfers</b>	-	-	-	-	-
<b>Disposals</b>	<b>(417)</b>	<b>(90)</b>	<b>(159)</b>	-	<b>(666)</b>
<b>Foreign exchange movement</b>	<b>3</b>	<b>(1)</b>	<b>(1)</b>	-	<b>1</b>
<b>Balance at 31 December 2021</b>	<b>6,404</b>	<b>2,306</b>	<b>3,356</b>	<b>260</b>	<b>12,326</b>
Balance at 1 January 2020	6,314	2,155	2,434	260	11,163
Additions	-	38	481	-	519
Transfers	-	-	-	-	-
Disposals	-	(22)	(52)	-	(74)
Foreign exchange movement	20	6	8	-	34
Balance at 31 December 2020	6,334	2,177	2,871	260	11,642
<b>Accumulated Depreciation</b>					
<b>Balance at 1 January 2021</b>	<b>5,011</b>	<b>1,972</b>	<b>2,116</b>	<b>206</b>	<b>9,305</b>
<b>Charge for the year</b>	<b>353</b>	<b>138</b>	<b>417</b>	<b>23</b>	<b>931</b>
<b>Transfers</b>	-	-	-	-	-
<b>Disposals</b>	<b>(172)</b>	<b>(75)</b>	<b>(147)</b>	-	<b>(394)</b>
<b>Foreign exchange movement</b>	-	-	-	-	-
<b>Balance at 31 December 2021</b>	<b>5,192</b>	<b>2,035</b>	<b>2,386</b>	<b>229</b>	<b>9,842</b>
Balance at 1 January 2020	4,630	1,805	1,776	185	8,396
Charge for the year	375	167	350	21	913
Transfers	-	-	-	-	-
Disposals	-	(2)	(16)	-	(18)
Foreign exchange movement	6	2	6	-	14
Balance at 31 December 2020	5,011	1,972	2,116	206	9,305
Net carrying value at					
<b>31 December 2021</b>	<b>1,212</b>	<b>271</b>	<b>970</b>	<b>31</b>	<b>2,484</b>
31 December 2020	1,323	205	755	54	2,337

As at 31 December 2021 and 31 December 2020 the bank identified no events or circumstances that would indicate that the bank's tangible fixed assets might be impaired.

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**22. Property, plant and equipment (continued)**

(b) Right-of-use assets

£000	Property, plant and fixtures	Furniture and equipment	Computer equipment	Motor vehicles	Total
<b>Cost</b>					
<b>Balance at 1 January 2021</b>	<b>5,256</b>	-	-	<b>10</b>	<b>5,266</b>
<b>Additions</b>	<b>8,187</b>	-	-	<b>33</b>	<b>8,220</b>
<b>Disposal</b>	<b>(1,237)</b>	-	-	-	<b>(1,237)</b>
<b>Foreign exchange movement</b>	-	-	-	-	-
<b>Balance at 31 December 2021</b>	<b>12,206</b>	-	-	<b>43</b>	<b>12,249</b>
Balance at 1 January 2020	5,188	-	-	10	5,198
Foreign exchange movement	68	-	-	-	68
Balance at 31 December 2020	5,256	-	-	10	5,266
<b>Accumulated Depreciation</b>					
<b>Balance at 1 January 2021</b>	<b>3,066</b>	-	-	<b>10</b>	<b>3,076</b>
<b>Charge for the year</b>	<b>838</b>	-	-	<b>33</b>	<b>871</b>
<b>Disposal</b>	<b>(381)</b>	-	-	-	<b>(381)</b>
<b>Foreign exchange movement</b>	-	-	-	-	-
<b>Balance at 31 December 2021</b>	<b>3,523</b>	-	-	<b>43</b>	<b>3,566</b>
Balance at 1 January 2020	1,628	-	-	10	1,638
Charge for the year	1,429	-	-	-	1,429
Foreign exchange movement	9	-	-	-	9
Balance at 31 December 2020	3,066	-	-	10	3,076
<b>Net carrying value at</b>					
<b>31 December 2021</b>	<b>8,683</b>	-	-	-	<b>8,683</b>
31 December 2020	2,190	-	-	-	2,190

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**23. Intangible assets**

£000	IT Software	Total
<b>Cost</b>		
<b>Balance at 1 January 2021</b>	<b>2,764</b>	<b>2,764</b>
<b>Additions</b>	<b>86</b>	<b>86</b>
<b>Disposals</b>	<b>(16)</b>	<b>(16)</b>
<b>Balance at 31 December 2021</b>	<b>2,834</b>	<b>2,834</b>
Balance at 1 January 2020	2,739	2,739
Additions	51	51
Disposals	(26)	(26)
Balance at 31 December 2020	2,764	2,764
<b>Amortisation</b>		
<b>Balance at 1 January 2021</b>	<b>2,235</b>	<b>2,235</b>
<b>Amortisation for the year</b>	<b>237</b>	<b>237</b>
<b>Disposal</b>	<b>-</b>	<b>-</b>
<b>Balance at 31 December 2021</b>	<b>2,472</b>	<b>2,472</b>
Balance at 1 January 2020	1,979	1,979
Amortisation for the year	259	259
Disposal	(3)	(3)
Balance at 31 December 2020	2,235	2,235
Net carrying value at		
<b>31 December 2021</b>	<b>362</b>	<b>362</b>
31 December 2020	529	529

As at 31 December 2021 and 31 December 2020 the bank identified no events or circumstances that would indicate that the bank's intangible assets might be impaired.

**24. Deferred tax assets**

**Recognised deferred tax assets**

Deferred tax assets are attributable to the following:

£000	31 December 2021	31 December 2020
Property and equipment, and software	(133)	19
Available for sale investments	-	-
Deferred employees' benefits	1,328	1,120
Other	88	88
	<b>1,283</b>	<b>1,227</b>

Deferred tax has been calculated at 27% using the aggregate enacted corporation tax rate of 19% and corporation tax surcharge on banking companies of 8% for amounts expected to unwind prior to April 2023. For amounts expected to unwind after April 2023 deferred tax has been calculated at 33% using the aggregate substantively enacted corporation tax rate of 25% and corporation tax surcharge on banking companies of 8%.

A reduction in the rate of corporation tax surcharge on banking companies from 8% to 3%, along with an increase in the banking surcharge allowance from £25m to £100m, was substantively enacted post balance date.

The aggregate effect of the above changes would decrease the deferred tax asset by £114,000 to £1,169,000. There were no unrecognised deferred tax assets as at 31 December 2021 and 31 December 2020.

**Movements in temporary differences during the year**

£000	Opening balance 1 January 2021	Recognised in income	Recognised in equity	Closing balance 31 December 2021
Property and equipment, and software	19	(152)	-	(133)
Deferred employees' benefits	1,120	208	-	1,328
Other	88	-	-	88
	<b>1,227</b>	<b>56</b>	<b>-</b>	<b>1,283</b>

  

£000	Opening balance 1 January 2020	Recognised in income	Recognised in equity	Closing balance 31 December 2020
Property and equipment, and software	(67)	86	-	19
Deferred employees' benefits	766	354	-	1,120
Other	88	-	-	88
	<b>787</b>	<b>440</b>	<b>-</b>	<b>1,227</b>

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**25. Prepayments, accrued income and other assets**

£000	31 December 2021	31 December 2020
Accrued income	3,159	2,331
Prepaid expenses	642	736
Tax receivable	362	465
Receivable from related party	12,157	17,220
Other	71,548	58,017
	<b>87,868</b>	<b>78,769</b>

Transfer pricing receivable from related party of £9,205,000 (31 December 2020: £12,993,000) was outstanding at 31 December 2021. Other assets of £70,264,000 (31 December 2020: £55,338,000) deposited with LCH.

**26. Deposits from banks**

£000	31 December 2021	31 December 2020
From fellow group companies	320,477	125,741
Other deposits from banks	75,777	93,637
	<b>396,254</b>	<b>219,378</b>

**27. Deposits from customers**

£000	31 December 2021	31 December 2020
Retail customers:		
Term deposits	272,439	303,556
Notice deposits	122,949	118,677
Current deposits	329,793	331,761
Other	38	50
	<b>725,219</b>	<b>754,044</b>
Corporate customers:		
Notice deposits	100,072	71,040
Current deposits	498,720	343,963
Other	9,512	46,600
	<b>608,304</b>	<b>461,603</b>
	<b>1,333,523</b>	<b>1,215,647</b>

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**28. Subordinated liabilities**

£000	31 December 2021	31 December 2020
Subordinated note issued	<b>60,000</b>	60,000
	<b>60,000</b>	60,000

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 0.55% (31 December 2020: 0.33%). This rate will be transitioned to SONIA compounded rate in arrears. 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**

£000	31 December 2021	31 December 2020
Creditors and accruals	<b>32,093</b>	30,474
Lease liabilities	<b>11,022</b>	5,051
Other	<b>456</b>	561
	<b>43,571</b>	36,086

**30. Accruals and deferred income**

£000	31 December 2021	31 December 2020
Deferred income	<b>4,509</b>	5,060
Accrued interest	<b>1,148</b>	645
	<b>5,657</b>	5,705

**31. Equity**

**(a) Capital**

At 31 December 2021 the authorised share capital comprised 250,000,000 ordinary shares (31 December 2020: 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) Dividends**

The directors recommend the payment of a dividend of £31,700,000 for 2021 (2020: £67,000,000).

**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 2021 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 (parent);
- China Investment Corporation Limited (ultimate parent).

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

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**32. Related parties (continued)**

**(a) Parent and ultimate controlling party**

£000	Nature of related party Significant influence	Significant company
<b>Balance at 31 December 2021</b>		
Cash on hand, cash balances with the central bank and other demand deposits	54,307	-
Loans and advances to banks	55,003	-
Loans and advances to customers	-	1
Derivative financial instrument assets	11	-
Prepayments, accrued income and other assets	9,676	2,481
Deposits from banks	320,477	-
Deposits from customers	-	3,443
Derivative financial instrument liabilities	5,280	-
Other liabilities	11,126	331
Subordinated liabilities	60,000	-
<b>Included in the income statement for the period</b>		
Interest receivable	185	-
Interest payable	(952)	-
Other operating income	82,962	71
Net loss on derivative financial instruments	(3,308)	-
<b>Balance at 31 December 2020 (Restated)</b>		
Cash on hand, cash balances with the central bank and other demand deposits	49,451	-
Loans and advances to banks	88,500	-
Loans and advances to customers	-	1
Derivative financial instrument assets	3	-
Prepayments, accrued income and other assets	19,805	2,727
Deposits from banks	125,741	-
Deposits from customers	-	5,868
Derivative financial instrument liabilities	8,764	-
Other liabilities	14,452	397
Subordinated liabilities	60,000	-
<b>Included in the income statement for the period</b>		
Interest receivable	311	71
Interest payable	(1,220)	-
Other operating income	84,941	84
Net gain on derivative financial instruments	8,382	-

Other assets include related party leases with details disclosed in Note 35.

**(b) Investment in non-consolidated subsidiaries**

	Shareholding	Country of incorporation	Ownership interest	
			31 December 2021	31 December 2020
China Bridge Group (UK) Limited	100 ordinary shares	United Kingdom	100%	100%
China Bridge Group Italy SRL <sup>1</sup>	10,000 ordinary shares	Italy	100%	100%

<sup>1</sup>Indirect holding via China Bridge Group (UK) Limited. The Italian entity has not had its licence renewed to grant visas for visitors to China and is in the process of being liquidated.

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**32. Related parties (continued)**

**(b) Investment in non-consolidated subsidiaries (continued)**

At 31 December 2021, the bank held an investment of £1 (100 shares at £0.01 each) in China Bridge Group (UK) Limited (31 December 2020: £1). This entity is wholly-owned, with registered office at 1 Lothbury, London, EC2R 7DB. The bank has availed itself of the consolidation exemption (refer to Note 2) and therefore does not prepare consolidated accounts.

**(c) Key management compensation**

Key management is comprised of directors and the members of the Executive Management Committee of the bank. The bank does not provide non-cash benefits to any of the key management personnel.

£000	2021	2020
Compensation of Key Management Personnel:		
Short-term employee benefits	1,647	1,471
Post-employment benefits	14	13
<b>Total</b>	<b>1,661</b>	<b>1,484</b>

**(d) Transactions with key management**

Transactions with key management for the period ended 31 December 2021 comprised retail mortgages and deposits transacted on an arms' length basis to the amounts of £324,194 and £3,136,922 respectively (31 December 2020: £347,000 & £2,802,000).

**33. Provisions and commitments**

**(a) Undrawn loan commitments, guarantees and other financial facilities**

£000	31 December 2021	31 December 2020 Restated
Undrawn loan commitments	130,621	183,828
Guarantees	16,054	69,133
Letter of credit	1,389	283
<b>Total</b>	<b>148,064</b>	<b>253,244</b>

The 31 December 2020 prior year has been restated to reallocate other commitments of £11,577,000 to letters of credit £283,000 and undrawn loan commitments 11,294,000 to align with the current year disclosure.

**(b) Operating lease commitments**

Where the bank is the lessee, the future aggregate minimum lease payments on buildings are as follows:

£000	31 December 2021	31 December 2020
Less than one year	620	579
Between one and five years	-	-
More than five years	-	-
<b>Total</b>	<b>620</b>	<b>579</b>

**34. Subsequent events**

There are no material events subsequent to 31 December 2021 and up until the authorisation of these financial statements.

Dividend for 2021 of £31,700,000 was declared by the directors after 31 December 2021 (2020: £67,000,000).

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**35. Company as Lessor**

The bank has entered into sub-leasing arrangements on certain of its leased office properties. These leases have terms of between seven and nineteen years with provision for upward revision of rental charges. Rental income recognised by the bank during the year is £269,750 (2020: £341,000).

Future minimum rentals receivable under operating leases as at 31 December 2021 are:

£000	2021	2020
Within one year	246	270
After one year but not more than five years	984	984
More than five years	1,230	1,476
Total	2,460	2,730

The bank has not provided any rent concessions to lessees.