China Construction Bank (London) Limited

Directors' report
and financial statements
For the year ended 31 December 2018

Registered number 06455352

Directors' report

Principal activities

China Construction Bank (London) Limited (the "Bank") is a full service bank offering corporate banking, treasury and trade finance services in the UK. The Bank is a wholly owned subsidiary of China Construction Bank Corporation (domiciled in Beijing, China) and is authorised by the Prudential Regulatory Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the Prudential Regulatory Authority.

The Bank was incorporated in England and Wales as a private Company with limited liability and was registered under number 06455352 on 17 December 2007 and has been authorised since 9 March 2009.

On 9 May 2012 the Bank set up a subsidiary Public Limited Company, CCBL Funding PLC, to facilitate the issuance of bonds and commercial paper to fund the activities of the Bank. CCBL Funding PLC was placed into dormancy in 2016 and dissolved during the year.

Strategy and future development is discussed in the strategic report.

Proposed dividend

The directors have not recommended the payment of a dividend (2017: nil).

Directors

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

Directors		Date Appointed	Date resigned
Li Biao	CEO	02 June 2015	16 July 2018
Aimin Yang*	Chairman, CEO	10 January 2017	
Shounian Cao	Director, Chairman	12 November 2018	
Dr Darren J Sherman	Director	12 December 2014	
Jianhua Jiang	Non-Executive	12 November 2015	09 March 2018
Lu Yang	Non-Executive	09 March 2018	
Brian Cook	Independent Non-Executive	21 October 2008	
Martin Fish	Independent Non-Executive	21 October 2008	

*Mr. Aimin Yang ceased to be the Chair of the Board on 2 May 2018 and assumed the role of CEO effective from 16 July 2018.

None of the directors had any interests, as defined by the Companies Act 2006, in the shares of the Bank throughout the year.

Directors' emoluments

Information on emoluments of directors of the Bank, in accordance with the Companies Act 2006, is given in Note 14 to the financial statements.

Directors' indemnities

The Board believes that it is in the best interests of the Bank to attract and retain services of the most able and experienced directors by offering competitive terms of engagement, including the granting of indemnities on terms consistent with applicable statutory provisions.

The Company has purchased insurance to cover directors' and officers' liability as permitted by the Companies Act 2006. There are no indemnity agreements for any director.

Directors' report (continued)

Employees

There were 113 employees as at 31 December 2018 (2017: 102). A number of these employees provide services to China Construction Bank London Branch and the associated costs have been recharged on a Transactional Net Margin Method Basis.

Charitable and political contributions

For the year ended 31 December 2018, the Bank did not make any charitable contributions nor did it make any donations to political organisations (2017: Nil).

Financial instruments

The Bank's financial risk management objectives and policies including the exposure to credit risk, liquidity risk, and market risk are set out in Note 6 to the financial statements.

Going concern

The financial statements are prepared on a going concern basis as the directors are satisfied that the Bank has sufficient resources to continue in business for the foreseeable future. The Bank is a wholly owned subsidiary of China Construction Bank Corporation and the parent has subscribed for share capital amounting to $447 million (comprising 200 million US Dollars plus 1.5 billion Renminbi ($247 million) (2017: $447 million)).

Statement of directors' responsibilities

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 International Financial Reporting Standards (IFRSs) as adopted by the European Union. In preparing these financial statements, the directors have also elected to comply with IFRSs, issued by the International Accounting Standards Board (IASB).Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company 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 IFRSs as adopted by the European Union and IFRSs issued by IASB 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 Company will continue in business.

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

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

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

Directors' report (continued)

Disclosure of information to 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; and
- each director has taken all steps that he ought to have taken as a director to make himself 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 s418 of the Companies Act 2006.

Pursuant to s487 of the Companies Act 2006, PricewaterhouseCoopers LLP has been appointed as auditors for the year ended 31 December 2019.

111 Old Broad Street
EC2N 1AP
London
United Kingdom

On behalf of the Board,
Signature

Chief Executive Officer
Mr. Aimin Yang
Date: 22 March 2019

Strategic report (Continued)

Strategy and future development

The strategic focus for the Bank is to continue to:

- Concentrate on developing a client base of UK Corporates & Financial Institutions with business links to China by offering wholesale products and services.
- Cater to the needs of CCBC parent bank, CCBC domestic branches, and CCBC Chinese corporate customers by offering European banking and trading capacity and product and developing European banking expertise and profile and thereby enhancing CCBC's global profile.

Principal risks and uncertainties

The Bank has identified 6 principal risk factors: credit, market, operational including legal risk, liquidity, strategic, reputational, and conduct including conflicts to interest.

To mitigate these, the Bank operates a "three lines of defence" approach. The first line is provided by the business units and their support functions, the second line is provided by the risk management and compliance functions and the third line is provided by internal audit.

Brexit considerations

The Board has considered the implications and impact of the UK leaving the EU on the Bank's business activities and on the long-term performance of the business as a principal risk.

The Board has considered a number of potential risks including, macro-economic uncertainty or downturn in the UK economy, political uncertainty, and exchange rate volatility, availability of markets and market access rights and impact on critical suppliers, labour costs and retention of skilled labour and recruitment concerns. The Board concluded that the Bank is well positioned to mitigate these risks.

Key performance indicator

The Bank's Key Performance Indicators ("KPIs") are mainly monitoring the financial performance of the Bank against financial targets set at the beginning of the financial year by the Board. The financial targets monitored include the main income streams of the Bank which are net interest income and fess and trading income, risk weighted assets, personnel and other overheads costs. Other key performance indicators cover the following four aspects and were satisfactory throughout the year:

- Operational efficiency and profitability.
- Business development.
- Risk controls.
- Management efficiency in terms of profit per capita, assets per capita and the cost/income ratio.

On behalf of the Board

Chief Executive Officer
Mr. Aimin Yang

Strategic report

The Directors present their strategic report on the Bank for the year ended 31 December 2018. Following the launch of China Construction Bank Corporation London Branch ("the Branch") in February 2015, the Bank has seen a significant proportion of its business move to the Branch, notably in corporate banking. The Bank and the Branch operate a Joint Booking Policy, under which there is a clear distinction between the activities carried out in each entity. In particular, the Bank undertakes corporate banking business with non-Chinese clients which do not have a large financing requirement. The Bank however continues to concentrate on building its business in wholesale banking activities with the relevant clients, which included acceptance of deposits and syndicated lending, as part of the Group's overall lending strategy.

The Bank also engaged in treasury activities such as foreign exchange, interest rate, trade financing and foreign exchange derivatives and bond investments. Under the Joint Booking Policy, much of this business is now undertaken by the Branch, though the Bank will continue to engage in these treasury activities with the relevant clients.

Business review

(All figures are in $000s)

As at 31 December 2018 the Bank had total gross assets of $ 702,516 (2017: $1,681,834).

The Bank's assets were primarily financed by paid up share capital, wholesale deposits and derivative liabilities.

For the year ended 31 December 2018, the Bank generated a profit after tax for the year of $1,814 (2017: $35,539). As shown in the bank's Statement of Comprehensive Income on page 11, the Bank's profit before tax for the year ended 31 December 2018 was $2,200 a decrease of $46,465 from the profit before tax of $48,665 in 2017. This was driven primarily by the reduction in treasury's activities.

Corporate banking

Syndicated loans are provided for general funding requirements to banks and corporate entities. Bilateral and direct loans to customers are to support working capital financing, capital expenditure and trading activities.

Treasury

Treasury activity during the year was focused primarily on interest rate risk, foreign exchange risk and liquidity management, including management of a portfolio of investments to assist with liquidity and enhance income. Treasury trades within predetermined limits.

Investment Banking

Investment banking business during the year was wholly focused on activities for which the Bank earned revenues via transfer pricing arrangements and did not act as principal. A large proportion of this activity was carried out between its UK investor client base and CCB (China Construction Bank) International (CCBI) based in Hong Kong, which is the investment banking hub for the CCBC (China Construction Bank Corporation) Group. These activities included arranging sales of primary equity and bond issues led by CCBI and other managers, arranging client trips to China and CCBI analyst visits to the UK and referral of clients to CCBI for investment banking services or to CCB Custodial Services for custody services.

Clearing

During the year ended 31 December 2016, CCBL offered Renminbi clearing services to both CCBC Group and non-CCBC Group Participating Banks. A Sterling clearing service was also provided to CCBC Group clients. The RMB Clearing service was transferred to the Branch from August 2016. The Sterling clearing services were transferred to the Branch in April 2017.

Independent auditors' report to the members of China Construction Bank (London) Limited

Report on the audit of the financial statements

Opinion

In our opinion, China Construction Bank (London) Limited's (the "Company") financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Directors' report and financial statements (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 December 2018; the Statement of Comprehensive Income, the Statement of Cash Flows, the Statement of Changes in Equity 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 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

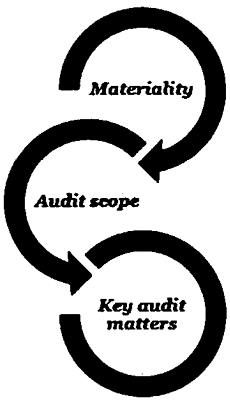
We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance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

We have provided no non-audit services to the Company in the period from 1 January 2018 to 31 December 2018.

Our audit approach

Overview



- Overall materiality: $5,216,085 (2017: $5,218,415), based on 1% of Regulated capital.
- The Company comprises one legal entity in the UK. The main lines of business are corporate banking, treasury and foreign currency operations. Details of the audit scope are described below.
- Valuation of derivative financial instruments.
- Valuation of loans and advances to customers.

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. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We gained an understanding of the legal and regulatory framework applicable to the Company and the industry in which it operates, and considered the risk of acts by the Company which were contrary to applicable laws and regulations, including fraud. We designed audit procedures to respond to the risk, recognising that 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. We focused on laws and regulations that could give rise to a material misstatement in the Company's financial statements, including, but not limited to, the Companies Act 2006, Pensions legislation, UK tax legislation. Our tests included, but were not limited to, review of the financial statement disclosures to underlying supporting documentation, review of correspondence with the regulators, enquiries with management and review of internal audit reports in so far as they related to the financial statements. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

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

Key audit matter	***How our audit addressed the key audit matter***
Valuation of derivative financial instruments There is inherent risk of misstatement in the valuation of financial instruments, in particular derivatives, owing to the judgement required in the valuation of these positions and complexity of some of the modelling and inputs. Derivative financial instruments is disclosed in notes 6,7,19 and 24 of the financial statements.	Our audit procedures included: • Obtaining independent sources of market data for a sample of derivatives from external financial information providers. Using this market data, arrived at an independent valuation and compared this to management's valuation. • Obtaining third party confirmations for a sample of derivatives at year end to obtain independent verification of the trade inputs used for valuation. • Performed controls testing over the daily automated reversal and posting of the fair value of derivatives as well as the input of derivatives on Kondor+ and then subsequent interface to NGS. • Performed testing over selected bank reconciliations performed during the year to test whether the controls over cash were in operation throughout the year and observed if breaks are being created by derivative cash flows, which may be indicative of valuation errors. The results of these procedures provided us with appropriate comfort to appropriately mitigate the risk of material misstatement from valuation of derivatives.
Valuation of loans and advances to customers Identification and measurement of impairment is inherently judgemental. Although there is limited history of loan impairment within the book, given the relative size of individual loans, it could potentially only take one unidentified impairment to create a material misstatement. Loans and advances to customers is disclosed in notes 6, 18 and 19 of the financial statements.	Our audit procedures included: • Reviewed a sample of loans to independently confirm whether these loans were in the correct stage under IFRS 9 and whether there have been any events that could impact on their ability to repay their loan. This included independent research into the loans, their underlying industry, and any relevant rating agency data. • For a sample of loans we obtained and assessed management's own annual credit review. • Reviewed bank statements to confirm that interest was paid during the year in line with agreed payment terms, for a sample of loans. • Reviewed valuation of collateral where held to ensure up to date valuations were obtained. • Reviewed the key assumptions and calculation methodology used to develop the portfolio wide provision. We also obtained the CCB Overseas IFRS 9 ECL model review from the PwC China team.

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.

As noted above, we identified certain IT controls where testing was performed by PwC China and we have relied upon their work. Other than this, all testing was performed by the UK team and covered all material revenue streams.

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:

Overall materiality	\$5,216,085 (2017: \$5,218,415).
How we determined it	1% of Regulated capital.
Rationale for benchmark applied	Consistent with the materiality benchmark applied for the year ended 31 December 2017, based on our review of the financial statements as at 31 December 2018 and discussion with management, the engagement team have determined that due to the high volatility of foreign exchange movements and the effect on profit before tax, an alternative benchmark based upon regulatory capital is more appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above \$260,804 (2017: \$260,923) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.
- We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union, which is currently due to occur on 29 March 2019, are not clear, and it is difficult to evaluate all of the potential implications on the Company's trade, customers, suppliers and the wider economy.

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 the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require 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 2018 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 set out on page 3, 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.

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.

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the audit committee, we were appointed by the directors on 30 November 2011 to audit the financial statements for the year ended 31 December 2011 and subsequent financial periods. The period of total uninterrupted engagement is 8 years, covering the years ended 31 December 2011 to 31 December 2018.

Mike Wallace (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
22 March 2019

Statement of Comprehensive Income

For the year ended 31 December US$'000	Notes	2018	2017
Continuing operations			
Interest income		11,022	11,439
Interest expense		(4,971)	(3,687)
Net interest income	8	**6,051**	**7,752**
Fee and commission income		839	1,206
Fee and commission expense		(408)	(917)
Net fee and commission income/ (expense)	9	**431**	**289**
Net income from financial instruments at fair value through profit or loss	10	4,448	47,514
Other operating income	11	33,603	28,590
		38,051	**76,104**
Total Operating income		**44,533**	**84,145**
Change in expected credit losses and credit impairment charges	12	739	-
Net operating income		**45,272**	**84,145**
Staff costs	13	(23,266)	(17,197)
Administration and general expenses	15	(13,243)	(10,540)
Depreciation	20/22	(6,480)	(7,647)
Amortisation of intangible assets	21	(83)	(96)
Profit before tax		**2,200**	**48,665**
Income tax expense	16	(386)	(13,126)
Profit for the year		**1,814**	**35,539**
Other Comprehensive income/(expense)			
Items that may subsequently be reclassified to profit and loss			
Change in value of debt securities measured at fair value through other comprehensive income		1,018	(1,015)
Total comprehensive income for the year		**2,832**	**34,524**

The notes on pages 16 to 48 form part of these financial statements.

Statement of Financial Position

As at 31 December US$'000	Notes	2018	2017
Assets			
Cash and cash equivalents	6,17,19	7,000	15,582
Loans and advances to banks	6,18,19	32,384	107,348
Loans and advances to customers	6,18,19	166,018	214,169
Loans and advances to group entities	6,18,27	2,474	241,578
Derivative financial instruments	6,7,19,24	10,445	588,374
Debt Securities	6,7,19	267,963	267,465
Prepayments, accrued income and other assets	23	14,272	39,499
Property and equipment	20	122,238	126,694
Intangible assets	21	322	35
Investment property	22	79,400	81,090
Total Assets		**702,516**	**1,681,834**
Liabilities			
Deposits by banks	6,19	90,412	255,348
Deposits by group entities	6,19,27	55,966	317,232
Deposits by corporate customers	6,19	11,477	19,120
Derivative financial instruments	6,7,19,24	10,469	550,370
Deferred Tax	16	2,024	1,926
Accruals and deferred income	25	8,775	16,509
Total Liabilities		**179,123**	**1,160,505**
Shareholders' Equity			
Authorised and called up share capital	26	446,599	446,599
Retained earnings		77,375	76,329
Fair value through other comprehensive income (FVOCI) reserve		(581)	(1,599)
Total Equity		**523,393**	**521,329**
Total equity and liabilities		**702,516**	**1,681,834**

Statement of Financial Position (continued)

The notes on pages 16 to 48 form part of these financial statements.

The financial statements on pages 11 to 48 were approved by the board of directors on 22 March 2019 and were signed on its behalf by:

Signed:

Mr. Aimin Yang

Director

Date: 22 March 2019

Dr Darren J Sherman

Director

Date: 22 March 2019

Statement of Changes in Equity

For the year ended 31 December US$'000	Authorised and called up share capital USD	Authorised and called up share capital RMB	Retained earnings	Fair value through other comprehensive income (FVOCI) reserve (2017; Available for-sale reserve)	Total Equity
For the year ended 31 December 2018					
As at 31 December 2017	200,000	246,599	76,329	(1,599)	521,329
Impact on transition to IFRS 9 (net of tax)	-	-	(768)	-	(768)
As at 1 January 2018	200,000	246,599	75,561	(1,599)	520,561
Profit for the year	-	-	1,814	-	1,814
Other comprehensive income for the year, net of tax	-	-	-	1,018	1,018
As at 31 December 2018	**200,000**	**246,599**	**77,375**	**(581)**	**523,393**
For the year ended 31 December 2017					
As at 1 January 2017	200,000	246,599	40,790	(584)	486,805
Profit for the year	-	-	35,539	-	35,539
Other comprehensive expense for the year, net of tax	-	-	-	(1,015)	(1,015)
As at 31 December 2017	**200,000**	**246,599**	**76,329**	**(1,599)**	**521,329**

Statement of Cash Flows

For the year ended 31 December US$'000	Notes	2018	2017
Cash flows from operating activities			
Profit before tax		2,200	48,665
Adjustment for:			
Depreciation and amortisation	20/21/22	6,563	7,743
Change in credit impairment charges	12	(739)	-
Corporation tax	16	(386)	(13,126)
Provision in deferred Tax	16	98	165
Changes in loans and advances		362,219	(6,187)
Changes in prepayments, accrued income and other assets		25,227	7,664
Changes in derivative financial instruments		38,028	(12,325)
Changes in deposits		(172,579)	254,957
Changes in accruals and deferred income		(7,734)	10,332
Net cash generated from operating activities		**252,897**	**297,888**
Cash flows from investing activities			
Changes in value of debt securities		498	-
Purchase of Available-for-sale financial investments		-	(24,844)
Sale of Available-for-sale financial investments		-	39,225
(Additions)/Disposals of property, equipment and intangible assets	20/21/22	(711)	619
Net cash (used in)/generated from investing activities		**(213)**	**15,000**
Cash flows from financing activities			
Changes in deposits by group entities		(261,266)	(387,258)
Net cash used in financing activities		**(261,266)**	**(387,258)**
Net decrease in cash and cash equivalents		(8,582)	(74,369)
Cash and cash equivalents at beginning of year		15,582	89,951
Cash and cash equivalents at year end	17	**7,000**	**15,582**

Notes to the financial statements

1. Reporting entity

China Construction Bank (London) Limited is a Company domiciled in England & Wales with its registered office at 111 Old Broad Street, London, EC2N 1AP, UK. Its dormant subsidiary, CCBL Funding PLC was registered at the same address, up to the point of being dissolved in 2018.

2. Basis of Preparation

(i) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC) guidance as adopted by the European Union (IFRS as adopted by the EU), and the Companies Act 2006 applicable to the companies reporting under IFRS. The Bank is a wholly-owned subsidiary of China Construction Bank Corporation, which prepares consolidated financial statements available for public use. China Construction Bank Corporation is domiciled in China with its head office located at No. 25, Finance Street, Xicheng District, Beijing 100032, PRC. The consolidated financial statements of the Group are publicly available from this address. Alternatively, the financial statements can be viewed by accessing the website at www.ccb.com.

(ii) Change in accounting policy

Following first time adoption of IFRS 9, 'Financial instruments' balances previously reported on the balance sheet as available for sale ("AFS") financial investments are now classified as fair value through other comprehensive income ("FVOCI"). Valuation adjustments related to debt securities previously disclosed as AFS reserves are now classified as fair FVOCI.

Classification and measurement

	IAS 39	IFRS 9
Classification criteria	Financial assets are measured at amortised cost (loans & receivables), Debt securities at FVOCI (2017: AFS), or fair value through profit or loss (derivatives and trading) based on the nature of the Instrument and the purpose for which it is held.	Debt instruments are measured at amortised cost or FVOCI based on their contractual terms and the business model in which they are held. The fair value option only applies where it would reduce or eliminate an accounting mismatch.
Presentation and measurement	Upon disposal of AFS securities (debt instruments and equity securities) the cumulative gains or losses in other comprehensive income are recognised in profit or loss.	Upon disposal of debt instruments measured at FVOCI the cumulative gains or losses in other comprehensive income are recognised in profit or loss.

In summary:

- loans and advances to banks and to customers and non-trading reverse repurchase agreements that are classified as loans and receivables under IAS 39 are measured at amortised cost under IFRS 9;
- financial assets designated at fair value through profit and loss ('FVPL') remain at FVPL, because it is required under IFRS 9 and the designation will continue;
- debt securities classified as available for sale are measured at Fair Value through Other Comprehensive Income;

Impairment

The recognition and measurement of impairment is intended to be more forward-looking than under IAS 39 and the resulting impairment charge may be more volatile. The adoption has resulted a new level of impairment allowances being recognised as set out in Note 12, since all financial assets are assessed for at least a 12-month period.

Notes to the financial statements

2. Basis of Preparation (Continued)

(iii) Consolidated financial statements

In accordance with IFRS 10 – Consolidated Financial Statements, CCBL Funding PLC is a dormant Company and the Bank has taken the exemption from producing consolidated financial statements.

(iv) Going concern

Financial statements of the Bank have been prepared on a going concern basis, taking into consideration:

- The Bank's strategy and prevailing market conditions and business environment
- Accounting policies adopted
- Desire to provide relevant and clear disclosures
- Nature and complexity of our business
- Risks we assume, and their management and mitigation
- Key business and control processes in operation
- Operational soundness
- Credit rating and access to capital
- Needs of all our stakeholders

The directors have concluded that the Bank has adequate resources to continue in operational existence for the foreseeable future. The Bank therefore continues to adopt the going concern basis in preparing its financial statements.

Further information on our liquidity and capital position is provided in Notes 6.2 and 26.

(v) Segment reporting

The Bank operates as a single entity and its activities are not divided into segments.

(vi) Basis of measurement

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale assets (2018: debt securities measured at FVOCI), and financial assets and liabilities (including derivatives) at fair value through profit or loss.

(vii) Functional and presentation currency

The presentation currency of the Bank is US dollar, being the functional currency as well.

Except where indicated, financial information presented in US dollars have been rounded to the nearest thousand.

(viii) Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. 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 Notes 3 and 4.

Notes to the financial statements (Continued)

3. Significant Accounting Policies

3.1 Revenue recognition

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

Fees and commissions which are not an integral part of the effective interest rate are generally recognised as the right to consideration accrues through the performance of each distinct service obligation to the customer. The arrangements are generally contractual and the cost of providing the service is incurred as each service is performed. The price is usually fixed and always determinable.

Rental income in respect of space to tenants in 111 Old Broad Street has been recognised in the income statement as other operating income, on an accrual basis from the starting date of each lease.

3.2 Financial instruments

On initial recognition, financial instruments are measured at fair value. Subsequently they are classified as follows: designated at fair value through profit or loss; amortised cost, the default class for liabilities; fair value through profit or loss, the default class for assets; or financial assets may be designated as at fair value through other comprehensive income. Regular way purchases of financial assets classified as amortised cost are recognised on the settlement date; all other regular way transactions in financial assets are recognised on the trade date. The measurement category of financial assets and liabilities in accordance with IAS 39 and IFRS 9 as at 31 December 2018 are compared as follows

	IAS 39	IFRS 9
Cash and cash equivalents	Amortised cost	Amortised cost
Loans and advances	Amortised cost	Amortised cost
Derivatives financial instruments	Fair Value through Profit/Loss (FVTPL - Held for trading)	FVTPL
Debt securities	Fair Value through other comprehensive income (FVOCI – Available for sale)	Fair Value through other comprehensive income (FVOCI – Debt securities)

- There were no changes to the classification and measurement of financial liabilities.

i. Designated as at fair value through profit or loss

A financial instrument may be designated as at fair value through profit or loss only if such designation (a) eliminates or significantly reduces a measurement or recognition inconsistency; or (b) applies to a group of financial assets, financial liabilities or both, that the Group manages and evaluates on a fair value basis; or (c) relates to a financial liability that contains an embedded derivative which is not evidently closely related to the host contract. Financial assets that the Group designates on initial recognition as being at fair value through profit or loss are recognised at fair value, with transaction costs being recognised in profit or loss, and are subsequently measured at fair value. Gains and losses are recognised in profit or loss as they arise.

ii. Assets designated at fair value through other comprehensive income

Assets designated at fair value through other comprehensive income. Other assets have to meet both the following criteria:

- the asset is held within a business model whose objective is both to hold assets to collect contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset are solely payments of principal and interest on the outstanding balance.

iii. Amortised cost assets

These have to meet both the following criteria:

- the asset is held within a business model whose objective is solely to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset are solely payments of principal and interest on the outstanding balance.

These include mainly Loans and receivables which are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and exclude the following:

- Those that the Bank designates as at fair value through profit and loss
- Those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which are accounted for at fair value through profit and loss.

Loans and receivables are measured at amortised cost, using the effective interest method, less impairment losses. Losses arising from impairment of such financial assets are recognised in the income statement line "Impairment of financial assets".

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

iv. Available-for-sale financial assets

Available-for-sale financial assets are those which are designated as such or do not qualify to be classified as designated at fair value through profit or loss, held-to-maturity, or loans and receivables. Further, certain loans and receivables that are held at fair value due to being quoted on an active market, which are neither actively traded nor held to maturity instruments, are classified as Available-for-sale financial assets.

Financial assets classified as Available-for-sale are measured at fair value on the balance sheet, with unrealised gains and losses recognised in other comprehensive income. When the asset is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the income statement. Interest earned whilst holding Available-for-sale financial assets is reported as interest income using the effective interest rate. Dividends earned whilst holding Available-for-sale financial assets are recognised in the income statement when the right of payment has been established.

If an Available-for-sale instrument is determined to be impaired, the respective cumulative unrealised losses previously recognised in equity are included in the income statement in the period in which the impairment is identified.

Impairments on Available-for-sale equity instruments are not reversed once recognised in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as Available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed, limited to the impairment value previously recognised in the income statement.

v. **Amortised cost liabilities**
All liabilities that are not subsequently measured at fair value are measured at amortised cost.

vi. **Reclassifications** – financial liabilities cannot be reclassified. Financial assets are only reclassified where there has been a change in the business model.

vii. **Fair value** – the fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

3.3 Valuation of financial instruments

All financial instruments are initially recognised at fair value. On initial recognition, the fair value of a financial instrument is the transaction price unless it is determined appropriate that the fair value of a financial instrument is more accurately determined by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. In circumstances where unobservable data has a significant impact on the valuation of a financial instrument, the entire difference between the model determined fair value and the transaction price is not recognised on initial recognition.

The difference arising is recognised in the income statement over the life of the transaction, or when inputs become observable, or when the transaction is effectively closed out. Subsequent to initial recognition the following financial instruments are measured at fair value:

- Debt securities classified as available – for- sale and held at fair value through other comprehensive income
- Equity securities
- Derivative positions

Subsequent to initial recognition, the fair value of financial instruments quoted in an active market is based on published price quotations. Where market prices are not available, fair value is determined by discounting the expected cash flows, using market interest rates taking into account the credit quality and duration of the investment.

3.4 Impairment of financial assets

At each balance sheet date each financial asset or portfolio of loans measured at amortised cost or at fair value through other comprehensive income, `debt securities and loan commitment is assessed for impairment. Loss allowances are forward looking, based on 12 month expected credit losses where there has not been a significant increase in credit risk, otherwise allowances are based on lifetime expected losses.

Expected credit losses are a probability weighted estimate of credit losses. The assessment of credit risk, and the estimation of ECL, are unbiased and probability-weighted, and incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. In general, the Bank calculates ECL using three main components: a probability of default ('PD'); a loss given default ('LGD'); and the exposure at default ('EAD').

Notes to the financial statements (continued)
3. Significant accounting policies (continued)
3.4 Impairment of financial assets (continued)

The 12-month ECL is calculated by multiplying the 12-month PD, LGD and EAD. Lifetime ECL is calculated using the lifetime PD instead. The 12-month and lifetime PDs represent the probability of default occurring over the next 12 months and the remaining maturity of the instrument respectively. The EAD represents the expected balance at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdowns of committed facilities. The LGD represents expected losses on the EAD given the event of default, taking into account, among other attributes, the mitigating effect of collateral value at the time it is expected to be realised and the time value of money. Expected credit loss is measured from the initial recognition of the financial asset. The maximum period considered when measuring ECL (be it 12-month or lifetime ECL) is the maximum contractual period over which the Bank is exposed to credit risk or to the expected date of the next substantive credit review.

Under IFRS 9 there is no need to wait for an impairment trigger event to happen before impairing a financial asset. There is a three-stage model instead, where

- Stage 1 – incorporates financial instruments that have not deteriorated significantly in credit quality since initial recognition. For these items, 12-month expected credit losses are recognised and interest revenue is calculated on the gross carrying amount of the asset (i.e. without reduction for expected credit losses).
- Stage 2 - financial instruments that have deteriorated significantly in credit quality since initial recognition but that do not have objective evidence of a credit loss event. For these items, lifetime expected credit losses are recognised but interest income is still calculated on the gross carrying amount of the asset. The assessment compares the risk of default occurring at the reporting date compared to that at initial recognition, taking into account reasonable and supportable information, including information about past events, current conditions and future economic conditions. The assessment is unbiased, probability-weighted, and to the extent relevant, uses forward-looking information consistent with that used in the measurement of ECL.
- Stage 3 - which incorporates financial assets that have objective evidence of impairment at the reporting date. For these items, lifetime expected credit losses are recognised and interest revenue is calculated on the net carrying amount (i.e. reduced for expected credit losses). Individual discounted cash flow calculations continue to be performed. However, the net realisable value of security is adjusted for expected future changes in market and the losses reflecting cash flows under different scenarios are probability-weighted to determine the ECL rather than using the best estimate of cash flows

On restructuring a financial asset without causing de-recognition of the original asset the revised cash flows are used in re-estimating the credit loss. Where restructuring causes de-recognition of the original financial asset, the fair value of the replacement asset is used as the closing cash flow of the original asset.

The costs of loss allowances on assets held are presented as impairments in the income statement.

Impaired loans and receivables are written off, when the Bank concludes that there is no longer any realistic prospect of recovery of part or all of the loan. For loans that are individually assessed for impairment, the timing of write off is determined on a case-by case basis. Such loans are reviewed regularly and write off will be prompted by bankruptcy, insolvency, renegotiation and similar events.

3.5 Derecognition of financial assets and liabilities

A financial asset or a portion thereof, is derecognised when the Bank's rights to cash flows has expired; or when the Bank has transferred its rights to cash flows relating to the financial assets, including the transfer of substantially all the risk and rewards associated with the financial assets or when control over the financial assets has passed. A financial liability is derecognised when it is extinguished, that is when the obligation is discharged, cancelled or expired.

3.6 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation. Cost is the cash equivalent paid or the fair value of the consideration given to acquire an asset and includes other expenditures that are directly attributable to the acquisition of the asset.

Depreciation is provided on the depreciable amount of each component on a straight-line basis over the anticipated useful life of the asset. The depreciable amount related to each asset is determined as the difference between the cost and the residual value of the asset. The residual value is the estimated amount, net of disposal costs that the Bank would currently obtain from the disposal of an asset in similar age and condition as expected at the end of its useful life.

Useful life of main assets, are estimated to be as follows:

Freehold land:	Not depreciated
Freehold property:	50 years
Premises:	Leasehold improvements: shorter of 10 years or the remaining period of the lease
Equipment:	Fixtures and furnishings: 5 to 10 years
Computer hardware:	3 to 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.
Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In the event that an asset's carrying amount is determined to be greater than its recoverable amount it is written down immediately. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

3.7 Leases

The Bank enters into leases as the lessee. All of the leases are operating leases. Operating lease rentals are charged to the statement of comprehensive income on a straight-line basis over the period of the lease. The Bank offers rent discounts through rent free periods. The discounts are spread over the shorter of the lease period or to the date at which the rentals are reset to a fair market rent.

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

The Bank also enters into leases as the lessor. The space not utilised by CCBL in 111 Old Broad Street has been leased to a number of tenants for periods of up to 10 years with options to renew each lease after that period.

3.8 Offset

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

3.9 Intangible assets

Software acquired by the Bank is stated at cost less accumulated amortisation and accumulated impairment losses.
Amortisation is recognised in the statement of comprehensive income 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.

3.10 Investment property

Investment property is stated at historical cost less accumulated depreciation.

Cost is the cash equivalent paid or the fair value of the consideration given to acquire an asset and includes other expenditures that are directly attributable to the acquisition of the asset.

Depreciation is provided on the depreciable amount of each component on a straight-line basis over the anticipated useful life of the asset. The depreciable amount related to each asset is determined as the difference between the cost and the residual value of the asset. The residual value is the estimated amount, net of disposal costs that the Bank would currently obtain from the disposal of an asset in similar age and condition as expected at the end of its useful life.

Useful life of investment property (excluding land) is estimated to be 50 years.

3.11 Cash and cash equivalents

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

3.12 Borrowings

Borrowings (which include deposits from banks) 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.

3.13 Pensions and other post-retirement benefits

The Bank operates a defined contribution group personal pension plan only. A defined contribution plan is a pension plan into which the Bank pays fixed contributions; there is no legal or constructive obligation to pay further contributions.

The costs of the Bank's defined contribution plans are charged to the statement of comprehensive income in the period in which they fall due.

3.14 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.

3.15 Foreign currencies

The financial statements are presented in US dollars which is also the Bank's functional currency and is the most significant currency relevant to the underlying transactions as well as representing a significant proportion of its funds generated from financing activities. Transactions in foreign currencies are recorded at the rate of exchange on the date of the transaction. Assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date except non-monetary assets and liabilities measured at historical cost which is translated using the rate of exchange at the initial transaction date. Exchange differences are included in other comprehensive income or in the income statement depending on where the gain or loss on the underlying item is recognised.

Notes to the financial statements (continued)

3. Significant accounting policies (continued)

3.16 Taxation

Taxation is based on the profit or loss for the year and takes into account any taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

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

The tax effects of losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

3.17 Provisions

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

3.18 Share capital and reserves

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

3.19 Contingent liabilities and commitments

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

(i) Acceptances

Acceptances are undertakings by the Bank to pay bills of exchange drawn on customers. The Bank expects most acceptances to be settled simultaneously with the reimbursement from customers.

(ii) Guarantees and performance bonds

The Bank provides financial guarantees to third parties on the request of customers and other banks in the form of bid and performance bonds or advance payment guarantees. These agreements have fixed limits and generally do not extend beyond the period stated in each contract. Commissions and fees charged to customers for services rendered in respect of bonds and guarantees are recognised at the time the services or transactions are affected.

(iii) Commitments

The Bank enters into commitments to extend credit or deliver on sales or purchases of foreign exchange in the future.

Commissions and fees charged to customers for services rendered in respect of commitments are recognized at the time the service or transaction is affected.

(iv) Letters of credit

The Bank confirms letters of credit to guarantee the performance of customers to third parties. These are disclosed in the financial statements in Note 29. Commissions and fees charged to customers for the service are recognised at the time the service or transaction is completed.

4. Critical estimates and judgements

(i) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(ii) Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date. Fair value disclosures of financial instruments are included in Note 7.

Management discusses with the Banks Audit & Risk Committee the development, selection and disclosure of the Bank's critical accounting policies and estimates, and the application of these policies and estimates.

5. New standards

Except for the first time adoption of IFRS 9 (Financial Instruments) on 1 January 2018, no additional new standards, amendments or interpretations, effective for the first time for the financial year beginning on or after 1 January 2018, have had a material impact on the Company. A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2018, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the group or parent Company, except the following, set out below:

- **IFRS 9 'Financial instruments', effective for accounting periods beginning on or after 1 January 2018**

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaced the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost; fair value through other comprehensive income; and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. An expected credit losses model replaces the incurred loss impairment model used in IAS 39. For financial liabilities, there are no changes to classification and measurement, except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss.

IFRS 9 was effective for accounting periods beginning on or after 1 January 2018. The Bank adopted IFRS 9 on 1 January 2018. There is no change to the classification and measurement basis for its financial assets and liabilities. The expected loss approach has resulted in an initial reduction to retained earnings of $1,024,000. The impairment provisions as at 31 December 2018 was $263,000. The net impact on profit and loss account was a credit of $739,000 with $22,000 net credit impact on fair value through other comprehensive income reserves.

- **IFRS 15 Revenue from contracts (effective for accounting periods beginning on or after 1 January 2018).**

This replaced IAS 18 Revenue and IAS 11 Construction Contracts. IFRS 15 establishes principles for reporting useful information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. Revenue is recognised at an amount that reflects the consideration to which the entity expects to be entitled in exchange for good and services. Financial instruments, leases and insurance contracts are out of scope and so this standard did not have an impact on these revenue streams. Fees and commissions are in scope of this standard however this standard did not have a significant impact on accounting for these revenue streams.

- **IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019)**

IFRS 16, 'Leases', addresses the definition of a lease, recognition and measurement of leases, and it establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on balance sheet for lessees. The standard replaces IAS 17, 'Leases', and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2019, and earlier application is permitted, subject to EU endorsement and the entity adopting IFRS 15, 'Revenue from contracts with customers', at the same time. In future periods, the operating lease charge would be replaced by a depreciation charge that, whilst lower over the life of the lease than the current operating lease charge, is not expected to be materially different. The bank adopted IFRS 16 on 1 January 2019 and this resulted in recognition of right of use of assets of $711,000 and a principal lease liability of $619,000. The right of use asset will be depreciated over the term of the disaster recovery centre lease contract.

6. Financial risk management

6.1 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. Credit and counterparty risk arises when funds are extended, committed, invested, or when the bank is otherwise exposed through actual or implied contractual agreements, whether reflected on or off balance sheet.

Due to the nature of its business, the Bank has a high appetite for credit risk but it attempts to mitigate credit risk through careful selection of obligors and counterparties and by structuring the credit facilities carefully. Sufficient credit limits need to be in place for the relevant counterparties before undertaking any credit exposure.

Credit and counterparty risk arises primarily from three types of transactions:

- Lending transactions, giving rise to a direct exposure. The risk is created that an obligor will be unable or unwilling to repay capital and/or interest on advances and loans granted to it. This category includes bank placements, where we have placed funds with other financial institutions
- Issuer risk on financial instruments where payments due from the issuer of a financial instrument will not be received
- Trading transactions, giving rise to settlement and replacement risk (collectively counterparty risk)
  - Settlement risk is the risk that the settlement of a transaction does not take place as expected, with one party effecting required settlements as they fall due but not receiving settlements to which they are entitled
  - Replacement risk is the risk following default by the original counterparty resulting in the contract holder having to enter into a replacement contract with a second counterparty in order to finalise the transaction.

Credit and counterparty risk can manifest as country risk as a result of the geopolitical and transfer risk associated with exposures arising from transactions with borrowers who are resident in a particular foreign country, or dependent on that country's economy. Credit and counterparty risk may also arise in other ways and it is the role of the various independent credit committees, assisted by Risk Management, to identify situations falling outside these definitions where credit risk may also be present.

The Bank is exposed to credit risk through its on and off-balance sheet activities and manages this exposure by establishing country and individual counterparty limits, based upon an independent assessment by the Bank's Risk Management department of relevant political, economic and financial information. Once approved, such limits are subject to annual credit review by this department and submitted for re-approval under delegated credit authorities.

All non-FI counterparties have to be rated internally using the Bank's internal rating models for various industry sectors. These internal ratings are only used for credit decision making and not for calculation of regulatory capital requirements. The external credit ratings, if available, are also taken into account but a credit decision is not made solely on the basis of external ratings.

As a credit risk mitigating measure, the Bank may take cash, other collateral or enter into a netting agreement. Any collateral provided is documented in accordance with best practice measures, and has to be legally secure.

Credit Risk can be higher due to inherent concentrations in exposures. The Bank mitigates concentration risk by setting maximum exposure limits on a single name, a single industry and a single country. Credit portfolio concentration is monitored based on these characteristics as well as based on credit ratings.

Notes to the financial statements (continued)
6. Financial risk management (continued)
6.1 Credit risk (continued)

Classification of loans and advances	Arrears, default and recoveries classification category	Description
Performing assets	Pass	The obligor is able to perform the contract, and there is not enough reason to doubt that the obligor / counterparty cannot pay principal and interest of credit assets in full amount as scheduled. It should have all of the following characteristics: • Loan repayments current or not more than 30 days in arrears. • Financial condition of the borrower is sound; • Adequate credit documentation to support borrowings; Collateral for the loan is unimpaired;
Performing assets	Special mention	A counterparty is placed in Special Mention category when that counterparty is considered to be experiencing difficulties that may threaten its ability to fulfil its credit obligations to the Bank. Any of the following characteristics may be present: • Any facility with amounts overdue for payment by more than 30 days, where the late payment has not been sanctioned or the due date has not been extended by the appropriate authority; • Any Counterparty where market intelligence (e.g. press comment, research report) suggests a seriously deteriorating position; • Any Counterparty where financial information indicates a seriously deteriorating position in working capital, cash flow, or profitability
Assets in default /Non-performing	Sub-standard	When a counterparty / obligor is facing problems in remaining solvent and is unable to pay principal and interest in full by solely relying on normal operating income. Certain loss may occur even if any guarantee available is executed. A substandard account would have any one or more of the following characteristics: • Any facility with amounts overdue for payment by more than 90 days; • Any action brought on by a third party that would jeopardise the viability of the borrower (e.g. appointment of a receiver or administrator, freeze on assets); • Any action by the borrower that would indicate a serious problem (e.g. declaration of a standstill, appointment of investigating accountants);

Notes to the financial statements (continued)
6. Financial risk management (continued)
6.1 Credit risk (continued)

Classification of loans and advances	Arrears, default and recoveries classification category	Description
	Doubtful	Facilities classified doubtful have the weakness/es inherent in one classified 'Substandard' with the added characteristic that the weaknesses make collection or repayment in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Doubtful accounts can be identified as: • Any facility with amounts overdue for payment by more than 180 days; • Any facility where a breach of covenant or warranty has occurred that is not remedied, or waived by the appropriate authority, within a period of three months; • Any facility where there is a shortfall in security cover that is not remedied, or waived by the appropriate delegated authority, within a period of three months;
	Loss	• A counterparty is placed in the loss category when the credit exposure is considered to be uncollectible once all efforts, such as realisation of collateral and institution of legal proceedings, have been exhausted; or • Assets in this category are expected to be written off in the short-term since the likelihood of future economic benefits resulting from such assets is remote.

The Bank uses its existing asset classification process to determine the stages for impairment provisioning as per the mapping table given below.

Impairment Stage	Impairment Stage
Pass	Stage 1
Special-Mentioned	Stage 2
Sub-Standard	Stage 3
Doubtful	
Loss	

Notes to the financial statements (continued)
6. Financial risk management (continued)
6.1 Credit risk (continued)

(i) Exposure to credit risk

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

As at 31 December US$'000	2018	2017
On balance sheet		
Cash and cash equivalents	7,000	15,582
Loans and advances to banks	32,384	107,348
Loans and advances to customers	166,018	214,169
Loans and advances to group entities	2,474	241,578
Debt securities	267,963	267,465
Accrued income and fees	9,031	34,907
Total on balance sheet	**484,870**	**881,049**
Off balance sheet		
Credit commitments	57,910	133,796
Total off balance sheet	**57,910**	**133,796**
Total exposure	**542,780**	**1,014,845**

The financial assets are neither past due nor impaired.

(ii) Credit exposure by sector

As at 31 December US$'000	2018	2017
Banks	49,940	398,012
Corporate sector	224,354	348,760
Governments and Multilateral Development Banks	268,486	268,073
Total exposure	**542,780**	**1,014,845**

(iii) Credit exposure by location

As at 31 December US$'000	2018	2017
Asia and Australasia	72,713	81,635
Europe	178,323	665,184
Middle East and Africa	30,217	30,156
North America	261,527	237,870
Total exposure	**542,780**	**1,014,845**

The above sector and geographical analysis include cash and cash equivalents, loans and advances to banks and to customers, Available-for-sale financial investments and off balance sheet items. The above geographies are defined by the place of incorporation of counterparties.

Notes to the financial statements (continued)
6. Financial risk management (continued)
6.2 Liquidity risk (continued)

As at 31 December 2017 US$'000	Total	Less than 1 month	More than one month but not more than three months	One year or less but over three months	More than one year
Financial Assets					
Cash and cash equivalents	15,582	15,582	-	-	-
Loans and advances to banks	107,348	-	77,348	-	30,000
Loans and advances to customers	214,169	-	-	22,321	191,848
Loans and advances to group entities	241,578	241,578	-	-	-
Derivative financial instruments	588,374	131,595	159,896	232,416	64,467
Available-for-sale financial investments	267,465	-	-	-	267,465
Total Financial assets	**1,434,516**	**388,755**	**237,244**	**254,737**	**553,780**
Financial Liabilities					
Deposit by banks	255,348	247,080	8,268	-	-
Deposits by group entities	317,232	77,149	47,348	138,731	54,004
Deposits by customers	19,120	19,015	-	105	-
Derivative financial instruments	550,370	123,343	145,144	235,985	45,898
Total Financial liabilities	**1,142,070**	**466,587**	**200,760**	**374,821**	**99,902**
Net Financial assets/(liabilities)	**292,446**	**(77,832)**	**36,484**	**(120,084)**	**453,878**

Deposits by Group entities have been restated to contractual maturity without taking into account the Bank's ability to extend the maturity of the same, pursuant to signed intergroup agreements.

6.3 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market prices. Market risk comprises of the following key risk factors:-

- Currency (or foreign exchange) risk
- Interest rate risk

(i) Currency risk

Currency risk is the risk that movements in the various currencies could materially impact the financial statements. The Bank makes loans and takes deposits in a number of currencies in addition to foreign exchange trading which is also a key business function. The Bank manages its currency risk by putting limits on the firm-wide FX exposure, as well as limits for the trading book.

6.2 Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Bank's approach to managing liquidity is to ensure that it will always have sufficient available financial resources to meet its liabilities when due, under normal and stressed conditions, without any unacceptable losses or risk to the Bank's reputation.

All liquidity policies are subject to review and approval by the Bank's Executive Committee. Daily reports cover liquidity positions and a summary report, including any exceptions and remedial action taken, is submitted regularly to Executive Committee and quarterly to the Board.

The key measure used by the Bank for managing liquidity risk is an assessment of the mismatch between the Bank's inflows (assets) and outflows (liabilities) within different time bands on a maturity ladder. A net mismatch is obtained by subtracting outflows from inflows in each time band.

The table below analyses the Bank's financial assets and liabilities into relevant maturity groupings based on the remaining period at the year end to the contractual maturity date:

As at 31 December 2018 US$'000	**Total**	**Less than 1 month**	**More than one month but not more than three months**	**One year or less but over three months**	**More than one year**
Financial Assets	-				
Cash and cash equivalents	7,000	7,000	-	-	-
Loans and advances to banks	32,384	2,384	-	30,000	-
Loans and advances to customers	166,018	-	174	23,835	142,009
Loans and advances to group entities	2,474	2,474	-	-	-
Derivative financial instruments	10,445	2,990	1,184	6,271	-
Debt Securities	267,963	-	-	242,879	25,084
Total Financial assets	**486,284**	**14,848**	**1,358**	**302,985**	**167,093**
Financial Liabilities					
Deposit by banks	90,412	90,412	-	-	-
Deposits by group entities	55,966	4,668	-	51,298	-
Deposits by customers	11,477	11,298	-	179	-
Derivative financial instruments	10,469	3,002	1,184	6,283	-
Total Financial liabilities	**168,324**	**109,380**	**1,184**	**57,760**	**-**
Net Financial assets/(liabilities)	**317,960**	**(94,532)**	**174**	**245,225**	**167,093**

Notes to the financial statements (continued)
6. Financial risk management (continued)
6.3 Market risk (continued)
(i) Currency risk (continued)

The following table shows the currency positions as of the year end.

At 31 December 2018 US$'000	**USD**	**GBP**	**EUR**	**RMB**	**OTHER**	**TOTAL**
Assets						
Cash and cash equivalents	1,954	2,255	635	1,442	714	7,000
Loans and advances to banks	32,384	-	-	-	-	32,384
Loans and advances to customers	1,818	4,410	159,790	-	-	166,018
Loans and advances to group entities	2,474	-	-	-	-	2,474
Derivative financial instruments	144,445	(2,917)	(131,012)	(23)	(48)	10,445
Debt Securities	238,837	-	-	29,126	-	267,963
Other assets	204,104	11,488	584	56	-	216,232
Liabilities						
Deposits by banks	(89,460)	-	(952)	-	-	(90,412)
Deposits by group entities	-	-	(26,182)	(29,118)	(666)	(55,966)
Deposits by corporate customers	(1,977)	(6,542)	(2,779)	(179)	-	(11,477)
Derivative financial instruments	(10,469)	-	-	-	-	(10,469)
Deferred Tax	(2,024)	-	-	-	-	(2,024)
Accruals and deferred income	(286)	(7,113)	(84)	(1,292)	-	(8,775)
Total Equity	(275,202)	(1,581)	-	(246,610)	-	(523,393)
On balance sheet exposure	**246,598**	-	-	**(246,598)**	-	-
Off balance sheet exposure	**17,792**	**40,118**	-	-	-	**57,910**
Total Exposure 31 December 2018	**264,390**	**40,118**	-	**246,598**	-	**57,910**

Notes to the financial statements (continued)
6. Financial risk management (continued)
6.3 Market risk (continued)
(i) Currency risk (continued)

At 31 December 2017 Restated	USD	GBP	EUR	RMB	OTHER	TOTAL
Assets						
Cash and cash equivalents	-	10,117	1,033	3,303	1,129	15,582
Loans and advances to banks	60,000	47,348	-	-	-	107,348
Loans and advances to customers	23,835	22,321	168,013	-	-	214,169
Loans and advances to group entities	14,354	-	-	227,224	-	241,578
Derivative financial instruments	462,482	(19,673)	532	145,745	(712)	588,374
Available-for-sale financial investments	237,163	-	-	30,302	-	267,465
Other assets	230,795	15,972	466	85	-	247,318
Liabilities						
Deposits by banks	(221,369)	(11,927)	(22,052)	-	-	(255,348)
Deposits by group entities	(76,732)	(63,582)	(145,796)	(30,705)	(417)	(317,232)
Deposits by corporate customers	(16,586)	(292)	(2,059)	(183)	-	(19,120)
Derivative financial instruments	(411,083)	-	-	(139,287)	-	(550,370)
Deferred Tax	(1,926)	-	-	-	-	(1,926)
Accruals and deferred income	(15,697)	(285)	(138)	(388)	-	(16,508)
Total Equity	(275,133)	-	-	(246,196)	-	(521,329)
On balance sheet exposure	**10,102**	**(1)**	**(1)**	**(10,100)**	**-**	**-**
Off balance sheet exposure	**69,193**	**40,584**	**24,019**	**-**	**-**	**133,796**
Total Exposure 31 December 2017	**79,295**	**40,583**	**24,018**	**(10,100)**	**-**	**133,796**

Derivatives financial instruments and total equity have been restated to show the exposure in the appropriate settlement currencies. In the prior year financial statements the balances were disclosed as USD exposures without reference to the settlement process. Off balance sheet exposures have been restated to include undrawn credit commitments. The foreign exchange sensitivity analysis below has been restated to take into account the updated disclosures by currency.

At the balance sheet date the Bank's exposure to foreign exchange risk was:

Change in value of the dollar compared with Sterling, RMB and Euros	1% Increase $000	1% Decrease $000
Sensitivity of foreign exchange		
As at 31 December 2018	(1,600)	1,600
As at 31 December 2017	(2,339)	2,339

Notes to the financial statements (continued)
6. Financial risk management (continued)
6.3 Market risk (continued)

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates.

At the balance sheet date the Bank's exposure to interest rate risk was:

	100bps parallel Increase	100bps parallel Decrease
	$000	$000
Sensitivity of projected net interest income		
As at 31 December 2018	(1,201)	1,201
As at 31 December 2017	(3,075)	3,159
Sensitivity of reported equity to interest rate movements		
As at 31 December 2018	(1,201)	1,201
As at 31 December 2017	(3,075)	3,159

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

6.4 Capital management

The Bank's lead regulators the Prudential Regulation Authority (PRA) set and monitor capital requirements for the Bank. The parent Company and individual banking operations are directly supervised by their local regulators. The Bank is required to comply with the provisions of the Basel III framework in respect of regulatory capital. The Bank has been granted approval by the PRA to adopt the standardised approaches for credit and operational risk management

The Bank's regulatory capital is analysed into two tiers:
- tier 1 capital, which includes ordinary share capital, retained earnings, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes
- tier 2 capital, which includes collective impairment allowances (limited to those credit portfolios where the standardised approach is used under Basel III) and the element of the fair value through OCI reserves relating to unrealised gains / losses on debt securities.

The Bank's policy is to maintain a strong capital base so as to maintain shareholder, 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 year.

7. Fair values of financial instruments

Financial Instruments classification has been performed in note 19.

Derivative instruments are carried at fair value. For instruments where a listed market price is available, fair value is equal to market values. Where a listed market price is not available, a valuation technique using observable inputs is used.

For all other instruments not carried at fair value, fair value is estimated to approximate book value.

IFRS 7 requires that an entity disclose for each class of financial instruments measured at fair value the level in the fair value hierarchy into which the fair value measurements are categorised in their entirety. The fair value hierarchy reflects the significance of the inputs used in making fair value measurements. The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

The fair value hierarchy has the following levels:

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)

As at 31 December 2018 **US$'000**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Debt Securities	267,963	-	-	267,963
Derivative financial instruments	-	10,445	-	10,445
Total Assets	**267,963**	**10,445**	**-**	**278,408**
Liabilities				
Derivative financial instruments	-	10,469	-	10,469
Total Liabilities	**-**	**10,469**	**-**	**10,469**

As at 31 December 2017 **US$'000**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Available-for-sale financial investments	267,465	-	-	267,465
Derivative financial instruments	-	588,374	-	588,374
Total Assets	**267,465**	**588,374**	**-**	**855,839**
Liabilities				
Derivative financial instruments	-	550,370	-	550,370
Total Liabilities	**-**	**550,370**	**-**	**550,370**

8. Net interest income

For the year ended 31 December US$'000	2018	2017
Interest income		
Loans and advances	6,986	6,863
Debt Securities	4,036	4,576
	11,022	11,439
Interest expense	(4,971)	(3,687)
Net interest income	**6,051**	**7,752**

9. Net fee and commission income/ (expense)

For the year ended 31 December US$'000	2018	2017
Fee and commission income		
Corporate banking credit related fees	839	1,206
	839	1,206
Fee and commission expense		
Inter-bank transaction fees	(408)	(917)
	(408)	(917)
Net fee and commission income/(expense)	**431**	**289**

10. Net income from financial instruments at fair value through profit or loss

For the year ended 31 December US$'000	2018	2017
Foreign exchange gain on forward contracts including monetary assets and liabilities currency translation	4,448	47,514
Net income from financial instruments at fair value through profit or loss	**4,448**	**47,514**

11. *Other operating income*

For the year ended 31 December US$'000	2018	2017
Service fee income from head office	2,753	1,971
Expenses recharged to CCBC London Branch	27,030	21,157
Rental Income	3,074	3,892
Sundry Income	746	1,570
Total other operating income	**33,603**	**28,590**

12. Change in expected credit losses and credit impairment charges

The Bank adopted IFRS 9 on 1 January 2018. The expected loss approach has resulted in an initial reduction to retained earnings of $1,024,000 and a closing balance as at 31 December 2018 of $263,000. In the disclosures below where no lifetime ECL has been disclosed, this is because there would had been no exposures subject to this stage of impairment assessment.

i. Cash and cash equivalents

As at 31 December 2018 US$'000	Subject to 12-month ECL Gross carrying amount	Allowance for ECL	Total Gross carrying amount	Allowance for ECL
As at 1 January	**15,582**	**-**	**15,582**	**-**
Financial assets derecognised	(8,579)	-	(8,579)	-
Changes to risk parameters (model inputs)	-	3	-	3
As at 31 December	**7,003**	**3**	**7,003**	**3**
Net carrying value 2018		**7,000**		**7,000**

ii. Loans and advances to banks

As at 31 December 2018 US$'000	Subject to 12-month ECL Gross carrying amount	Allowance for ECL	Total Gross carrying amount	Allowance for ECL
As at 1 January	**107,348**	**453**	**107,348**	**453**
Financial assets derecognised	(77,347)	(410)	(77,347)	(410)
New Financial assets originated	2,410	-	2,410	-
Changes to risk parameters (model inputs)	-	(16)	-	(16)
As at 31 December	**32,411**	**27**	**32,411**	**27**
Net carrying value 2018		**32,384**		**32,384**

iii. Loans and advances to customers

As at 31 December 2018 US$'000	Subject to 12-month ECL Gross carrying amount	Allowance for ECL	Subject to lifetime ECL Gross carrying amount	Allowance for ECL	Total Gross carrying amount	Allowance for ECL
As at 1 January	**188,360**	**139**	**25,809**	**300**	**214,169**	**439**
Financial assets derecognised	(38,182)	(7)	(15,000)	(198)	(53,182)	(205)
New Financial assets originated	5,716	5	-	-	5,716	5
Changes to risk parameters (model inputs)	10,289	28	(10,809)	(102)	(520)	(74)
As at 31 December	**166,183**	**165**	**-**	**-**	**166,183**	**165**
Net carrying value 2018		**166,018**		**-**		**166,018**

Notes to the financial statements (continued)

12. Change in expected credit losses and credit impairment charges (continued)

iv. Debt securities

As at 31 December 2018 US$'000	Subject to 12-month ECL Gross carrying amount	Subject to 12-month ECL Allowance for ECL	Total Gross carrying amount	Total Allowance for ECL
As at 1 January	**267,465**	**65**	**267,465**	**65**
Fair value movements	523	-	523	-
Changes to risk parameters (model inputs)	-	(40)	-	(40)
As at 31 December	**267,988**	**25**	**267,988**	**25**
Net carrying value 2018		**267,963**		**267,963**

v. Off balance sheet items – loan commitments and letters of credit

As at 31 December 2018 US$'000	Subject to 12-month ECL Gross carrying amount	Subject to 12-month ECL Allowance for ECL	Total Gross carrying amount	Total Allowance for ECL
As at 1 January	**133,796**	**67**	**133,796**	**67**
Financial assets derecognised	(77,832)	-	(77,832)	-
New Financial assets originated	1,946	8	1,946	8
Changes to risk parameters (model inputs)	-	(32)	-	(32)
As at 31 December	**57,910**	**43**	**57,910**	**43**
Net carrying value 2018		**57,867**		**57,867**

13. Staff costs

For the year ended 31 December US$'000	2018	2017
Wages and salaries	15,999	11,973
Social security costs	2,277	1,968
Other pension costs	2,584	1,333
Directors' remuneration	1,104	993
Other	1,302	930
Total Staff Costs	**23,266**	**17,197**

The monthly average number of persons employed by the Bank during the year was 113 (2017: 102), which was comprised of 108 (2017: 94) banking employees and 7 (2017: 8) management.

14. Directors' emoluments

For the year ended 31 December US$'000	2018	2017
Directors' wages and salaries	926	817
Directors' fees	140	140
Pension contributions	38	36
Total Directors' emoluments	1,104	**993**

The aggregate emolument of the highest paid director was $422,222 (2017: $471,101).

15. Administration and general expenses

For the year ended 31 December US$'000	2018	2017
Administrative	9,482	7,711
Software licensing and other IT costs	1,030	1,009
Auditor's remuneration	295	125
Other	2,436	1,695
Total Administration and general expenses	**13,243**	**10,540**

Auditor remuneration US$'000	2018	2017
Fees payable to the Bank's auditor and its associates for the		
- audit of the Bank's statutory financial statements	108	125
- audit of China Construction Bank's London Branch ("the Branch") *	187	-
Total	**295**	**125**

There were no fees payable to the Banks auditor and its associates for other services in 2018 (2017: $nil).
*The fees for the audit of the Branch are recharged to the Branch through the Transactional Net Margin Method Basis.

16. Income tax expense

For the year ended 31 December US$'000	2018	2017
Current Tax		
UK Corporation Tax – current year tax charge	1,141	12,198
Prior year adjustment	(777)	95
	364	12,293
Deferred Tax		
Current year deferred tax charge	434	1,162
Prior year adjustment	(412)	(329)
	22	833
Tax expense	**386**	**13,126**
Reconciliation of effective tax rate		
Profit before income tax	**2,200**	**48,665**
Tax calculated at the UK Corporation tax rate of 19.00% (2017: 19.25%)	418	9,368
Effects of:		
Expenses not deductible for tax purposes	1,029	1,214
Banking surcharge	-	1,910
Prior year adjustment	(1,189)	(235)
Other (tax rate adjustment)	104	732
Other	24	137
Tax expense	**386**	**13,126**

Current tax payable is provided on taxable profits at rates that are enacted or substantively enacted and applicable to the relevant period.

Deferred taxation would be provided, if material, using the balance sheet method on temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base.

Deferred tax assets or liabilities are measured using the tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deferred tax asset can be utilised. Items recognised directly in comprehensive income are net of related current and deferred taxation. Deferred tax liabilities are recognised on temporary differences arising from fixed assets.

A deferred tax liability of $2,024,000 (2017: $1,926,000) has been recognised on temporary differences arising from fixed assets and valuation reserves balance related to debt securities.

Notes to the financial statements (continued)
16. Income tax expense (continued)

Deferred tax liability

For the year ended 31 December US$'000	**2018**	**2017**
At the beginning of year	1,926	1,761
Current year deferred tax charge	434	1,162
Charge/(credit) to other comprehensive income/ (expense)*	332	(520)
Recognition for the year	**2,692**	**2,402**
Prior year adjustment to comprehensive income	(412)	(258)
Adjustment to other comprehensive income	-	(218)
Adjustment for IFRS 9 transitional provisions	(256)	-
At end of year	**2,024**	**1,926**

*Relates to transitional arrangements on debt securities (2017: available for sale assets)

17. Cash and cash equivalents

As at 31 December US$'000	**2018**	**2017**
Gross cash and cash equivalents with banks	7,003	15,582
Provision for impairment	(3)	-
Net cash and cash equivalents	**7,000**	**15,582**

18. Loans and advances

As at 31 December US$'000	**2018**	**2017**
Gross loans and advances to banks	32,411	107,348
Gross loans and advances to customers	166,183	214,169
Gross loans and advances to group entities	2,474	241,578
Provision for impairment		
- **loans and advances to banks**	(27)	-
- **loans and advances to customers**	(165)	-
- **loans and advances to group entities**	-	-
Net loans and advances	**200,876**	**563,095**

As at 31 December 2018, \$58,867k (2017: \$341,247k) of loans and advances as above are due within twelve months. \$142,009k (2017: \$221,848k) of loans and advances are due more than twelve months after the balance sheet date.

19. Analysis of assets and liabilities by financial instrument classification

As at 31 December 2018 US$'000	At fair value through profit or loss – trading	Loans and receivables	At fair value through other compreh-ensive income	Financial liabilities at amortised cost	Total carrying value	Total fair value
Assets						
Cash and cash equivalents	-	7,000	-	-	7,000	7,000
Loans and advances to banks	-	32,384	-	-	32,384	32,384
Loans and advances to customers	-	166,018	-	-	166,018	166,018
Loans and advances to group entities	-	2,474	-	-	2,474	2,474
Derivative financial instruments	10,445	-	-	-	10,445	10,445
Debt securities	-	-	267,963	-	267,963	267,963
	10,445	**207,876**	**267,963**	**-**	**486,284**	**486,284**
Liabilities						
Deposits by banks	-	-	-	90,412	90,412	90,412
Deposits by group entities*	-	-	-	55,966	55,966	55,966
Deposits by corporate customers	-	-	-	11,477	11,477	11,477
Derivative financial instruments	10,469	-	-	-	10,469	10,469
	10,469	**-**	**-**	**157,855**	**168,324**	**168,324**

As at 31 December 2017 US$'000	At fair value through profit or loss – trading	Loans and receivables	Available -for-sale	Financial liabilities at amortised cost	Total carrying value	Total fair value
Assets						
Cash and cash equivalents	-	15,582	-	-	15,582	15,582
Loans and advances to banks	-	107,348	-	-	107,348	107,348
Loans and advances to customers	-	214,169	-	-	214,169	214,169
Loans and advances to group entities	-	241,578	-	-	241,578	241,578
Derivative financial instruments	588,374	-	-	-	588,374	588,374
Debt Securities	-	-	267,465	-	267,465	267,465
	588,374	**578,677**	**267,465**	**-**	**1,434,516**	**1,434,516**
Liabilities						
Deposits by banks	-	-	-	255,348	255,348	255,348
Deposits by group entities*	-	-	-	317,232	317,232	317,232
Deposits by corporate customers	-	-	-	19,120	19,120	19,120
Derivative financial instruments	550,370	-	-	-	550,370	550,370
	550,370	**-**	**-**	**591,700**	**1,142,070**	**1,142,070**

Collateral posted or received is included in the above assets and liabilities as follows:

Loans and advances to banks: 2018: $2,411,000 (2017: $nil).
Loans and advances to group banks; 2018: $2,474,000 (2017: $14,354,000)
Deposits by banks $5,293,000 (2017: $234,874,000).

20. Property and equipment

As at 31 December 2018 US$'000	Freehold land	Freehold property	Leasehold improvement	Fixtures and furnishings	Computer hardware	Total
Cost						
At beginning of year	59,357	67,227	15,296	1,579	5,213	148,672
Additions/(Disposals)	-	-	-	6	329	335
At end of year	**59,357**	**67,227**	**15,296**	**1,585**	**5,542**	**149,007**
Accumulated depreciation						
At beginning of year	-	(4,051)	(12,029)	(1,077)	(4,822)	(21,979)
Charge for the year	-	(973)	(3,219)	(241)	(357)	(4,790)
At end of year	-	**(5,024)**	**(15,248)**	**(1,318)**	**(5,179)**	**(26,769)**
Net carrying value 2018	**59,357**	**62,203**	**48**	**267**	**363**	**122,238**

As at 31 December 2017 US$'000	Freehold land	Freehold property	Leasehold improvement	Fixtures and furnishings	Computer hardware	Total
Cost						
At beginning of year	59,357	67,924	15,323	1,576	5,123	149,303
Additions/(Disposals)	-	(697)	(27)	3	90	(631)
At end of year	**59,357**	**67,227**	**15,296**	**1,579**	**5,213**	**148,672**
Accumulated depreciation						
At beginning of year	-	(2,920)	(8,822)	(834)	(3,447)	(16,023)
Charge for the year	-	(1,131)	(3,207)	(243)	(1,375)	(5,956)
At end of year	-	**(4,051)**	**(12,029)**	**(1,077)**	**(4,822)**	**(21,979)**
Net carrying value 2017	**59,357**	**63,176**	**3,267**	**502**	**391**	**126,694**

21. Intangible assets

For the year to 31 December US$'000	2018	2017
IT Software		
Cost		
At beginning of year	1,209	1,197
Additions	370	12
At end of year	**1,579**	**1,209**
Amortisation		
At beginning of year	(1,174)	(1,078)
Charge for the year	(83)	(96)
At end of year	**(1,257)**	**(1,174)**
Net carrying value	**322**	**35**

During the year ended 31 December 2018 the Bank identified no events or circumstances that would indicate that the Bank's intangible assets may be impaired.

22. Investment property

For the year to 31 December US$'000	2018	2017
Freehold Building		
Cost		
At beginning of year	87,142	87,142
At end of year	**87,142**	**87,142**
Accumulated depreciation		
At beginning of year	(6,052)	(4,362)
Charge for the year	(1,690)	(1,690)
At end of year	**(7,742)**	**(6,052)**
Net carrying value	**79,400**	**81,090**

The investment property was purchased on the 2nd of June 2014 and valued at the cost method.

23. Prepayments, accrued income and other assets

As at 31 December US$'000	2018	2017
Accrued interest	1,249	1,720
Amounts due from intergroup	7,785	33,188
Prepaid expenses	2,605	2,037
Other	2,633	2,554
Prepayments, accrued income and other assets	**14,272**	**39,499**

24. Derivative financial instruments

As at 31 December US$'000	2018		2017	
	Assets	Liabilities	Assets	Liabilities
Foreign Exchange Products	10,445	10,469	588,374	550,370
Derivative financial instruments	**10,445**	**10,469**	**588,374**	**550,370**

The notional principal amounts of the outstanding forward foreign exchange contacts as at 31 December 2018 were $1,466,632,457 (2017: $21,806,381,000). The bank received collateral amount of $5,293,000 (2017: $234,874,000) and posted collateral of $4,885,000 (2017: $14,354,000). Collateral is received or posted under Credit Support Annex (CSA). Collateral is received where we have net derivative asset from trading counterparties and it is posted where we have a net derivative liability against a trading counterparty. Under the permissions of the CSA and master netting arrangements in place collateral posted or placed can deducted to offset the net mark to market asset or liability. For the purposes of these financial statements collateral posted is reported in loans and advances to banks and collateral received under deposits by banks.

25. Accruals and deferred income

As at 31 December US$'000	2018	2017
Deferred income	438	938
Accruals	8,337	15,571
Accruals and deferred income	**8,775**	**16,509**

26. Capital and reserves

a) Capital

The Bank's authorised share capital is comprised of two share classes of shares denominated in US Dollars (USD) and Renminbi. USD shares of $200,000,000 (2017: $200,000,000) divided into 200,000,000 (2017: 200,000,000) shares of $1 (2017: $1) and Renminbi (RMB) shares of RMB 1,500,000,000 (2017: RMB 1,500,000,000) divided into 1,500,000,000 (2017:1,500,000,000) shares of RMB1 ordinary shares were, authorised, allotted and fully paid by China Construction bank Corporation. As at 31 December 2018 the issued and fully paid up share capital amounted to $446,599,000 (2017: $446,599,000).

b) Fair value through other comprehensive income (FVOCI) (2017: Available-for-sale reserve)

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

c) Dividends

There were no dividends declared for the year ending 31 December 2018 (2017:$nil).

d) Capital management

Capital is defined as the total of share capital, share premium, retained earnings and other reserves. Total capital as at 31 December 2018 is $ 523,393,000 (2017: $521,329,000).

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management employing techniques based on the guidelines developed by the Basel Committee and European Community Directives as implemented by the FCA and the PRA in the UK, for supervisory purposes. These rules require each credit institution to maintain a ratio of total regulatory capital to risk- weighted exposures at or above a level determined for each institution.

The following capital amounts are part of the total Bank's regulatory capital and qualifies as Tier 1 capital, which includes the sum of the issued share capital, retained earnings and the available for sale reserve.

As at 31 December US$'000	2018	2017
Shareholders' Funds	523,393	521,329
Less:		
Intangible Assets	(322)	(35)
Total Shareholders' funds net of intangible assets	**523,071**	**521,294**
Total capital which qualifies as Tier 1 Regulatory Capital	**523,071**	**521,294**

The bank complied with its regulatory capital requirements throughout the year.

27. Related parties

a) Parent and ultimate controlling party

The immediate parent undertaking and controlling party of the bank is China Construction Bank Corporation ("CCBC"), a Company incorporated in China. The financial statements of the Company are available from China Construction Bank Corporation, No. 25, Finance Street, Xicheng District, Beijing 100032, PRC. The immediate and ultimate parent of CCBC is Central Huijin Investment Limited and China Investment Corporation respectively, Central Huijin Investments Limited is a wholly owned subsidiary of China Investment Corporation, exercises the rights and obligations as an investor on behalf of the PRC government.

The following transactions with China Construction Bank Corporation and other related parties are included in the financial statements:

As at 31 December US$'000	**2018**	**2017**
Cash and cash equivalents	4,241	4,543
Loans and advances to group banks*	2,474	241,578
Recharges to intergroup branches	7,785	33,188
Prepayments, accrued income and other assets	1	63
Total receivable	**14,501**	**279,372**
Deposits by group banks	(55,966)	(317,232)
Accruals and deferred income	(1,358)	(613)
Total payable	**57,324**	**(317,845)**
Included in the profit for the year		
Interest income	2,523	1,979
Interest expense	(1,883)	(2,007)
Other operating income	29,783	23,127
Total	**30,423**	**23,099**

*Loans and advances to group banks include collateral of $2,474,000 received under Credit Support Annex (CSA) document (2017:$ 14,354,000).

b) Transactions with key management personnel

There were no transactions with key management personnel and their immediate relatives during the year.

In addition to their salaries, the Bank also provides non-cash benefits to executive officers, and contributes to a defined contribution pension scheme on their behalf. The Bank does not contribute to defined benefit plans.

28. Lease commitments

As at 31 December US$'000	2018	2017
Less than one year	157	176
Total operating lease commitments	**157**	**176**

The lease of the office space at 40 Bank Street, Canary Wharf ended in August 2018 and this was replaced from the 1st of August 2018 by a lease at Fortress's Cross harbour Recovery Centre.

Operating leases of lessor

At 31 December 2018 the future minimum rentals receivable under non-cancellable operating leases were as follows:

As at 31 December US$'000	2018	2017
Not later than one year	3,029	3,210
Between one and five years	7,494	6,745
More than five years	1,346	2,483
Total lessor lease commitments	**11,869**	**12,438**

Total rental income recognised in the year was $3,074k (2017: $3,892k), this represents operating leases associated with leasing excess space. There are no guarantees, restrictions or unusual terms contained in these operating leases.

29. Contingent liabilities

As at 31 December US$'000	2018	2017
Letters of credit	7,792	-
Undrawn customer lending facilities	50,118	133,796
Contingent liabilities	**57,910**	**133,796**

A provision of $43,000 was set aside for loan commitments and letters of credit as required under IFRS 9.

30. Subsequent events

A new operating lease to American Bureau of Shipping ABS Europe Limited London was signed with a start date of the 1st of February 2019. This was a 10 year lease with a one way 5 year break option and a 12 month rent free period and a further 12 months if the option to break is not exercised.

There were no other material subsequent events after the balance sheet date.