

Bank of China (UK) Limited

Annual Report and Financial Statements

For the year ended 31 December 2022

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Chairman's Statement

This is my second report as Chairman of Bank of China (UK) Limited and I am pleased to report that the Bank has continued to perform well despite the challenging macroeconomic environment. The global economy has faced a number of challenges, including rising inflationary pressures and interest rates. These factors have made economic recovery more difficult, particularly for businesses and consumers.

One of the biggest challenges we have faced over the past year has been rising interest rates, which have had a significant impact on the global economy. High interest rates make it more expensive for businesses and consumers to access credit, which can slow investment and economic growth. In addition, the conflict between Russia and Ukraine has added further uncertainty to the global economy. The geopolitical situation has created instability in key markets, leading to disruptions in trade and investment.

As a Bank, we are committed to sustainable practices and to supporting the transition to a green economy. We are committed to integrating environmental, social and governance ("ESG") considerations into our business strategies and operations. In this context, we have developed and implemented a number of initiatives to support our ESG efforts. For example, we have recently established a dedicated team to oversee our sustainability initiatives and are developing plans with the aim to reduce our carbon footprint and to support the growing renewable energy sector. We are also committed to promoting diversity and inclusion within our organisation, and we actively work to promote our services in lending practices that support underserved communities.

Personally, I have enjoyed working with the Executive Management Team and the staff of the Bank over the past year. Their hard work and dedication have been instrumental in the Bank's continued success. They have shown great resilience and flexibility in dealing with the challenges posed by the macro environment and I have no doubt that they will continue to deliver excellent results for the Bank's stakeholders.

In conclusion, Bank of China (UK) Limited will continue to meet the challenges of the macro environment and remain agile in responding to external risks. We will strive to meet all legal and regulatory obligations, pave the way for digital transformation and embrace green transition as a pillar of our ambition. We are committed to being the first choice for the local Chinese community and domestic Chinese companies operating in the UK. I am confident that the Bank's resilience and commitment, combined with the hard work of our management team, will enable us to continue to achieve our strategic goals despite the uncertain global economic environment.

Jiuzhong Li

Chairman of the Board of Directors

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Chief Executive Officer's Statement

I am pleased to report that the Bank continued to deliver a strong financial performance last year, despite a challenging economic environment characterised by high inflation, high interest rates and a slow economic recovery. The Bank's total assets increased from £2.2 billion as of year-end 2021 to £2.3 billion as of year-end 2022. Total income has increased from £124.0 million to £150.4 million in 2022. The Bank's total profit after tax has increased from £31.5 million in 2021 to £68.6 million.

In addition to delivering a strong financial performance, we have placed a strong emphasis on local engagement, building stronger relationships with our customers and partners, and making a positive impact in the local community through our various corporate social responsibility initiatives.

We have also continued to prioritise sustainability and the transition to a green economy in our operations. We have implemented a number of initiatives to reduce our environmental footprint and have actively supported renewable energy and other sustainable projects. We are committed to disclosing our activities in a transparent and responsible manner, as green reporting becomes increasingly important.

Looking to the future, we recognise the need to continue to adapt to the changing economic environment, focusing on maintaining our operational efficiency, risk management framework and compliance with all legal and regulatory obligations. We also look forward to the potential for increased trade and investment opportunities between the UK and China as we enter into the post-Covid era.

I would like to thank all our employees for their dedication and hard work over the past year. Our success is a direct result of their efforts and I am proud of the determination they have shown in the face of such challenging economic conditions. We have been successful in retaining our staff and attracting new talent, and we will continue to focus on ensuring the wellbeing of our employees, who are critical to the Bank's performance. By embedding the hybrid working environment, we have achieved a new level of efficiency in our working practices and are well positioned to continue to deliver strong results for our stakeholders.

In addition, we recognised the cost of living crisis and provided financial support by a one off payment to a group of staff that were deemed to be suffering the most at this time. This demonstrates our commitment to the wellbeing of our employees and the link to the Bank's strong performance.

As CEO, I have enjoyed working with our senior management team and all our employees over the past year. Their dedication, resilience and commitment to delivering strong results have been critical to our success and I look forward to continuing to work with them in the year ahead.

In the year ahead, the Bank will focus on building our core competencies, resources and assets to ensure that we are well positioned to meet the challenges of the economic environment and to capitalise on the opportunities that arise. We will continue to improve our operational efficiency, risk management framework and regulatory compliance. In addition, we will continue to support the UK-China trade relationship and accelerate our decarbonisation journey as we firmly embrace the green transition.

In conclusion, I am confident that the Bank's commitment to delivering strong results, coupled with our focus on sustainability and local engagement, will enable us to remain the first choice for the local Chinese community and domestic Chinese companies operating in the UK. We will continue to meet the challenges of the economic environment and remain agile in responding to external risks, while striving to meet all legal and regulatory obligations. We look forward to a bright future as we work together to achieve our goals.

Wenjian Fang

Chief Executive Officer

Board Director

Bank of China (UK) Limited

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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 (PRA) and Financial Conduct Authority (FCA) and authorised by the PRA.

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.

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 2023 and beyond, most notably:

- the impact of consumer price changes on economic growth and corporate profitability;
- the impact on the mortgage sector of interest rate rises and declining property values;
- the rate and extent of anticipated interest rate changes;
- the rate of China's post-Covid economic recovery and its impact on global economic growth;
- the rate and sustainability of growth in relevant economies, particularly in UK and Eurozone post-Covid environment;
- the geopolitical and macroeconomic risks of the Russian-Ukraine conflict.

Dividends

The directors intend to declare a dividend of £66,800,000 for the period (2021: £31,700,000) to be paid in 2023.

Directors' Interest

The directors of the Bank who were in office during the year and up to the date of approval of the Directors' report were:

Mr. Wenjian Fang	Chief Executive Officer & Executive Director
Mr. Stewart Trussler	Chief Financial Officer & Executive Director
Mr. Charles Hardy	Independent Non-Executive Director
Mr. Jiuzhong Li	Chairman & Non-Executive Director
Dr. Gerard Lyons	Independent Non-Executive Director
Mr. David Price	Independent Non Executive Director – (Appointed 16/02/2023)
Ms Li Ren	Non-Executive Director – (Resigned 8/07/2022)
Mrs Wei Shi *	Non-Executive Director
Mr. Jonathan Spence	Senior Independent Non-Executive Director
Mr. Huabin Wang	Non-Executive Director – (Appointed 7/10/2022)

* Non-Executive Director formerly Chief Risk Officer & Executive Director

Bank of China (UK) Limited
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Directors' report (continued)

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.

Board and Committee Meetings 2022

	Board	Remuneration Committee	Audit Committee	Risk Committee
Scheduled Meetings	4	6	6	5
Attended Meetings:				
Mr. Wenjian Fang	4	6	-	5
Mr. Jiuzhong Li	3	-	-	-
Mr. Stewart Trussler	4	-	6*	5*
Mrs. Wei Shi	2	-	1*	1*
Mr. Jonathan Spence	4	-	6	5
Mr. Charles Hardy	4	6	6	5*
Dr. Gerard Lyons	4	6	1*	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 2022 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 has considered financial forecasts running out to December 2024 which included the latest business assumptions. The Board has taken into consideration the current economic environment, the Bank's business model, the 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. As part of the going concern assessment, the Board have also considered the potential effects of the current conflict in Ukraine, and the increased inflation and interest rate environment the economy is experiencing. The Board considered various additional stress scenarios. Those that were identified as the most likely challenging scenarios the Bank would face, were those relating to the wider economic effects of the conflict in Ukraine, and higher inflation and interest rates, should these have a higher economic impact than currently anticipated within the forecast. The Board have considered these stressed scenarios on the Bank's mortgage portfolio and have made significant downward revisions to the financial forecast over the assessment period. The Board also 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.

Directors' report (continued)

Going concern assessment (continued)

The Board takes comfort from its two year financial forecast and an assessment of its exposure to liquidity risk over the forecast period. This together with a committed short-term loan facility granted by the Bank's parent company, Bank of China Limited and its strong capital position supports 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.

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. This 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 its 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

UK energy use and associated greenhouse gas emissions

Current UK based annual energy usage and associated annual greenhouse gas ("GHG") emissions are reported pursuant to the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 ("the 2018 Regulations") that came into force 1 April 2019.

Organisational boundary

In accordance with the 2018 Regulations, the energy use and associated GHG emissions are for those assets owned or controlled within the UK only for all assets that come under an operational control boundary of Bank of China (UK) Limited only, with the mandatory inclusion of scope 3 business travel in grey fleet (employee-owned or rental vehicles). This includes all office spaces, bank branches and transport operations controlled during the reporting period. Other entities do not meet the criteria of the 2018 Regulations.

Directors' report (continued)

Streamlined Energy and Carbon Reporting (continued)

Reporting period

The annual reporting period is 1st January to 31st December each year and the energy and carbon emissions are aligned to this period.

Quantification and reporting methodology

The 2019 UK Government Environmental Reporting Guidelines and the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) were followed. The 2022 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 where 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	2022	2021
Mandatory requirements:		
Natural Gas	551,084	652,382
Purchased Electricity	2,783,155	2,660,293
Transport Fuel	48,854	16,383
Total energy (mandatory)	3,383,093	3,329,058

Breakdown of emissions associated with the reported energy use (tCO₂e)

Emission source	2022	2021
Mandatory requirements:		
<u>Scope 1</u>		
Gas	100.6	119.5
Company owned vehicles	11.2	2.6
<u>Scope 2</u>		
Purchased electricity (location-based)	538.2	564.9
<u>Scope 3</u>		
Category 6: Business travel (grey fleet)	1.1	1.5
Total gross emissions (mandatory)	651.1	688.4
<u>Intensity ratios (mandatory emissions only)</u>		
Tonnes of CO ₂ e per 1,000 square metres occupied	43.5	54.3
Voluntary requirements *:	2022	
Scope 3: Waste generated during operations	5.2	
Total gross emissions (voluntary)	5.2	
Total gross emissions (mandatory & voluntary)	656.3	
<u>Intensity ratios (mandatory & voluntary emissions)</u>		
Tonnes of CO ₂ e per 1,000 square metres occupied	43.9	

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.

The occupied floor areas have been reviewed this year in light of more accurate records and revised for Lothbury HQ and 90-96 Cannon Street. Residential areas have also been excluded from the calculations, as the Company is only responsible for vacant periods. Previous year's intensity ratios have been recalculated to reflect these changes.

* Data for 2021 unavailable

Directors' report (continued)

Streamlined Energy and Carbon Reporting (continued)

Tonnes CO₂e per 1,000 m² occupied floor area (mandatory requirements only)

Site	2022	2021
Lothbury HQ	44.6	49.0
Cannon Street - 6th floor	74.2	45.6
Cannon Street - 4th floor	68.8	72.5
Princes St - 7th floor (vacated in March 2022)	2.9	18.2
Gresham Street - 3rd floor	22.2	21.7
Gresham Street – 5th floor (occupied in early 2022)	12.8	n/a
Gresham Street - 6th floor	31.1	16.8
Manchester Branch	23	27.3
London Chinatown Branch	37.2	35.1
Glasgow Branch	19.4	24.9
Birmingham Branch	37.2	21.7
Residential Flats	0.2	1.4
All Sites and Transport	43.5	46.6

Energy efficiency action during current financial year

This year, the Company has begun a net zero project with an initial focus on reducing operational (scope 1 & 2) emissions. The Company commissioned energy saving surveys across all UK offices, branches and visa centres to identify opportunities for implementation. Of the audit reports completed to date, some of the main opportunities identified include:

- Improve energy management on site (potentially saving 36,418 kWh per year in electricity and gas across 3 sites)
- Replace existing windows with double-glazed units (potentially saving 5,261 kWh in heating across 3 sites)
- Replacement of all inefficient lighting with LED lighting at the Birmingham Branch (potentially saving 2,053 kWh per year)

The opportunities identified will be considered as part of a wider net zero strategy that is in progress.

Political Donations

The Bank made no political donations during the year (£nil 31 December 2021)

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

19 April 2023

Bank of China (UK) Limited

Financial Statements for the year ended 31 December 2022

Strategic report

Business Review

As at 31 December 2022, Bank of China (UK) Limited ("BOC UK" or the "Bank") had total assets of £2,291 million (2021: £2,151 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 £68.6 million during 2022 (2021: £31.5 million). The main increase in post tax profits is driven by impairment releases and an increase in interest income.

Ukraine

In February 2022 Russia invaded Ukrainian territory. Many countries have imposed sanctions against Russia for this action and, as the conflict has evolved, additional sanctions have been put in place. The result of the sanctions that are currently in place have no direct material effect on the activities, revenues or expenses of the bank. The sanctions in place have had an influence on the wider economy, much of this has been driven by the increased cost of fuel and the effect of this has rippled throughout the economy driving wider inflation and increases in interest rates. The Bank continues to monitor the effect this has on our mortgage portfolio and on our corporate customers, particularly those involved in the aircraft and travel industry during recovery from the pandemic period. The Bank has also considered the potential future impact as part of the going concern assessment. The Bank will continue to monitor and mitigate risks as they evolve.

Retail Banking

The Personal Banking business line continues its direct support and implementation of the Bank of China Group's (BOC Group) commercially global strategy, which remains "to build BOC into a world-class bank in the new era", whilst reinforcing 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 continuing support from BOC Group, the Bank remains well positioned to support its clients' interests in the region and add value to the retail customer experience in the UK - a core unchanged theme in our daily work.

During 2022 the business has continued its focus on balancing prudent business expansion and solutions to enhance the overall UK platform, and also reinforce its oversight arrangements particularly, with strict adherence to the local compliance and risk management requirements, most notably in areas such as operational resilience and the forthcoming new Financial Conduct Authority Consumer Duty obligation to deliver improved customer outcomes across the industry. New innovations in digital transformation have been embedded within mobile banking to improve security and specific customer training sessions have taken place to improve overall fraud awareness, alongside contributions to the Bank deliverables in areas such as local ESG initiatives, culture workstreams and piloting the organisations new competency framework. Additionally the practical delivery of our 1.5 line of defence model has further enhanced the Bank's risk and compliance management generally, building on existing robust controls, with the Bank's daily operations oversight improved and subject to new quality assurance initiatives at a branch level.

Commercially our focus has been on improving the Bank's funding situation with deposit raising activities as priority, and stabilising our product set to prepare for post pandemic activities, recognising both the current macro situation and our revised liquidity approach. Consequently the year has been one of future preparation, rather than new product innovation in itself, and we are well positioned for future delivery in areas such as increased compliance and control efficiencies, client service and retention activities and initiatives in both our bank culture and team building, to continue our clear commitment to support our customers needs in the UK.

Strategic report (Continued)

Business Review (Continued)

Corporate Banking

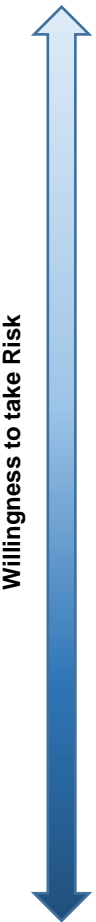
As a Chinese bank in the UK, the Bank continued to leverage its network and resources to support Chinese customers in the UK and local customers. Diversified products and services including corporate accounts, deposits, trade finance and services, online banking, cash management, foreign exchange and RMB related products are provided to corporate customers, facilitating their day to day business and further boost Sino-UK bilateral trade. ESG related sectors such as renewable energy remains one of the top priorities in the customer onboarding and business expansion. The 2022 strategy will continue into 2023.

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.

The Bank has established an overall risk appetite under the Risk Appetite Framework which defines the amount and type of risk the Bank is willing to accept in pursuit of its strategic plans and to support the business with long term financial soundness.

The Bank has identified 16 key risk categories and has established specific risk appetite respectively as detailed below.

Scale	Risk Appetite	Description	Key Risk Categories
 <p>Willingness to take Risk</p>	Low		
	Averse	Zero-appetite of underlying risk and uncertainty.	Regulatory Compliance Risk (inc. Conduct Risk and Market Abuse Risk), Financial Crime Risk (inc. Money Laundering and Terrorist Financing Risk, Sanctions Risk, Tax Evasion Risk, Bribery & Corruption Risk and Fraud Risk), Data & Information Management Risk
	Minimal	Prefer ultra-safe business opportunities or options that have a low degree of inherent risk	Reputational Risk
	Cautious	Prefer safe business opportunities or options that have a low degree of inherent risk	Credit Risk, Counterparty Credit Risk, Traded Market Risk, IRRBB & FX Risk, Liquidity Risk, Operational Resilience Risk, Legal Risk, Technology Risk, Information Security Risk (incl. Cyber Risk), Business Continuity Risk, Outsourcing & Third Party Risk, Strategic Risk
	Moderate	Willingness to consider potential business opportunities or options with moderate degree of inherent risk	-
	Open	Willing to consider all potential business opportunities or options and choose the one that is most likely to result in successfully business delivery and an acceptable level of reward and value for money	-
High	Seeking	Eager to be innovative and to choose business options offering potentially higher reward, despite greater degree of inherent risk	-

Strategic report (Continued)

Business Review (Continued)

The Risk Appetite bandings (i.e. Averse to Seeking) identified in the above table indicate the Bank's willingness to take risk across the Key Risk Categories. Further information on the management of

- Credit Risks are disclosed below in the Principal Risk section and in Note 6 (a) of the notes to the financial statements.
- Liquidity Risks are disclosed below in the Principal Risk section and in Note 6 (b) of the notes to the financial statements.
- Market Risks (foreign exchange risk and exposure to interest rate risk) are disclosed in Note 6 (c) of the notes to the financial statements.

Principal Risks

The Bank is exposed to the above financial and non-financial risks and 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.

The Bank adopts a cautious approach in relation to these two principal risks.

Credit Risk

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.

Liquidity Risk

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 activities 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 arises. 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. Of the Bank's £1,291 million deposits from customers, £355 million is covered by the Financial Services Compensation Scheme ("FSCS"). In addition the Bank is required under its Internal Liquidity Adequacy Assessment Process ("ILAAP") to consider all material liquidity risks in detail, document an analysis of each liquidity risk driver and set a liquidity risk appetite against each of those drivers.

Emerging Risks:

Climate-related Financial Risks

According to Bank of England, climate-related financial risks could arise from two primary risk factors - Physical and Transition, and these could manifest, for example, as increasing credit or market risk for firms.

In light of UK regulatory requirements Supervisory Statement (SS3/19) and expectations and in common with most of our industry peers, the Bank considers climate-related physical and transition risk factors as thematic factors that cut across existing risk types (e.g. credit risk, market risk etc) and should be proportionately embedded into the Bank's existing risk management framework.

Strategic report (Continued)

Business Review (Continued)

Under the embedding approach, financial impact of climate-related physical and/or transition risk factors on the relevant risk type will be managed through the respective three lines of defence model (3LoD), subject to oversight from respective risk-related committee.

Given climate-related risk factors would more likely to have meaningful impact on the Bank's credit risk profile, Credit Risk Management and Decision Committee (CRDC) assumes additional responsibility to lead the other risk-related committees in overseeing the management of climate-related risk factors during a transition period with a view that Risk Management and Internal Control Committee (RMICC) will take the leadership role afterwards, subject to regular reporting into Board Risk Committee (BRC) and the Board.

In addition, Business Development Committee (BDC), as the Bank's 1LoD risk governance forum, will also oversee the overall impact from climate-related risk factors and effectiveness in managing such from the 1LoD perspective.

Risk Management Framework

Further information on the Bank's risk management framework is disclosed in Note 6.

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.

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 Pillar 3 requirements. These disclosures are published on the Bank's website at www.bankofchina.com/uk.

Modern Slavery Act

Further information regarding the Bank's approach to modern slavery is 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.

Gender Pay

Further information relating to the Bank's Gender Pay Gap was published on its website www.bankofchina.com/uk and the designated government website www.gov.uk/genderpaygap in April 2022 in compliance with the Equality Act 2010 (Gender Pay Gap Information) Regulations 2017.

Strategic report (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 Bank’s employees;
- the need to foster the Bank’s business relationships with suppliers, customers and others;
- the impact of the Bank’s operations on the community and the environment;
- the desirability of the Bank maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between members of the Bank.

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”), which 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 review of the Plan, the Board considers factors as wide as the UK and China macro-economic conditions, the post pandemic recovery, competition, political and market conditions.

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

Employees

Recent years have witnessed the 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 2022.

In terms of employee engagement, an Employee Engagement Survey was conducted in 2022 and detailed actions plans have been made and shared bank-wide on various occasions. An annual employee recognition program has also been conducted to recognise and reward employees in order to promote the right culture.

In addition, the competency development framework has been piloted in the Bank to provide clear career path for employees, with strategic work force planning meetings conducted with business departments to ensure the Bank is retaining and developing its talents, in parallel to continuing to enhance process and systems to increase efficiency and engagement. The Bank has continued to promote the learning culture and implement its training programmes and strategy in the Bank to develop its talent.

Members of the Board continue to take every opportunity to maintain visibility under the hybrid working pattern to ensure the right tones were set and communicated consistently to all levels of the workforce.

Culture remains a focus of the Bank in year 2022. In alignment with the Diversity & Inclusion Framework implemented across the Bank, the Race and Ethnicity Network was launched in 2022, sponsored by senior executives in the Bank. The People Charter has been continuously promoted and embedded among the Bank to encourage speak up culture.

Strategic report (continued)

Section 172 statement (continued)

Customers

In supporting our customers during 2022, the Bank has made the following efforts to ensure good outcomes, 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** - our mobile banking capabilities were improved with new client information update capabilities and strengthened anti-fraud capabilities, alongside successfully deploying UK based card production with contactless payment functionality and introducing an Alipay Plus service to our merchants;
- **Enabling Chinese market access** - local corporate clients were invited to join the 5th China International Import Expo (“CIIE”) matchmaking event via the BOC Global Matchmaking’ platform, facilitating Sino-UK trade and investment and bringing larger 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 with particular focus on our 1.5 line of defence capabilities within our personal banking offering;
- **Easing financial difficulty** - the prior support of our Mortgage Payment Holiday solution helped customers in financial difficulty, and in preparation for the forthcoming Consumer Duty obligations, that initiative has fed into our collective efforts to improve the client experience;
- **Providing financial education** - organised UK financial training sessions for students, embassy and cross-border customers to enhance their understanding of the UK financial system and with a focus on fraud awareness for our overseas students.

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 2022, the Bank has strengthened communications with the UK Regulators, through the establishment of the Regulatory Liaison team communicates on matters related to the Bank’s change programme, operational resilience and climate risk, as well as a timely response to risk exposures affecting UK regulatory and sanctions requirements associated with the Russia-Ukraine conflict.

In the past year, the Executive Directors and other members of EMC attended regular meetings with the PRA with the return of face to face meetings. The PRA and the FCA were also provided with timely management information. The Bank is prioritising the requirements of the FCA Consumer Duty requirements, with the Board overseeing its implementation.

Shareholder

The direction of the Bank’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 circumstances. However, the independent Non-Executive Directors (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 (continued)

Section 172 statement (continued)

Communities and Environment

The Bank has a strong commitment in promoting cultural exchange and integrating into local communities.

The 2022 City Giving Day saw the Bank play a key role in supporting local charities and community organisations. The Bank contributed to a charity auction, as well as a networking reception. The proceeds from these activities went towards supporting a range of important causes, including those focused on helping the homeless and promoting cultural diversity in the city.

During the Chinese New Year celebrations, the Bank of China supported a range of cultural activities, including traditional lion and dragon dances, music and dance performances, and a range of food and craft stalls. The Bank also took the opportunity to showcase its commitment to the local community, with a range of information booths to support its clients.

In addition, the Bank continued to support the Group's Green Finance Strategy. The Board and the EMC are responsible for overseeing and approval of the Bank's ESG transition in areas of strategy, target setting, internal policies and procedures, risk management, portfolio and operation net zero, green finance business development, and climate related projects. The following key progress was made in 2022:

- **TCFD Disclosure capacity building** - to implement the government's climate disclosure requirement that came into force in April 2022, the Bank engaged a third party consultancy and conducted a TCFD Gap Analysis project in 2022. The finding was fully conveyed to the Board, the executive management team and stakeholder departments through trainings and workshop.
- **Improving the ESG management framework, policies and procedures** - the Bank has conducted and completed an annual review of the ESG Strategy, established a bank wide Corporate Social Responsibility (CSR) framework, and formulated the comprehensive ESG risk management policy during 2022;
- **Business review** - the Bank has undertaken a review across its identified product sets in terms of climate risk exposure and reviews of its mortgage business to physical and transition risks. Plans have been developed to enhance all offered personal banking products to reduce paper based activities and to embed ESG principles as continual review of products and processes. As part of "Green" credentials and with support from the Parent, new requirements for improved digitalised functionality via online and mobile channels, have been submitted, alongside revised document storage and scanning arrangements;
- **Operation Net-Zero** - the Bank launched the office building operational net zero project in 2022 and formed a steering committee to oversee this process. The Bank conducted building energy efficiency surveys and trained its green office team in certified carbon management methods and promoted green action initiatives among staff. To date the Bank completed year-on-year operation emissions calculations and submitted the annual SECR reporting (Streamlined Energy and Carbon Reporting) to comply with the UK legal requirements;
- **Community and international collaboration** - the Bank has supported a series of ESG events in 2022, including the China-UK Hydrogen Energy Forum, the City of London Think-tank Z/Yen's Green networking event, and actively participated in the City Giving Day upholding a green theme.

Furthermore, 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:

Strategic report (continued)

Section 172 statement (continued)

Country by Country Reporting

Further information regarding the Bank's approach to Prudential financial and tax requirements including the UK Capital Requirements Regulation and PRA Rulebook will be published on the Bank's website at www.bankofchina.com/uk.

1 Lothbury
London
EC2R 7DB

19 April 2023

On behalf of the Board,



Wenjian Fang
Chief Executive Officer
Board Director

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 these 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 Board Terms of Reference (“ToR”) has stated 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 Executive Management Committee (“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 and 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 this 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, Chief Executive Officer (“CEO”), Chief Financial Officer (“CFO”), Chief Risk Officer* (“CRO”), a Group Non-Executive Director, and three Independent Non-Executives (“iNEDs”), one of whom is the Senior Independent Director (“SID”). The size and composition of the Board is appropriate for the Bank’s size and nature of business. The Board is also committed to making the Bank an increasingly inclusive environment.

The iNEDs are appointed for three-year renewable terms. The independence of any iNED who has served on the Board beyond nine years from the date of his appointment should be subject to particularly rigorous review. At the date of this report Mr Jonathan Spence SID has served a period of more than nine years, a successor has been identified and is currently awaiting regulatory approval.

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.

*CRO was Wei Shi until 22 April 2022.

Corporate Governance Report (continued)

The Board has a collective responsibility for the success of the Bank, however, the Executive Directors have direct responsibility for business operations, whereas the 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.

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.

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 23 to 26) 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 2022. Additionally training sessions were held after each Board meeting which were delivered by external service firms.

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 2022, 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 the 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 May 2022.

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 2022, 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 2022 all Board meetings were conducted via a hybrid format, although a number of directors attended physically, where possible, in the Board room at the Bank's London office.

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. Following the introduction of the internal MI Guidance in 2021, the Bank continued to enhance the respective committees' MI via discussion and review at each meeting.

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 Enterprise Risk Management and Control Effectiveness Review ("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 12. 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 23 to 25. The directors' remuneration is disclosed in Note 14.

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 16 to 19.

Corporate Governance Report (continued)

Board Committee Reports

Board Audit Committee Report

The Audit Committee comprises two iNEDs: Mr. Charles Hardy, Chairman and Mr. Jonathan Spence. The CRO, the CFO, the Chief Operating Officer (“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 2022, six meetings were held; four regular meetings on a quarterly basis and ad hoc meetings in April and November. The external auditors attended all six meetings. The meetings allowed for both physical and virtual attendance.

During the course of the year, the Committee considered the effectiveness of the Bank’s internal control systems, 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 also continued its role in validating the remedial actions identified in the ERM Review and the Committee received regular updates on progress of this exercise, which is now substantially complete;
- 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;
- Reports from the Compliance Monitoring team were reviewed and the progress in developing the team monitored.

In addition, the Committee:

- Considered and approved the annual Internal Audit Department Plan;
- Approved the scope of the external auditors’ work and separately assessed the effectiveness of the prior year process;
- Approved non-audit services;
- Continued to consider and monitor the effectiveness of the Internal Audit Department including the adequacy of the resources available as an increase in the approved headcount is still being implemented. 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 as well as receiving and discussing a report from the external auditors of their work thereon.

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

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 2022 (four quarterly Committee meetings and two ad hoc meetings).

The Committee has reviewed its ToR in order to enhance the effectiveness of the Committee, and focus on areas consistent with that needed for a HR function to support the Bank's 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, with a better assessment and analysis of the staff turnover in the Bank, culture indicators, followed by remediation actions, with an aim to create a positive and productive working environment to support the business.

Key activities undertaken in 2022 were implementing the Culture Programme and reviewing and monitoring Business As Usual deliverables, including:

- Supporting business development initiatives and relevant organization development;
- Undertaking annual reward programmes;
- Provision of additional financial and non-financial support to employees due to cost-of-living crisis;
- 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;
- Launch of Mentoring Program for Head of Departments to develop leaders;
- Continued consideration of the impact of the Senior Manager & Certification Regime;
- Review of the annual flexible benefits scheme;
- Review of the headcount budget for 2022 and achievement of headcount increase in alignment with business strategy inclusive of ERM and Regionalisation, and staff turnover data throughout 2022 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;
- Pilot of Competency Development Framework to provide clear career path for employees;
- Implementation of Employee Engagement initiatives, and various pulse surveys to enhance employee engagement;
- Continued enhancement of our processes and systems to increase our efficiency, for example, new joiners on-boarding process;
- Continued review and enhancement of our hybrid working practices;
- Continued journey to embed diversity and inclusion in our culture and people practices
- Continued review of HR policies.

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 embedment of relevant initiatives such as Diversity & Inclusion; Consumer Duty;
- Continued focus on the resourcing strategy of the Bank, with strategic workforce planning initiatives to optimise workforce;
- Implementation of initiatives to enhance our Employer Brand to attract and retain employees;

Corporate Governance Report (continued)

Board Remuneration and Nominations Committee Report (continued)

- Focus on further Employee Engagement initiatives to create a positive and productive working environment;
- Implementation of People Managers Development Programme to further develop all managers in the Bank;
- Continued review our Reward Strategy to reward performance and behaviours;
- Implementation of a Health and Wellbeing strategy to continue supporting employees with relevant tools and resources;
- Continued focus on succession planning for the Bank;
- Implementation of Competency Development Framework across 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.
- 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.

Board Risk Committee Report

The Board Risk Committee ("BRC") 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, the 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 2022, 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 Bank of China Limited 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 Enterprise Risk Management Framework of the Bank on the recommendation of the Risk Management & Internal Control Committee ("RMICC");
- Review, approve and recommend to the Board for approval of the Risk Appetite Framework of the Bank on the recommendation of the RMICC;
- 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, on the recommendation of the RMICC;
- Review and approve the Internal Capital Adequacy Assessment Process ("ICAAP") and ILAAP stress testing framework on the recommendation of the Asset & Liability Management Committee ("ALCO");
- Review, approve and recommend to the Board for approval the ICAAP, ILAAP and Recovery Plan on the recommendation of the ALCO;
- Review, approve and recommend to the Board for approval the Bank's important business services, impact tolerances and written self-assessment document, on the recommendation of Operational Resilience and Controls Committee ("ORCC");
- Review and recommend to the Board for approval the annual Slavery and Human Trafficking Statement on the recommendation of the Compliance Committee ("CC");
- Review and recommend to the Board for approval an annual statement confirming that the Bank's Single Customer View ("SCV") arrangements are effective and satisfy all relevant SCV requirements, on the recommendation of the CC;

Corporate Governance Report (continued)

Board Risk Committee Report (continued)

- Review and approve delegated discretionary powers to the CRO;
- Provide independent oversight on the overall risk profile and effectiveness of risk management activities across the Bank;
- Provide direct oversight to the 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);
- Where there is a perceived overlap of responsibilities between the BRC and the Board Audit Committee, the Chair of the BRC will discuss with the Chair of the Board Audit Committee to agree the most appropriate committee to fulfil the obligation.

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.

Statement of Directors' Responsibilities in Respect of the 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 applicable 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
19 April 2023

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 2022 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 2022; 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

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. 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 in relation to loans and advances to customers classified as Stage 3
- Valuation of level 3 financial instruments recorded at fair value

Materiality

- Overall materiality: £4,168,000 (2021: 3,109,000) based on 1% of net assets.
- Performance materiality: £3,126,000 (2021: 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.

The key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
<p>Expected credit losses on loans and advances to customers classified as Stage 3</p> <p>Refer to the company's accounting policy in note 3(i), 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 losses (ECL) within each portfolio at the balance sheet date. The determination of ECLs is complex and requires management to exercise judgement in determining the significant assumptions which are used in the estimation process.</p> <p>The company has a corporate loan portfolio of loans and advances to customers classified as Stage 3 of £72.6m as at 31 December 2022 (2021: £51.5m) with an associated allowance for ECL of £13.2m (£22.6m). There is heightened risk in estimating the allowance for ECL with Stage 3 loans given the judgement required in determining the future recovery scenarios and the key assumptions, such as the valuation of collateral, and the weightings applied to scenarios outcomes.</p> <p>Consequently, it was 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 and implementation of the key controls over the determination of ECLs.</p> <p>In addition, we performed the substantive procedures described below:</p> <p>Individually assessed cases</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 estimate the impairment provision, and whether they were appropriate.</p> <p>We tested the valuation of collateral held and challenged management on the appropriateness of the significant assumptions and the weightings applied to scenario outcomes. Where applicable, we engaged our aviation experts to assess the collateral valuation methodology, time to sale assumption and cost to sale used by management in calculating the impairment provision.</p> <p>We 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> <p>Based on the procedures performed and the evidence obtained, we found management's estimate used in the determination of the Stage 3 ECL to be reasonable.</p>

Key audit matter	How our audit addressed the key audit matter
<p>Valuation of level 3 financial instruments recorded at fair value</p> <p>The company has a portfolio of loans which are recorded at a fair value of £60.5m as at 31 December 2022 (2021: £64.6m).</p> <p>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 input is unobservable. The most significant assumption used in estimating the fair value of the loans relates to the determination of an appropriate discount rate, and this was 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 and implementation of controls relating to estimating the fair value of the loans.</p> <p>We assessed the overall reasonableness of the methodology used to estimate fair value of the loans. We engaged our aviation experts to assess the appropriateness of the discount rate used within the valuation model. We derived our own independent estimate of the discount rate and compared this to that used by management.</p> <p>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 and tested the mathematical accuracy of the fair value calculations.</p> <p>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.</p> <p>Based on the work performed, we concluded that the estimated fair value of the level 3 financial instruments was reasonable.</p>

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.

The impact of climate risk on our audit

As part of our audit, we made enquiries of management to understand the extent of the potential impact of climate risk on the company's financial statements, and we remained alert when performing our audit procedures for any indicators of the impact of climate risk. Our procedures did not identify any material impact as a result of climate risk on the company's financial statements.

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>	£4,168,000 (2021: £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% (2021: 75%) of overall materiality, amounting to £3,126,000 (2021: £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 at the upper end 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 £208,000 (2021: £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 the conflict in Ukraine, and the effects of the significant increase in inflation and interest rate.
- Consideration of the company's regulatory capital and liquidity positions and forecasts thereof, regulatory correspondence and reports provided to the 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 2022 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 PRA and FCA correspondence;
- 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. This description forms part of our auditors' report. In our engagement letter, we also agreed to describe our audit approach, including communicating key audit matters.

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 Board Audit Committee, we were appointed by the members on 21 October 2021 to audit the financial statements for the year ended 31 December 2021 and subsequent financial periods. The period of total uninterrupted engagement is 2 years, covering the years ended 31 December 2021 to 31 December 2022.



Ajay Kabra (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

20 April 2023

Bank of China (UK) Limited
Financial Statements for the year ended 31 December 2022

Income Statement

£000	Note	2022	2021
Interest income from loans and advances at amortised cost		62,661	36,936
Interest expense		(13,239)	(3,650)
Net interest income	8	49,422	33,286
Gross fee and commission income		3,955	4,294
Gross fee and commission expense		(1,694)	(1,319)
Net fee and commission income	9	2,261	2,975
Net fair value gain on financial Instruments	10	148	1,923
Foreign exchange gain		4,916	2,590
Other operating income	11	93,633	83,274
Non-interest income		98,697	87,787
Total income		150,380	124,048
Staff costs	12	(59,208)	(50,154)
Other expenses	13	(9,818)	(8,924)
Depreciation of plant and equipment	23	(1,462)	(1,802)
Amortisation of intangible assets	24	(271)	(237)
Release/(provision) for expected credit losses	21	11,526	(23,665)
Profit before income tax		91,147	39,266
Income tax expense	15	(22,583)	(7,788)
Profit for the year		68,564	31,478

Bank of China (UK) Limited
 Financial Statements for the year ended 31 December 2022

Statement of Comprehensive Income

£000	Note	2022	2021
Profit for the year		68,564	31,478
Other comprehensive income			
Amounts that will be reclassified to the income statement			
Income and deferred tax credit relating to components of other comprehensive income	15	-	-
Foreign currency translation		12	134
Other comprehensive income for the year, net of income and deferred tax credit or expense		12	134
Total comprehensive income for the year		68,576	31,612

Bank of China (UK) Limited
Financial Statements for the year ended 31 December 2022

Statement of Financial Position

£000	Note	31 December 2022	31 December 2021
Assets			
Cash and cash equivalents	16	657,656	716,133
Government bonds	17	44,264	-
Loans and advances to banks	19	29,357	69,065
Loans and advances to customers	20	1,122,459	1,194,653
Derivative financial instruments	18	7,702	11
Prepayments, accrued income and other assets	26	351,967	87,868
Financial assets at fair value through profit and loss	22	60,514	64,659
Current tax asset		2,351	5,979
Deferred tax assets	25	1,280	1,283
Property, plant and equipment	23	12,769	11,167
Intangible assets	24	274	362
Investment in subsidiary companies	34(b)	-	-
Total assets		2,290,593	2,151,180
Liabilities			
Deposits from banks	27	539,387	396,254
Deposits from customers	28	1,291,150	1,333,523
Derivative financial instruments	18	13	5,280
Other liabilities	30,31	50,379	43,571
Accruals and deferred income	32	7,720	5,657
Current corporation tax liabilities		-	-
Impairment provision on off balance sheet products		51	119
Subordinated liabilities	29	-	60,000
Total liabilities		1,888,700	1,844,404
Equity			
	33		
Authorised and called up share capital		250,000	250,000
Other equity instruments		60,000	-
Retained earnings		91,893	56,776
Total shareholders' equity		401,893	306,776
Total shareholders' equity and liabilities		2,290,593	2,151,180

The financial statements on pages 36 to 111 were approved by the Board of Directors of Bank of China (UK) Limited and authorised for issue on 19 April 2023. 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 2022

Statement of Changes in Equity

£000	Issued share capital	Other equity instruments	Retained earnings	Foreign Currency translation reserve	Total
As of 1 January 2022	250,000	-	56,706	70	306,776
Additional tier 1 capital	-	60,000	-	-	60,000
Profit for the financial year	-	-	68,564	-	68,564
Foreign exchange and other	-	-	-	12	12
Total comprehensive income	-	-	68,564	12	68,576
Dividend paid	-	-	(33,459)	-	(33,459)
As at 31 December 2022	250,000	60,000	91,811	82	401,893
As of 1 January 2021	250,000		92,228	(64)	342,164
Profit for the financial year	-		31,478	-	31,478
Foreign exchange and other	-		-	134	134
Total comprehensive income	-		31,478	134	31,612
Dividend paid	-		(67,000)	-	(67,000)
As at 31 December 2021	250,000		56,706	70	306,776

Bank of China (UK) Limited
Financial Statements for the year ended 31 December 2022

Statement of Cash Flows

£000	2022	2021
Cash flows from operating activities		
Profit on ordinary activities before taxation	91,147	39,266
Adjustments for non cash items		
Depreciation and amortisation of plant and equipment and intangible assets	1,733	2,039
Net impairment loss on loans and advances	(11,526)	23,665
Exchange rate movements on plant and equipment	-	(1)
Exchange rate movements on equity	12	135
Net fair value loss on financial instruments	10,358	2,656
Changes in operating assets and liabilities		
Change in derivative financial instruments assets	(7,691)	(8)
Change in loans and advances to banks	39,708	41,381
Change in loans and advances to customers	83,721	(79,736)
Change in financial assets at amortised cost/fair value	(6,213)	10,167
Change in other assets	(264,099)	(9,099)
Change in derivative financial instruments liabilities	(5,267)	(3,484)
Change in deposits from banks	143,133	176,876
Change in deposits from customers	(42,374)	117,876
Change in other liabilities and provisions	8,883	1,456
Income taxes paid	(18,955)	(18,895)
Net cash generated from operating activities	22,570	304,294
Cash flows from investing activities		
Acquisition of government bonds	(44,264)	-
Acquisition of property, plant and equipment	(3,086)	(1,349)
Acquisition of intangible assets	(183)	(86)
Proceeds from disposal of property, plant and equipment	22	272
Proceeds from disposal of intangible assets	-	16
Net cash from investing activities	(47,511)	(1,147)
Cash flows from financing activities		
Repayment of subordinated debt	(60,000)	-
Issuance of Additional Tier 1 instrument	60,000	-
Dividend paid	(33,459)	(67,000)
Repayment of principal portion of lease liabilities	(77)	(1,393)
Net cash used in financing activities	(33,536)	(68,393)
Net (decrease)/increase in cash and cash equivalents	(58,477)	234,754
Cash and cash equivalents at beginning of period	716,133	481,379
Cash and cash equivalents at year end	16 657,656	716,133

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 2022

Notes to the Financial Statements

Note	Note
1. Reporting entity	28. Deposits from customers
2. Basis of preparation	29. Subordinated liabilities
3. Significant accounting policies	30. Other liabilities
4. Critical estimates and judgements	31. Lease liabilities
5. Changes in accounting policies and disclosures	32. Accruals and deferred income
6. Financial risk management	33. Equity
7. Financial assets and financial liabilities	34. Related parties
8. Net interest income	35. Provisions and commitments
9. Net fee and commission income	36. Subsequent events
10. Net fair value gain on financial instruments	37. Company as Lessor
11. Other operating income	
12. Staff costs	
13. Other expenses	
14. Directors' remuneration	
15. Income tax expense	
16. Cash and cash equivalents	
17. Government bonds	
18. Derivative financial instruments	
19. Loans and advances to banks	
20. Loans and advances to customers	
21. Allowances for expected credit losses	
22. Financial investments	
23. Property, plant and equipment	
24. Intangible assets	
25. Deferred tax assets	
26. Prepayments, accrued income and other assets	
27. Deposits from banks	

Bank of China (UK) Limited
Financial Statements for the year ended 31 December 2022

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 2022

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 and on-line.

The financial statements were authorised for issue by the Board of Directors (the “Board”) on 19 April 2023.

(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) 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 2024 which included the latest business assumptions. The Board has taken in to consideration the current economic environment, the Bank's business model, the 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. As part of the going concern assessment the Board have also considered the potential effects of the current conflict in Ukraine, including the increased inflation and interest rate environment the economy is experiencing. The Board considered various additional stress scenarios and those that were identified as the most likely challenging scenarios the Bank would face were those relating to the wider economic effects of the conflict in Ukraine, including higher inflation and interest rates, should these have a higher economic impact than currently anticipated within the forecast. The Board have considered these stressed scenarios on the Bank's mortgage portfolio, and significant downward revisions to the financial forecast over the assessment period. 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.

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 was accrued monthly and settled quarterly but from October 2022 has been settled monthly.

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 (continued)

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.

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.

(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 FVTPL.

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 ("FVTPL")

Loans classified in this category are those that have been designated by management upon initial recognition. Management may only designate an instrument at FVTPL 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 FVTPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in net fair value gain or (loss) on financial instruments in the income statement.

Notes to the Financial Statements (continued)

3. Significant accounting policies (continued)

(f) Financial assets measured at amortised cost

Financial assets that are held to collect the contractual cash flows and which contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at amortised cost. Such financial assets include most loans and advances to banks and customers and some debt securities such as Government bonds. In addition, most financial liabilities are measured at amortised cost. The Bank accounts for amortised cost financial assets using trade date accounting. The carrying value of these financial assets at initial recognition includes any directly attributable transaction costs.

(g) 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.

(h) 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.

(i) Impairment of financial assets

Overview of the ECL principles

The Bank records an allowance for ECLs for all loans and other debt financial assets not held at FVTPL, 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 impairment of financial assets under IFRS 9 is based on an ECL model. IFRS 9 requires a 12 month (Stage 1) ECL calculation where financial assets have not experienced a significant increase in credit risk since origination; and a lifetime ECL calculation where it has been demonstrated that there has been a significant increase in credit risk (Stage 2). The lifetime ECL calculation is further refined into separate stages depending on whether the financial asset is credit impaired or not. The area of IFRS 9’s impairment criteria where the greatest judgement is required relates to when the financial assets display an increase in credit risk since initial recognition and subsequently move from a 12 month ECL (“12mECL”) calculation (Stage 1) to a non-credit-impaired lifetime ECL calculation (Stage 2).

The Bank records the allowance for ECLs for all loans and other debt financial assets not held at FVTPL, including loan commitments, 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 (“LTECL”)), unless there has been no significant increase in credit risk since origination, in

Notes to the Financial Statements (continued)

3. Significant accounting policies (continued)

(i) Impairment of financial assets (continued)

which case, the allowance is based on the 12mECL as outlined in Note 6(a). The Bank's policies for determining if there has been a significant increase in credit risk are set out in Note 6(a).

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.

Based on the above process, the Bank groups its loans into Stage 1, Stage 2 and Stage 3 as described 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;
- 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;
- Stage 3: Loans considered credit-impaired. The Bank records an allowance for the LTECLs.

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.

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.

The calculation of ECLs – General Policy

The Bank calculates ECLs based on three probability-weighted scenarios to measure the expected cash shortfalls, discounted at 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.

Notes to the Financial Statements (continued)

3. Significant accounting policies (continued)

(i) Impairment of financial assets (continued)

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 49, 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 48. The calculation of ECLs (including the ECLs related to the undrawn element) of revolving facilities such as credit cards is explained further on page 49.

The calculation of ECLs

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 LTECLs for these loans. 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 the 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)

(i) 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 card 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.

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.

Notes to the Financial Statements (continued)

3. Significant accounting policies (continued)

(i) Impairment of financial assets (continued)

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 at 31 December 2022 all of the cases have resumed servicing their mortgages.

Corporate

The Bank determines a Watch List which includes all high (and medium high risk) customers. In 2022, there were three corporate clients on the Watch List resulting in an ECL of £12 million.

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.

The factors that the Bank considers for a customer to enter the Watch List would include a clear deterioration of its credit profile, obvious risk warning signals being displayed, no determinantal sign of improvement and less likely to become a Non Performing Loan (“NPL”) in the short term.

Notes to the Financial Statements (continued)

3. Significant accounting policies (continued)

(i) Impairment of financial assets (continued)

Determining a significant increase in credit risk since initial recognition

The Bank records an allowance for ECLs for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts.

IFRS 9 requires the recognition of 12mECLs (the portion of LTECLs 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 LTECLs 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

(i) 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.

(ii) When the score, derived from internal rating at the calculation date for the asset has worsened by more than the table at Note 6 (a) (vi) at the time of contract origination.

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 in default when the facility is 90 days past due. The Bank uses this 90 day backstop for all its products (see Note 6 (a) (ii)).

Notes to the Financial Statements (continued)

3. Significant accounting policies (continued)

(i) Impairment of financial assets (continued)

Definition of default

Expected life

LTECLs 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.

(j) Derecognition of financial liabilities

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

(k) 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. The Bank has availed itself of the exemption election under IFRS 10 and thus does not have to prepare consolidated financial statements.

(l) 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)

(m) 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.

(n) 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.

(o) 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 and lease liabilities (see Note 30 and 31).

Notes to the Financial Statements (continued)

3. Significant accounting policies (continued)

(o) Leases (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)

(p) 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.

(q) 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.

(r) 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.

(s) 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.

(t) 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)

(u) 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 35.

(v) 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.

Included in equity is Additional Tier 1 capital ("AT1"). This is classified as an equity instrument as it is perpetual and the Bank has the unconditional contractual right to defer any principal and interest repayments for an unlimited period. The instrument is measured at the transaction price.

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 2022, the carrying value of the Bank's loans to customers designated at fair value was £60.5m (31 December 2021: £64.6 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 Note 7 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. The element of the ECL models that is considered an accounting judgement and estimate is the 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

IBOR Transition

In response to initiatives from global regulators and central banks, the Bank has commenced the transition towards Risk-Free Rates ("RFR")* and other alternative rates. In 2019, the Bank established an Interbank Offered Rate (IBOR) Transition Working Group (ITWG) to manage the transition away from IBOR (i.e. Libor) to alternative reference rates. The ITWG meets on a regular basis and reports to the ALCO.

The Bank continues to be exposed to risks associated with Libor transition, which include regulatory compliance risk, resilience risk, financial reporting risk, legal risk, model risk and market risk. The level of these key risks is diminishing in line with our process implementation and the transition of our legacy contracts. We have sought to implement mitigating controls, where required, and continue to actively manage and monitor these risks.

Currency	IBOR	Alternate RFR	Transition Approach
Sterling (GBP)	GBP LIBOR	Sterling Overnight Index Average (SONIA).	Transition to SONIA. All GBP denominate loans and derivatives have been transitioned away from GBP LIBOR. The Bank has ceased to offer any new GBP LIBOR products since 31 December 2021.
US Dollar (USD)	USD LIBOR	Secured Overnight Financing Rate (SOFR).	Transition to SOFR. US Dollar LIBOR 1-week and 2-month settings ceased on 31 December 2021; US Dollar 1-month, 3-month, 6-month will be published until the end of September 2024 and 12-month settings will cease on 30 June 2023. The Bank has 40 transactions, 34 derivatives and 6 loans to be transitioned from LIBOR to SOFR.

*RFRs are overnight rates based on actual transactions and reflect the average of the interest rates that certain financial institutions pay to borrow overnight on an unsecured basis from wholesale market participants (for unsecured RFRs, such as SONIA) or the average rate paid on secured overnight repurchase or "repo" transactions (for secured RFRs, such as SOFR). RFRs do not include or imply any credit or term premium of the type seen in LIBOR or EURIBOR. However, RFRs are not truly free of risk and can rise or fall as a result of changing economic conditions and central bank policy decisions.

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.

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

Notes to the Financial Statements (continued)

6. Financial risk management (continued)

(a) Credit risk (continued)

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 2022, 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 variation margin deposits for cleared interest rate swap deals.

(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:

Notes to the Financial Statements (continued)

6. Financial risk management (continued)

(a) Credit risk (continued)

- 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 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.

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.

Notes to the Financial Statements (continued)

6. Financial risk management (continued)

(a) Credit risk (continued)

(iii) The Bank's internal rating and PD estimation process (continued)

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
Performing					
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)
Non-Performing					
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 by considering quantitative and qualitative tests.

The quantitative test being the whether the annualised cumulative weighted average lifetime PD has increased by more than the agreed threshold relative to the equivalent at origination.

The qualitative test being accounts that meet the portfolio's 'high risk' criteria and are subject to closer credit monitoring such as moving a customer/ facility to a watch list.

There are two back-stop tests being if the account is 30 day past due or when the score, derived from internal rating at the calculation date for the asset, has worsened by more than as defined below compared with the score at the time of the contract origination.

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.

Notes to the Financial Statements (continued)

6. Financial risk management (continued)

(a) Credit risk (continued)

(vi) Significant increase in credit risk (continued)

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	1
bb	12	1
bb-	13	1
b+	14	1
b	15	1
b-	16	1
ccc+	17	1
ccc	18	1
ccc-	19	1

(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 £145m to transport, storage and utilities (2021: £131m).

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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	631	1,786	-	-	-	-	2,417
Loans and advances to customers	Mortgage loans	Owner Occupied Mortgages	48,360	62,128	3,220	-	-	-	113,708
Loans and advances to customers	Mortgage loans	Buy-to-Let Mortgages	62,446	489,445	311,802	-	-	-	863,693
Loans and advances to customers	Mortgage loans	Commercial	1,072	-	-	-	-	-	1,072
At 31 December 2022			112,509	553,359	315,022	-	-	-	980,890

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
At 31 December 2021			97,429	563,502	382,455	-	-	-	1,043,386

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 £53.9m of demand deposits (2021: £54.4m), £29.4m of loans and advances to banks (2021: £55.0m) and £3.9m of other receivables (2021: £9.7m). These balances are all allocated to Stage 1 (2021: Stage 1). The ECL allowance related to these balances is immaterial (2021: immaterial).

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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

Business Model Portfolio	Global Stage			Europe Stage			US Stage			UK Stage			Retail Stage			Collateral £000	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																	
Cash balances with bank	-	-	-	-	-	-	-	-	-	557,157	-	-	-	-	-	-	557,157
Other demand deposits	2,612	-	-	35,853	-	-	1,717	-	-	4,825	-	-	-	-	-	-	45,007
Loans and advances to banks																	
Syndicated loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Loans and advances to customers																	
Wholesale loans	-	-	-	-	-	-	-	-	-	143	2,392	-	-	-	-	-	2,535
Housing loans	-	-	-	-	-	-	-	-	-	2,071	346	-	-	-	-	7,831	2,417
Syndicated loans	9,075	18,796	25,112	-	31,707	21,449	4,547	-	-	20,043	-	25,202	-	-	-	-	155,931
Factoring financing	2,212	-	-	-	-	-	66	-	-	1,101	-	840	-	-	-	-	4,219
Overdraft corporate accounts	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Overdraft personal accounts	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Credit Cards	-	-	-	-	-	-	-	-	-	-	-	-	366	29	6	-	401
Mortgage loans	-	-	-	-	-	-	-	-	-	-	-	-	892,665	80,535	224	2,258,760	973,424
Financing Order	-	-	-	-	-	-	92	-	-	-	-	-	-	-	-	-	92
Debt instruments at amortised cost																	
Government bonds	-	-	-	8,458	-	-	11,724	-	-	24,082	-	-	-	-	-	-	44,264
Margin Deposits	-	-	-	-	-	-	-	-	-	339,053	-	-	-	-	-	-	339,053
	13,899	18,796	25,112	44,311	31,707	21,449	18,146	-	-	948,475	2,738	26,042	893,031	80,564	230	2,266,591	2,124,500
Off Balance Sheet																	
OBS - Letter of credit	-	-	-	68	-	-	181	-	-	127	-	-	-	-	-	-	376
OBS - Guarantee	2,575	-	-	-	-	-	-	-	-	2,944	1,916	-	-	-	-	-	7,435
OBS – Undrawn loan commitments	57,870	-	-	-	-	-	12,613	-	-	69,801	-	-	10,609	121	-	-	151,014
	60,445	-	-	68	-	-	12,794	-	-	72,872	1,916	-	10,609	121	-	-	158,825
At 31 December 2022	74,344	18,796	25,112	44,379	31,707	21,449	30,940	-	-	1,021,347	4,654	26,042	903,640	80,685	230	2,266,591	2,283,325

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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	
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	42,736	-	23,958	-	53,764	-	16,277	-	-	21,875	-	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
	48,592	-	23,958	50,763	53,764	-	56,213	-	-	670,124	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
At 31 December 2021	60,411	1,306	23,958	80,964	53,764	-	82,855	-	-	736,562	2,983	27,539	1,024,706	21,700	572	2,294,270	-	2,117,320

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)

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 2022 was £25 million (2021: £39 million), before taking into account the fair value of collateral held of £2,267 million (2021: £2,294 million), or other credit enhancements and the maximum off balance sheet credit exposure to any client or counterparty as of 31 December 2022 was £58 million (2021: £37 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.

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Financial Statements for the year ended 31 December 2022

Notes to the Financial Statements (continued)

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	-	-	-	-	-	-	-	-	-	1	479	-	-	-	-	480
Housing loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Syndicated loans	5	447	3,181	-	1,842	3,391	3	-	-	3	-	5,773	-	-	-	14,645
Factoring financing	1	-	-	-	-	-	-	-	-	1	-	840	-	-	-	842
Overdraft on corporate accounts	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Overdraft on personal accounts	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Credit Cards	-	-	-	-	-	-	-	-	-	-	-	-	3	11	6	20
Mortgage loans	-	-	-	-	-	-	-	-	-	-	-	-	127	447	-	574
Financing Order	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Debt instruments at amortised cost																
Other bonds held to maturity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Margin Deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	6	447	3,181	-	1,842	3,391	3	-	-	5	479	6,613	130	458	6	16,561
Off Balance Sheet																
OBS - Letter of credit	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
OBS – Guarantee	-	-	-	-	-	-	-	-	-	3	2	-	-	-	-	5
OBS – Undrawn loan commitments	10	-	-	-	-	-	1	-	-	9	-	-	25	1	-	46
	10	-	-	-	-	-	1	-	-	12	2	-	25	1	-	51
At 31 December 2022	16	447	3,181	-	1,842	3,391	4	-	-	17	481	6,613	155	459	6	16,612

Bank of China (UK) Limited
Financial Statements for the year ended 31 December 2022

Notes to the Financial Statements (continued)

6. Financial risk management (continued)

(a) Credit risk (continued)

(xi) Credit loss charges (continued)

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
At 31 December 2021	53	-	11,883	3	2,072	-	44	-	-	53	289	13,243	480	9	9	28,138

Bank of China (UK) Limited
Financial Statements for the year ended 31 December 2022

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
Gross carrying amount as at 1 January 2022	1,839,894	77,293	52,069	1,969,256
New assets originated or purchased	463,155	17	657	463,829
Assets derecognised or repaid (excluding write offs)	(310,416)	(13,677)	(8,801)	(332,894)
Transfers to Stage 1	13,417	(13,417)	-	-
Transfers to Stage 2	(98,225)	98,707	(482)	-
Transfers to Stage 3	-	(21,270)	21,270	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	10,037	6,152	8,120	24,309
Gross carrying amount as at 31 December 2022	1,917,862	133,805	72,833	2,124,500

On Balance Sheet	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Gross carrying amount as at 1 January 2021	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)	(281,304)	(47,150)	(2,802)	(331,256)
Transfers to Stage 1	47,394	(47,394)	-	-
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
Gross carrying amount as at 31 December 2021	1,839,894	77,293	52,069	1,969,256

Bank of China (UK) Limited
Financial Statements for the year ended 31 December 2022

Notes to the Financial Statements (continued)

6. Financial risk management (continued)

(a) Credit risk (continued)

(xiii) Credit loss expense

On Balance Sheet	Stage 1	Stage 2	Stage 3	Total
	£000	£000	£000	£000
ECL allowance as at 1 January 2022	518	2,367	25,134	28,019
New assets originated or purchased	799	-	-	799
Assets derecognised or repaid (excluding write offs)	(62)	-	(2,439)	(2,501)
Transfers to Stage 1	3	(3)	-	-
Transfers to Stage 2	(811)	811	-	-
Transfers to Stage 3	-	(1,805)	1,805	-
Impact on year end ECL of exposures transferred between stages during the year	(3)	435	2,192	2,624
Unwind of discount	-	-	-	-
Changes to models and inputs used for ECL calculations	(301)	1,303	(16,273)	(15,271)
Recoveries	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	1	118	2,772	2,891
ECL allowance as at 31 December 2022	144	3,226	13,191	16,561

Bank of China (UK) Limited
Financial Statements for the year ended 31 December 2022

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	Stage 2	Stage 3	Total
	£000	£000	£000	£000
ECL allowance as at 1 January 2021	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
ECL allowance as at 31 December 2021	518	2,367	25,134	28,019

Bank of China (UK) Limited
Financial Statements for the year ended 31 December 2022

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
Gross carrying amount as at 1 January 2022	145,604	2,460	-	148,064
New assets originated or purchased	119,577	260	-	119,837
Assets derecognised or repaid (excluding write offs)	(109,943)	(1,732)	-	(111,675)
Transfers to Stage 1	728	(728)	-	-
Transfers to Stage 2	(1,777)	1,777	-	-
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	2,599	-	-	2,599
Gross carrying amount as at 31 December 2022	156,788	2,037	-	158,825

Off Balance Sheet	Stage 1 £000	Stage2 £000	Stage 3 £000	Total £000
Gross carrying amount as at 1 January 2021	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	686	1	-	687
Gross carrying amount as at 31 December 2021	145,604	2,460	-	148,064

Bank of China (UK) Limited
 Financial Statements for the year ended 31 December 2022

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
ECL allowance as at 1 January 2022	116	3	-	119
New assets originated or purchased	19	-	-	19
Assets derecognised or repaid (excluding write offs)	(87)	-	-	(87)
Transfers to Stage 1	3	(3)	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Impact on year end ECL of exposures transferred between stages during the year	(3)	4	-	1
Unwind of discount	-	-	-	-
Changes to models and inputs used for ECL calculations	(1)	-	-	(1)
Recoveries	-	-	-	-
Amounts written off	-	-	-	-
Foreign exchange adjustments	-	-	-	-
ECL allowance as at 31 December 2022	47	4	-	51

Bank of China (UK) Limited
Financial Statements for the year ended 31 December 2022

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	Stage 2	Stage 3	Total
	£000	£000	£000	£000
ECL allowance as at 1 January 2021	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	(3)	3	-	-
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
ECL allowance as at 31 December 2021	116	3	-	119

Bank of China (UK) Limited
Financial Statements for the year ended 31 December 2022

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
Internal rating grade				
Performing	1,853,547	-	-	1,853,547
High grade	47,991	-	-	47,991
Standard grade	16,324	50,849	-	67,173
Sub-standard grade	-	82,956	-	82,956
Non-performing individually impaired	-	-	72,833	72,833
Gross carrying amounts as at 31 December 2022	1,917,862	133,805	72,833	2,124,500
Off Balance Sheet				
	£000	£000	£000	£000
Internal rating grade				
Performing	46,866	-	-	46,866
High grade	107,117	-	-	107,117
Standard grade	2,805	1,916	-	4,721
Sub-standard grade	-	121	-	121
Non-performing individually impaired	-	-	-	-
Gross carrying amounts as at 31 December 2022	156,788	2,037	-	158,825

Notes to the Financial Statements (continued)

6. Financial risk management (continued)

(a) Credit risk (continued)

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

On Balance Sheet	Stage 1	Stage 2	Stage 3	Total
	£000	£000	£000	£000
Internal rating grade				
Performing	1,654,612	-	-	1,654,612
High grade	96,659	-	-	96,659
Standard grade	88,623	53,764	-	142,387
Sub-standard grade	-	23,529	-	23,529
Non-performing individually impaired	-	-	52,069	52,069
Gross carrying amounts as at 31 December 2021	1,839,894	77,293	52,069	1,969,256
Off Balance Sheet				
	£000	£000	£000	£000
Internal rating grade				
Performing	22,323	514	-	22,837
High grade	85,260	792	-	86,052
Standard grade	38,021	547	-	38,568
Sub-standard grade	-	607	-	607
Non-performing individually impaired	-	-	-	-
Gross carrying amounts as at 31 December 2021	145,604	2,460	-	148,064

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.

On Balance Sheet	Stage 1	Stage 2	Stage 3	Total
	£000	£000	£000	£000
Internal rating grade				
Performing	133	-	-	133
High grade	8	-	-	8
Standard grade	3	2,289	-	2,292
Sub-standard grade	-	937	-	937
Non-performing individually impaired	-	-	13,191	13,191
ECL allowance as at 31 December 2022	144	3,226	13,191	16,561
Off Balance Sheet				
	£000	£000	£000	£000
Internal rating grade				
Performing	29	-	-	29
High grade	17	-	-	17
Standard grade	1	4	-	5
Sub-standard grade	-	-	-	-
Past due (less than 90 days)	-	-	-	-
Non-performing individually impaired	-	-	-	-
ECL allowance as at 31 December 2022	47	4	-	51

Bank of China (UK) Limited
 Financial Statements for the year ended 31 December 2022

Notes to the Financial Statements (continued)

6. Financial risk management (continued)

(a) Credit risk (continued)

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

On Balance Sheet	Stage 1	Stage 2	Stage 3	Total
	£000	£000	£000	£000
Internal rating grade				
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
ECL allowance as at 31 December 2021	518	2,367	25,134	28,019
Off Balance Sheet				
	£000	£000	£000	£000
Internal rating grade				
Performing	41	-	-	41
High grade	27	-	-	27
Standard grade	48	1	-	49
Sub-standard grade	-	2	-	2
Non-performing individually impaired	-	-	-	-
ECL allowance as at 31 December 2021	116	3	-	119

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, and 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 restructure 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 or downside scenario was used.

On Balance Sheet	Base case	Probability weighted	Difference	Downside	Difference
	£000	£000	£000	£000	£000
ECL allowance as at 31 December 2022	16,160	16,561	401	17,890	(1,329)
ECL allowance as at 31 December 2021	30,873	28,019	(2,854)	32,254	(4,235)

Off Balance Sheet	Base case	Probability weighted	Difference	Downside	Difference
	£000	£000	£000	£000	£000
ECL allowance as at 31 December 2022	54	51	(3)	64	(13)
ECL allowance as at 31 December 2021	111	119	8	148	(29)

Notes to the Financial Statements (continued)

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 2022. 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 2022		
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 2022*								
Key Drivers	ECL Scenario	Assigned Probabilities %	2023 %	2024 %	2025 %	2026 %	2027 %	Subsequent Years %
UK CPI Increase	Upside	30	1.29	1.03	0.45	0.50	0.50	0.50
	Base case	40	1.29	1.03	0.44	0.50	0.50	0.50
	Downside	30	0.47	0.72	0.35	0.46	0.49	0.50
UK GDP Growth	Upside	30	0.47	0.26	0.28	0.34	0.43	0.45
	Base case	40	0.22	0.33	0.34	0.30	0.39	0.42
	Downside	30	(0.98)	0.79	0.50	0.28	0.36	0.40
UK House Price Index Increase	Upside	30	2.11	0.96	0.19	(0.51)	(0.46)	0.32
	Base case	40	(0.71)	0.83	1.19	0.38	0.19	0.39
	Downside	30	(3.82)	(0.61)	1.47	1.31	0.86	0.65
UK Interest Rates	Upside	30	4.37	3.97	2.51	2.42	2.41	2.41
	Base case	40	4.55	4.08	2.54	2.42	2.42	2.42
	Downside	30	5.50	3.02	0.59	0.97	1.92	2.37
UK Unemployment Rates	Upside	30	3.86	3.61	3.73	3.98	4.20	4.46
	Base case	40	4.31	4.47	4.54	4.58	4.60	4.62
	Downside	30	6.21	7.16	7.21	6.79	6.11	5.53

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

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
31 December 2022							
Non-derivative financial liabilities:							
Deposits from banks	539,387	(542,628)	(245,094)	(256,913)	(40,621)	-	-
Deposits from customers	1,291,150	(1,296,769)	(1,003,900)	(76,756)	(190,708)	(25,405)	-
Subordinated liabilities	-	-	-	-	-	-	-
Lease liabilities	11,118	(14,059)	(1)	(90)	(272)	(3,864)	(9,832)
Derivative financial instruments:	13	-	-	-	-	-	-
Cash outflows	-	(6,945)	(6,945)	-	-	-	-
Cash inflows	-	16,645	7,182	328	2,035	6,075	1,025
	1,841,668	(1,843,756)	(1,248,758)	(333,431)	(229,566)	(23,194)	(8,807)
Undrawn loan commitments	151,014	(151,014)	(151,014)	-	-	-	-
	1,992,682	(1,994,770)	(1,399,772)	(333,431)	(229,566)	(23,194)	(8,807)
31 December 2021							
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	-	-	-	-
	1,806,079	(1,811,911)	(1,168,148)	(144,388)	(401,971)	(26,428)	(70,976)
Undrawn loan commitments	130,621	(130,621)	(130,621)	-	-	-	-
	1,936,700	(1,942,532)	(1,298,769)	(144,388)	(401,971)	(26,428)	(70,976)

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.

Bank of China (UK) Limited
Financial Statements for the year ended 31 December 2022

Notes to the Financial Statements (continued)

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 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 2022 (31 December 2021: £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
31 December 2022			
Assets			
Cash on hand	1,580	-	1,580
Cash balances with the central bank	554,410	2,747	557,157
Other demand deposits	98,919	-	98,919
Government bonds	-	44,264	44,264
Loans and advances to banks	29,357	-	29,357
Loans and advances to customers	25,272	1,097,187	1,122,459
Derivatives and other financial instruments	7,702	-	7,702
Prepayments, accrued income and other assets	336,959	14,000	350,959
Financial assets at fair value through profit and loss	6,128	54,386	60,514
Total assets	1,060,327	1,212,584	2,272,911
Liabilities			
Deposits from banks	539,387	-	539,387
Deposits from customers	1,266,036	25,114	1,291,150
Derivatives and other financial instruments	13	-	13
Other liabilities	50,379	-	50,379
Accruals and deferred income	3,638	-	3,638
Total liabilities	1,859,453	25,114	1,884,567
Net	(799,126)	1,187,470	388,344

Bank of China (UK) Limited
Financial Statements for the year ended 31 December 2022

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 2021			
Assets			
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
Government bonds	-	-	-
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
Financial assets at fair value through profit and loss	12,992	51,667	64,659
Total assets	909,034	1,222,349	2,131,383
Liabilities			
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
Total liabilities	1,748,088	91,551	1,839,639
Net	(839,054)	1,130,798	291,744

(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 2022 and 31 December 2021.

Bank of China (UK) Limited
Financial Statements for the year ended 31 December 2022

Notes to the Financial Statements (continued)

6. Financial risk management (continued)

(c) Market risk (continued)

Foreign exchange risk (continued)

£000

31 December 2022	Sterling	US Dollar	Euro	Other	Total
Cash and cash equivalents	590,568	42,351	14,764	9,973	657,656
Government bonds	24,082	11,724	8,458	-	44,264
Loans and advances to banks	-	-	15,925	13,432	29,357
Loans and advances to customers	1,004,712	108,244	9,209	294	1,122,459
Derivatives financial instruments (asset)	7,702	-	-	-	7,702
Financial assets at fair value through profit and loss	-	60,514	-	-	60,514
Other assets	145,999	168,005	54,617	20	368,641
Deposits from banks	(363,442)	(175,515)	(362)	(68)	(539,387)
Deposits from customers	(946,797)	(220,970)	(101,187)	(22,196)	(1,291,150)
Derivatives financial instruments (liability)	(13)	-	-	-	(13)
Other liabilities	(54,045)	(3,055)	(870)	(180)	(58,150)
Subordinated liabilities	-	-	-	-	-
Total shareholder equity	(401,893)	-	-	-	(401,893)
Net financial assets/(liabilities)	6,873	(8,702)	554	1,275	-
Net forward foreign exchange positions	510	(524)	(13)	27	-
Undrawn loan commitments	(55,730)	(95,284)	-	-	(151,014)

£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
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

Notes to the Financial Statements (continued)

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 2022 and 31 December 2021 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 2022	31 December 2021	31 December 2022	31 December 2021
US Dollars	-	-	85	2,762
Euro	-	-	-	-
Other	-	-	(13)	13

A 1% percent strengthening of the above currencies against Sterling at 31 December 2022 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 2022	31 December 2021	31 December 2022	31 December 2021
US Dollars	-	-	90	(38)
Euro	-	-	-	-
Other	-	-	(13)	9

Bank of China (UK) Limited
Financial Statements for the year ended 31 December 2022

Notes to the Financial Statements (continued)

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
31 December 2022							
Assets							
Cash and cash equivalents	657,656	554,410	-	-	-	-	103,246
Government bonds	44,264	-	-	-	44,264	-	-
Loans and advances to banks	29,357	21,893	7,464	-	-	-	-
Loans and advances to customers	1,122,459	1,069,994	1,193	-	-	25,112	26,160
Derivative financial instruments	7,702	-	-	-	-	-	7,702
Financial assets at fair value through profit and loss	60,514	-	-	12,516	-	47,977	21
Other assets	368,641	339,053	-	-	-	-	29,588
Total assets	2,290,593	1,985,350	8,657	12,516	44,264	73,089	166,717
Equity and liabilities							
Liabilities	1,888,700	270,365	312,616	229,666	21,818	-	1,054,235
Deposits from banks	539,387	65,000	255,068	40,000	-	-	179,319
Deposits from customers	1,291,150	205,365	57,548	189,666	21,818	-	816,753
Derivative financial instruments	13	-	-	-	-	-	13
Other liabilities	58,150	-	-	-	-	-	58,150
Subordinated liabilities	-	-	-	-	-	-	-
Equity							
Shareholders' equity	401,893	-	-	-	-	-	401,893
Total equity and liabilities	2,290,593	270,365	312,616	229,666	21,818	-	1,456,128
Interest rate sensitivity gap		1,714,985	(303,959)	(217,150)	22,446	73,089	(1,289,411)
Cumulative gap		1,714,985	1,411,026	1,193,876	1,216,322	1,289,411	-

Bank of China (UK) Limited
Financial Statements for the year ended 31 December 2022

Notes to the Financial Statements (continued)

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 2021							
Assets							
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
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
Total assets	2,151,180	1,679,990	89,422	18,450	47,213	57,069	259,036
Equity and liabilities							
Liabilities	1,844,404	194,123	205,015	323,482	20,830	-	1,100,954
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	-	-	-	-
Equity							
Shareholders' equity	306,776	-	-	-	-	-	306,776
Total equity and liabilities	2,151,180	194,123	205,015	323,482	20,830	-	1,407,730
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	-

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
Sensitivity of projected net interest income at		
31 December 2022	13,803	(13,803)
31 December 2021	12,750	(12,750)
Sensitivity of reported equity to interest rate movements at		
31 December 2022	13,803	(13,803)
31 December 2021	12,750	(12,750)

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.

Notes to the Financial Statements (continued)

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 2022 and 31 December 2021 was as follows:

£000	2022 Actual	2021 Actual
Tier 1 capital		
Ordinary share capital	250,000	250,000
Retained earnings *	25,006	25,076
Regulatory deduction	(76)	-
Additional Tier 1 capital	60,000	-
Tier 2 capital		
Qualifying subordinated liabilities	-	60,000
Total regulatory capital	334,930	335,076

* 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. The component parts of Pillar 2A and the PRA Buffer remain confidential between each bank and the PRA in accordance with PRA requirements.

Notes to the Financial Statements (continued)

7. Financial assets and financial liabilities

Fair values of financial instruments

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

Fair values

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.

Notes to the Financial Statements (continued)

7. Financial assets and financial liabilities (continued)

Fair value hierarchy

During the financial year ended 31 December 2022, financial assets at fair value were assessed under IFRS 13 criteria for Level 1, Level 2 or Level 3.

£000				
31 December 2022	Level 1	Level 2	Level 3	Total
Financial assets				
Designated fair value loans	-	-	60,493	60,493
Derivative financial instruments:				
Interest rate swaps	-	7,687	-	7,687
Foreign exchange swaps	-	15	-	15
	-	7,702	-	7,702
Financial investments:				
Convertible preference shares	-	-	21	21
	-	-	21	21
Total assets	-	7,702	60,514	68,216
Financial liabilities				
Derivative financial instruments:				
Interest rate swaps	-	-	-	-
Foreign exchange swaps	-	13	-	13
Total liabilities	-	13	-	13

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).

Bank of China (UK) Limited
Financial Statements for the year ended 31 December 2022

Notes to the Financial Statements (continued)

7. Financial assets and financial liabilities (continued)

Fair value hierarchy (continued)

£000 31 December 2021	Level 1	Level 2	Level 3	Total
Financial assets				
Designated fair value loans	-	-	64,640	64,640
Derivative financial instruments:				
Interest rate swaps	-	-	-	-
Foreign exchange swaps	-	11	-	11
	-	11	-	11
Financial investments:				
Convertible preference shares	-	-	19	19
	-	-	19	19
Total assets	-	11	64,659	64,670
Financial liabilities				
Derivative financial instruments:				
Interest rate swaps	-	4,091	-	4,091
Foreign exchange swaps	-	1,189	-	1,189
Total liabilities	-	5,280	-	5,280

Reconciliation of Level 3 financial assets

£000	31 December 2022	31 December 2021
Balance at 1 January	64,659	77,482
Issues of loans to new counterparties	24,858	-
Repayment of loans	(25,866)	(10,801)
Total (losses) for the period net of exchange differences recognised in the profit and loss	(10,358)	(2,656)
Exchange gain recognised in the profit and loss	7,221	634
Balance at 31 December	60,514	64,659

Designated fair value loans are valued using discounted cash flows. At the end of 2022 unrealised losses of Level 3 Assets is £(11,910,000). (2021: gain £2,571,000).

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 £1,722,966.

Bank of China (UK) Limited
Financial Statements for the year ended 31 December 2022

Notes to the Financial Statements (continued)

8. Net interest income

£000	31 December 2022	31 December 2021
Interest income from financial investments	140	-
Interest income from loans and advances:		
Cash and cash equivalents	278	186
Loans and advances to banks	11,240	796
Loans and advances to customers	51,003	35,954
Total interest from loans and advances	62,521	36,936
Total interest income	62,661	36,936
Interest expense:		
Cash and cash equivalents – Euro interest paid	(123)	(284)
Deposits from banks	(8,271)	(1,449)
Customers accounts	(4,563)	(1,697)
Subordinated liabilities	(282)	(220)
Total interest expense	(13,239)	(3,650)
Net interest income	49,422	33,286

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

9. Net fee and commission income

(a) Analysis by business area

£000	31 December 2022	31 December 2021
Retail banking customer fees	1,593	1,742
Corporate banking credit-related fees	1,998	2,329
Other	364	223
Gross fee and commission income	3,955	4,294
Interbank transaction fees	(351)	(312)
Other	(1,343)	(1,007)
Gross fee and commission expense	(1,694)	(1,319)
Net fee and commission income	2,261	2,975

Notes to the Financial Statements (continued)

9. Net fee and commission income (continued)

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

£000	31 December 2022	31 December 2021
Letter of guarantee	154	211
Remittance	392	338
Account and service fees	126	163
Letter of credit	40	23
Settlement & commitment	269	162
Credit and debit cards	331	373
Other	427	281
Fee and commission income in scope of IFRS 15	1,739	1,551
Syndicated loans	967	1,301
Structural financing	197	307
Retail loans	1,052	1,135
Fee and commission income in scope of IFRS 9	2,216	2,743
Gross fee and commission income	3,955	4,294

10. Net fair value gain on financial instruments

£000	31 December 2022	31 December 2021
Net fair value loss on financial instruments:		
Designated fair value loans	(10,358)	(2,655)
Interest income	2,824	2,695
Interest rate swaps	7,682	1,883
	148	1,923

11. Other operating income

£000	31 December 2022	31 December 2021
Related party service charges	93,355	83,033
Other	278	241
	93,633	83,274

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 34:

- Income earned by Bank of China Limited, London Branch (the "London Branch") on assets originated by Bank employees and therefore re-allocated to the Bank .
- Expenses incurred directly by the Bank that are recharged to the London Branch for services provided.

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Notes to the Financial Statements (continued)

12. Staff costs

£000	31 December 2022	31 December 2021
Wages and salaries	44,265	40,940
Contributions to defined contribution plans	2,927	2,614
Social security costs	7,037	5,183
Other	4,979	1,417
	59,208	50,154
	31 December 2022	31 December 2021
Average number of employees		
Retail banking	132	133
Corporate banking	103	95
Support Functions	353	310
Total average number of employees	588	538

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

13. Other expenses

£000	31 December 2022	31 December 2021
Administrative	8,572	5,328
Software licensing and other IT costs	350	368
Other	896	3,228
	9,818	8,924

Administrative expenses in the current year contain significant expenses in respect of professional and advisory fees for large projects.

Administrative expenses include expenses relating to short-term and low-value asset leases of £82,000 (2021: £180,000).

Auditors' remuneration:

£000	31 December 2022	31 December 2021
Fees payable to the Bank's auditors for the audit of the company's financial statements:		
Current year	293	318
Previous auditor	-	240
Fees payable to the Bank's auditor and its associates for other services:		
The audits of the company's subsidiaries, pursuant to legislation	25	47
Other assurance services	31	32

Notes to the Financial Statements (continued)

14. Directors' remuneration

£000	31 December 2022	31 December 2021
Remuneration of directors in respect of services rendered:		
Remuneration	898	901
Pension contributions	3	7
Highest paid director:		
Remuneration	337	315

15. Income tax expense

£000	31 December 2022	31 December 2021
Current tax expense		
Current period	22,696	7,936
Adjustments for prior years	(110)	(92)
Total current tax	22,586	7,844
Deferred tax expense		
Origination and reversal of temporary differences	(93)	(75)
Adjustments for prior years	90	19
Total deferred tax	(3)	(56)
Total income tax expense in income statement	22,583	7,788

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

Reconciliation of effective tax rate

£000	31 December 2022	31 December 2021
Profit before income tax	91,147	39,266
Income tax using the standard rate of corporation tax in the UK 27.00% (2021: 27.00%)	24,610	10,602
Non-deductible expenses	20	(637)
Allowance against banking tax surcharge	(2,000)	(2,000)
(Over) provided in prior years	(20)	(73)
Other - tax rate adjustment	(35)	(102)
Other	8	(2)
Total income tax expense in the income statement	22,583	7,788

Notes to the Financial Statements (continued)

15. Income tax expense (continued)

Income tax recognised in other comprehensive income

£000	31 December 2022	31 December 2021
Current tax		
UK current tax expense	-	-
Total current tax	-	-
Deferred tax		
Current year deferred tax charge (credit)	-	-
Total deferred tax	-	-
Total income and deferred tax credit in other comprehensive income	-	-

The UK Government has enacted an increase in the rate of corporation tax from 19% to 25% from 1 April 2023 along with a reduction of the rate of corporation tax surcharge on banking companies from 8% to 3% resulting in an increase of 1% to the overall corporation tax rate. Deferred tax has been calculated at a blended rate of 27.8% rising to 28% from 1 April 2023.

16. Cash and cash equivalents

£000	31 December 2022	31 December 2021
Cash on hand	1,580	1,639
Cash balances with the central bank	557,157	568,076
Other demand deposits	98,919	146,418
	657,656	716,133

17. Government bonds

£000	31 December 2022	31 December 2021
Government bonds	44,264	-
	44,264	-

The Bank purchased Government bonds primarily for liquidity management purposes.

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Notes to the Financial Statements (continued)

18. Derivative financial instruments

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

2022 Offsetting of financial instruments

	Gross amounts	Amounts offset	Net amounts in balance sheet	Cash collateral	Total
Financial assets £000					
Foreign exchange swaps	15	-	15	-	15
Interest rate swaps	298,002	(80,884)	217,118	(209,431)	7,687
Net assets	298,017	(80,884)	217,133	(209,431)	7,702
Financial liabilities £000					
Foreign exchange swaps	13	-	13	-	13
Interest rate swaps	290,315	(80,884)	209,431	(209,431)	-
Net liabilities	290,328	(80,884)	209,444	(209,431)	13

2021 Offsetting of financial instruments

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

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

19. Loans and advances to banks

£000	31 December 2022	31 December 2021
Loans and advances to banks	29,357	69,065
Allowance for expected credit losses - collective	-	-
	29,357	69,065

Notes to the Financial Statements (continued)

20. Loans and advances to customers

£000	31 December 2022	31 December 2021
Corporate loans and advances	165,377	186,995
Retail loans and advances	973,643	1,035,677
Gross loans and advances	1,139,020	1,222,672
Less allowance for expected credit losses		
12 months	(144)	(518)
Lifetime	(16,417)	(27,501)
Total allowance for expected credit losses	(16,561)	(28,019)
Loans and advances to customer net	1,122,459	1,194,653

Loans and advances to customers at amortised cost

£000	31 December 2022			31 December 2021		
	Gross amount	Allowance for ECL	Carrying amount	Gross amount	Allowance for ECL	Carrying amount
Corporate loans and advances	165,377	(15,967)	149,410	186,995	(27,567)	159,428
Retail loans and advances	973,643	(594)	973,049	1,035,677	(452)	1,035,225
	1,139,020	(16,561)	1,122,459	1,222,672	(28,019)	1,194,653

21. Allowances for expected credit losses

Allowance (charges)

£000	31 December 2022	31 December 2021
Loans and advances to customers	11,459	(23,856)
Off balance sheet	67	191
Total credit/ (charge) allowance for expected credit losses in income statement	11,526	(23,665)

Refer to Note 6 for the movement in the allowance for expected credit losses for the year ended 31 December 2022 and 2021 for on and off balance sheet products.

22. Financial investments

Financial assets at fair value through profit and loss

£000	31 December 2022	31 December 2021
Loans designated at fair value	60,493	64,640
Convertible preference shares	21	19
	60,514	64,659

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 £21,000 preference shares in Visa Inc. (31 December 2021: £19,000) which are expected to be recovered more than twelve months after the reporting date.

Notes to the Financial Statements (continued)

23. Property, plant and equipment

(a) Fixed assets

£000	Property, plant and fixtures	Furniture and equipment	Computer equipment	Motor vehicles	Total
Cost					
Balance at 1 January 2022	6,404	2,306	3,356	260	12,326
Additions	1,835	299	915	-	3,049
Transfers	-	-	-	-	-
Disposals	(586)	(1)	(28)	-	(615)
Foreign exchange movement	-	-	-	-	-
Balance at 31 December 2022	7,653	2,604	4,243	260	14,760
Balance at 1 January 2021	6,334	2,177	2,871	260	11,642
Additions	484	220	645	-	1,349
Transfers	-	-	-	-	-
Disposals	(417)	(90)	(159)	-	(666)
Foreign exchange movement	3	(1)	(1)	-	1
Balance at 31 December 2021	6,404	2,306	3,356	260	12,326
Accumulated Depreciation					
Balance at 1 January 2022	5,192	2,035	2,386	229	9,842
Charge for the year	380	176	402	12	970
Transfers	-	-	-	-	-
Disposals	(586)	(1)	(6)	-	(593)
Foreign exchange movement	-	-	-	-	-
Balance at 31 December 2022	4,986	2,210	2,782	241	10,219
Balance at 1 January 2021	5,011	1,972	2,116	206	9,305
Charge for the year	353	138	417	23	931
Transfers	-	-	-	-	-
Disposals	(172)	(75)	(147)	-	(394)
Foreign exchange movement	-	-	-	-	-
Balance at 31 December 2021	5,192	2,035	2,386	229	9,842
Net carrying value at					
31 December 2022	2,667	394	1,461	19	4,541
31 December 2021	1,212	271	970	31	2,484

As at 31 December 2022 and 31 December 2021 the Bank identified no events or circumstances that would indicate that the Bank's tangible fixed assets might be impaired.

Notes to the Financial Statements (continued)

23. Property, plant and equipment (continued)

(b) Right-of-use assets

£000	Property, plant and fixtures	Furniture and equipment	Computer equipment	Motor vehicles	Total
Cost					
Balance at 1 January 2022	12,206	-	-	43	12,249
Additions	37	-	-	-	37
Disposal	(1,614)	-	-	(10)	(1,624)
Foreign exchange movement	-	-	-	-	-
Balance at 31 December 2022	10,629	-	-	33	10,662
Balance at 1 January 2021	5,256	-	-	10	5,266
Additions	8,187	-	-	33	8,220
Disposal	(1,237)	-	-	-	(1,237)
Foreign exchange movement	-	-	-	-	-
Balance at 31 December 2021	12,206	-	-	43	12,249
Accumulated Depreciation					
Balance at 1 January 2022	3,523	-	-	43	3,566
Charge/(release) for the year	510	-	-	(18)	492
Disposal	(1,614)	-	-	(10)	(1,624)
Foreign exchange movement	-	-	-	-	-
Balance at 31 December 2022	2,419	-	-	15	2,434
Balance at 1 January 2021	3,066	-	-	10	3,076
Charge for the year	838	-	-	33	871
Disposal	(381)	-	-	-	(381)
Foreign exchange movement	-	-	-	-	-
Balance at 31 December 2021	3,523	-	-	43	3,566
Net carrying value at					
31 December 2022	8,210	-	-	18	8,228
31 December 2021	8,683	-	-	-	8,683

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Notes to the Financial Statements (continued)

24. Intangible assets

£000	IT Software	Total
Cost		
Balance at 1 January 2022	2,834	2,834
Additions	183	183
Disposals	-	-
Balance at 31 December 2022	3,017	3,017
Balance at 1 January 2021	2,764	2,764
Additions	86	86
Disposals	(16)	(16)
Balance at 31 December 2021	2,834	2,834
Amortisation		
Balance at 1 January 2022	2,472	2,472
Amortisation for the year	271	271
Disposal	-	-
Balance at 31 December 2022	2,743	2,743
Balance at 1 January 2021	2,235	2,235
Amortisation for the year	237	237
Disposal	-	-
Balance at 31 December 2021	2,472	2,472
Net carrying value at		
31 December 2022	274	274
31 December 2021	362	362

As at 31 December 2022 and 31 December 2021 the Bank identified no events or circumstances that would indicate that the Bank's intangible assets might be impaired.

Notes to the Financial Statements (continued)

25. Deferred tax assets

Recognised deferred tax assets

Deferred tax assets are attributable to the following:

£000	31 December 2022	31 December 2021
Property and equipment, and software	(174)	(133)
Deferred employees' benefits	1,390	1,328
Other	64	88
	1,280	1,283

Deferred tax has been calculated at a blended rate of 27.8%, rising to 28% from 1 April 2023.

There were no unrecognised deferred tax assets as at 31 December 2022 and 31 December 2021.

Movements in temporary differences during the year

£000	Opening balance 1 January 2022	Recognised in income	Recognised in equity	Closing balance 31 December 2022
Property and equipment, and software	(133)	(41)	-	(174)
Deferred employees' benefits	1,328	62	-	1,390
Other	88	(24)	-	64
	1,283	(3)	-	1,280

£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
	1,227	56	-	1,283

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

26. Prepayments, accrued income and other assets

£000	31 December 2022	31 December 2021
Accrued income	3,647	3,159
Prepaid expenses	651	642
Tax receivable	369	362
Receivable from related party	6,145	12,157
Other	341,155	71,548
	351,967	87,868

Transfer pricing receivable from related party of £6,145,000 (31 December 2021: ££9,205,000) was outstanding at 31 December 2022. Other assets of £339,053,000 (31 December 2021: £70,264,000) deposited with London Clearing House.

27. Deposits from banks

£000	31 December 2022	31 December 2021
From fellow group companies	385,492	320,477
Other deposits from banks	153,895	75,777
	539,387	396,254

28. Deposits from customers

£000	31 December 2022	31 December 2021
Retail customers:		
Term deposits	304,680	272,439
Notice deposits	106,744	122,949
Current deposits	317,521	329,793
Other	47	38
	728,992	725,219
Corporate customers:		
Notice deposits	169,716	100,072
Current deposits	384,723	498,720
Other	7,719	9,512
	562,158	608,304
	1,291,150	1,333,523

Notes to the Financial Statements (continued)

29. Subordinated liabilities

£000	31 December 2022	31 December 2021
Subordinated note issued	-	60,000
	-	60,000

On 30 June 2007 the Bank repaid a £60,000,000 subordinated loan.

30. Other liabilities

£000	31 December 2022	31 December 2021
Creditors and accruals	38,075	31,956
Lease liabilities	11,118	11,159
Other	1,186	456
	50,379	43,571

31. Lease liabilities

£000	31 December 2022	31 December 2021
As at 1 January	11,159	3,913
Additions	36	8,220
Disposal	-	(856)
Interest	318	243
Rental payments	(395)	(361)
Total	11,118	11,159

Discounted lease liability maturity analysis:

£000	Within 1 year 2022	1 -5 years	Over 5 years	Total 2022
Lease payments	362	3,864	9,832	14,058
Finance charges	(359)	(1,092)	(1,489)	(2,940)
Net present value	3	2,772	8,343	11,118

£000	Within 1 year 2021	1 – 5 years	Over 5 years	Total 2021
Lease payments	395	3,292	10,729	14,416
Finance charges	(318)	(1,183)	(1,756)	(3,257)
Net present value	77	2,109	8,973	11,159

Notes to the Financial Statements (continued)

32. Accruals and deferred income

£000	31 December 2022	31 December 2021
Deferred income	4,342	4,509
Accrued interest	3,378	1,148
	7,720	5,657

33. Called up share capital and other equity instruments

(a) Called up share capital

At 31 December 2022 the authorised share capital comprised 250,000,000 ordinary shares (31 December 2021: 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) Other equity instruments

This instrument is held by Bank of China Limited via its London Branch. The Bank has issued this capital instrument which is included in the Bank's capital base as fully CRD IV compliant additional tier 1 capital.

Interest on this instrument will be due and payable only at the sole discretion of the Bank, and the Bank has sole and absolute discretion at all times and for any reason to cancel (in whole or in part) any interest payment that would otherwise be payable on any date, for an unlimited period and on a non-cumulative basis. There are limitations on the payment of principal, interest or other amounts if such payments are prohibited under UK banking regulations, or other requirements, if the Bank has insufficient distributable reserves or if the Bank fails to satisfy the solvency conditions as defined in the instrument terms.

The instrument is undated and is repayable, at the option of the Bank, in whole or in part on the interest payment date falling in or nearest to June 2027 and each interest payment date thereafter, in addition, the instrument is repayable at the option of the Bank in whole, but not in part, for certain regulatory or tax reasons. Any repayments require consent of the Prudential Regulation Authority. This instrument will be written down in whole, together with any accrued but unpaid interest if the Bank's Common Equity Tier 1 Ratio falls below 7.00%.

(c) Dividends

The directors recommend the payment of a dividend of £66,800,000 for 2022 (2021: £31,700,000)

34. 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 2022 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 control:

- 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.

Notes to the Financial Statements (continued)

34. Related parties (continued)

(a) Parent and ultimate controlling party

£000	Nature of related party Significant control	Significant company
Balance at 31 December 2022		
Cash on hand, cash balances with the central bank and other demand deposits	53,913	-
Loans and advances to banks	29,357	-
Loans and advances to customers	-	1
Derivative financial instrument assets	7,702	-
Prepayments, accrued income and other assets	3,910	2,235
Deposits from banks	385,492	-
Derivative financial instrument liabilities	13	-
Other liabilities	9,302	-
Included in the income statement for the period		
Interest receivable	278	-
Interest payable	(4,186)	-
Other operating income	93,560	73
Net gain on derivative financial instruments	2,478	-
Balance at 31 December 2021		
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	-
Included in the income statement for the period		
Interest receivable	185	-
Interest payable	(952)	-
Other operating income	82,962	71
Net loss on derivative financial instruments	(3,308)	-

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 2022	31 December 2021
China Bridge Group (UK) Limited	100 ordinary shares	United Kingdom	100%	100%
China Bridge Group Italy SRL*	10,000 ordinary shares	Italy	-	100%

*Indirect holding via China Bridge Group (UK) Limited. China Bridge Group Italy SRL ceased trading from October 2021, was liquidated on 30th September 2021 following agreement with the Italian tax authorities and was officially closed in April 2022.

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Notes to the Financial Statements (continued)

34. Related parties (continued)

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

At 31 December 2022, the Bank held an investment of £1 (100 shares at £0.01 each) in China Bridge Group (UK) Limited (31 December 2021: £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 financial statements.

(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	2022	2021
Compensation of Key Management Personnel:		
Short-term employee benefits	1,619	1,647
Post-employment benefits	16	14
Total	1,635	1,661

(d) Transactions with key management

Transactions with key management for the period ended 31 December 2022 comprised retail mortgages and deposits transacted on an arms' length basis to the amounts of £483,770 and £3,805,252 respectively (31 December 2021: £324,194 and £3,136,922).

35. Provisions and commitments

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

£000	31 December 2022	31 December 2021
Undrawn loan commitments	151,014	130,621
Guarantees	7,435	16,054
Letter of credit	376	1,389
Total	158,825	148,064

(b) Operating lease commitments

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

£000	31 December 2022	31 December 2021
Less than one year	994	620
Between one and five years	-	-
More than five years	-	-
Total	994	620

36. Subsequent events

There are no material events subsequent to 31 December 2022 and up until the authorisation of these financial statements.

A dividend for 2022 of £66,800,000 is due to be declared by the directors after 31 December 2022 (2021: £31,700,000).

Notes to the Financial Statements (continued)

37. Company as Lessor

The Bank has entered into sub-leasing arrangements on one of its leased office property. 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 £246,000 (2021: £269,750).

Future minimum rentals receivable under operating leases as at 31 December 2022 are:

£000	2022	2021
Within one year	246	246
After one year but not more than five years	984	984
More than five years	984	1,230
Total	2,214	2,460

The Bank has not provided any rent concessions to lessees.