



Company Registration No. 07387225

Agricultural Bank of China (UK) Limited
Annual Report and Financial Statements
For the year ended 31 December 2017



Agricultural Bank of China (UK) Limited
Registered in England and Wales: No. 07387225
Registered Office: 7th Floor, 1 Bartholomew Lane, London. EC2N 2AX

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Agricultural Bank of China (UK) Limited

Officers and Professional Advisers

Directors

Meiyu Sun
Ruoming Hua
Nicholas Mark Jordan
Richard Radway Williams
Ruishan Li (Chief Executive Officer)
Jun Fan

Secretary

Taylor Wessing Secretaries Limited

Registered Office

7th Floor, 1 Bartholomew Lane London
London
EC2N 2AX

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and
Statutory Auditors
7 More London Riverside
London
SE1 2RT

Agricultural Bank of China (UK) Limited

Strategic Report

The Directors present their Strategic Report on Agricultural Bank of China (UK) Limited (“the Bank/ABCUK”) for the year ended 31 December 2017.

Business review

The Bank is authorised by the Prudential Regulatory Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the PRA.

During the year, the Bank has continued to focus on the sustainability of its balance sheet and associated returns.

The Corporate Banking Department (CB) of the Bank has further developed its syndicated lending business, which increased by 28% between 31 December 2016 and 31 December 2017. CB continued servicing the Bank’s customers’ commercial banking needs in relation to business flows between Europe and China. During 2017, the Bank’s focus was to increase the level of the lending originated by CB to generate sustainable interest income. The Financial Market and Treasury Department (FMD) of the Bank has also continued to focus upon efficient liquidity management and meeting the bank’s funding requirements as well as consolidating the Bank’s asset base by gradually increasing the marketable securities’ portfolio over the course of 2017 with investments remaining predominantly in floating rate financial institution bonds with maturities of 1-3 years.

Review of the year

The Bank offers a range of wholesale banking services, including syndicated and bilateral loans, foreign exchange settlement, foreign exchange trading and corporate deposits. At the end of 2017, the Bank had total assets of \$1,080mn (2016: \$1,133mn), and total deposit funding of \$943mn (2016: \$1,015mn). The 2017 profit was improved due to increased interest income on syndicated facilities and bilateral loans, and efficient FX management which more than offset increased operating costs and a reduction in trade finance activity. The Bank achieved a net operating profit after tax of \$0.77mn (2016: \$0.12mn) for the financial year. The net operating profit included a net FX gain of \$0.87mn (2016: \$1.66mn loss) which consisted of a realised gain of \$2.12mn (2016: \$0.18mn loss) and mark to market unrealised loss of \$1.25mn (2016: \$1.48mn loss).

Strategy and future development

Agricultural Bank of China Limited (“the Parent Bank” / “ABC”) has established a strong presence in the UK market through ABCUK, which is a wholly owned subsidiary. However, to enhance its profile and take advantage of further commercial opportunities arising from the continued close Sino-UK relationship, ABC has secured a license from the Prudential Regulatory Authority to open a branch in UK, (Agricultural Bank of China London Branch or “ABCLB”). It is intended that the business of ABCUK will be transferred to ABCLB in FY 2018 and the Bank will subsequently be liquidated in an orderly manner.

The transition from subsidiary to branch will allow ABC to better serve its customers overseas when operating in the UK or the wider EEA. During the transition the Bank will aim to maintain alignment with the overall strategy of the Parent Bank and once operational, ABCLB will focus on Chinese companies looking to expand into the UK and / or the wider European market, UK corporates with current or planned links into China and other local UK clients with good credit quality.

Agricultural Bank of China (UK) Limited

Strategic Report

Brexit Implications

The Bank has assessed the implications of Brexit and is cognisant of post-Brexit economic uncertainties. The Bank's current business is primarily concentrated towards UK / Chinese bi-lateral lending and participation in syndicated loan facilities which are sourced, in large part, in the UK. Therefore the impact is not expected to be significant during the transition from subsidiary to branch in FY2018.

Principal risks and uncertainties

The major risks faced by the Bank are Financial risks (Credit, Market, Liquidity), Operational, Compliance and Conduct Risks. These risks are evaluated and highlighted in the Bank's risk management framework.

Credit risk is the risk that counterparties will be unable to meet their obligations to the Bank as they fall due; credit risk arises principally from lending but also from transactions involving on and off balance sheet instruments. Given the nature of the Bank's business structure, credit risk is the key risk that the Bank faces.

Market risk is the risk that changes in the level of interest rates, foreign exchange rates or the price of securities and other financial contracts could have an adverse impact on profits.

Liquidity risk is the risk that funds will not be available to meet liabilities as they fall due. They may arise from cash flow or maturity mismatches of assets and liabilities, in particular relative long term lending funded by shorter term funding.

The Bank's financial risk management objectives and policies are set out in note 23 to these financial statements.

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and system or external events and includes Legal Risk. Serious operational risk events could lead to significant losses, regulatory fines and reputational risk.

Compliance risk is the risk of legal and regulatory sanctions, material financial loss, or reputational damage that the Bank may suffer as a result of its failure to comply with laws, regulations, internal policies & procedures, or industry standards of best practice. Compliance risk is wide ranging and evident in all of the Bank's activities. A key area of compliance risk for the Bank is Anti-Money Laundering and Sanctions and Counter Terrorism Financing. This is due to the nature of the Banks's business, providing cross border services to wholesale clients.

Conduct risk is the risk that the Bank's actions will result in poor customer outcomes, or damage to market integrity. Conduct risk is more prevalent in retail banks with a less sophisticated customer base. However, recent high profile incidents in the wholesale sector have shown that the Bank must ensure it has the appropriate governance and controls in this area.

In relation to the transition from subsidiary to branch, the Bank will be exposed to additional operational risk. The Bank will mitigate this risk by continuing its efforts to maintain its systems and controls in the subsidiary, while additional risk control and monitoring programmes will be in place to ensure a smooth transition.

Agricultural Bank of China (UK) Limited

Strategic Report

Key performance indicators

The Bank's financial targets were set at the beginning of the financial year by the Board. The KPIs are set to monitor the financial performance of the Bank. The KPIs include the business targets, revenue, capital, business expenses, and net profit before and after tax.

Approved by the Board of Directors and signed on behalf of the Board.

A handwritten signature in black ink, appearing to be 'Ruishan Li', written over a horizontal line.

Ruishan Li
Chief Executive Officer
Date: 27 March 2018

Agricultural Bank of China (UK) Limited

Directors' Report

The directors present their report and the audited financial statements for the year ended 31 December 2017.

Principal activities

Agricultural Bank of China (UK) Limited is a wholly owned subsidiary company of Agricultural Bank of China Limited which is domiciled in Beijing, China. The principal activity of the Bank is wholesale banking.

Review of the business

The review of the year and future developments are set out in the Strategic Report on pages 2 to 4.

Results

The Bank achieved a profit after tax for the year to 31 December 2017 of \$0.77mn (2016: \$0.12mn), as shown in the Statement of Comprehensive Income. The return on assets was 0.07% (2016: 0.01%).

Principal risks and uncertainties

The major risks to the Bank are set out in the Strategic Report.

Pillar III disclosures, which are unaudited, are published on the Bank's website, <http://www.uk.abchina.com>.

Going concern

As the assets of the Bank will be transferred to the ABCLB in 2018 and given the intention to cease trading and subsequently liquidate the Bank in 2018, the Board of Directors has concluded that the Bank is no longer a going concern. As a result the financial statements have been prepared on a basis other than going concern. No adjustments were necessary in these financial statements to reduce assets to their realisable values or to provide for liabilities arising from the decision.

The Board of Directors is satisfied that the Bank's capital resources will exceed the PRA guidelines and will be adequate until the point of liquidation. The Bank will also monitor the liquidity ratio and take actions to ensure adequate liquidity to satisfy regulatory requirements until it ceases to exist. In making this assessment the Directors considered the intra-company funding from the parent company which is repayable on 180 days' notice and are satisfied that this funding will continue to be available as required.

Directors and Secretary

The present directors and secretary are listed on page 1.

The directors of the Bank in office during the year were:

Directors and Secretary

Meiyu Sun
Ruoming Hua
Nicholas Mark Jordan
Richard Radway Williams

Agricultural Bank of China (UK) Limited

Directors' Report

Ruishan Li
Jun Fan

Secretary

Taylor Wessing Secretaries Limited

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable laws and regulations.

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 ("IFRS") as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company 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 IFRS as adopted by the European Union 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 a going concern basis unless it is inappropriate to presume that the company will continue in business.

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

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 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.

Agricultural Bank of China (UK) Limited

Directors' Report

Disclosure of information to the auditors

Each of the directors at the date of approval of this report confirms that:

- so far as the directors are aware, there is no relevant audit information of which the Bank's auditors are unaware; and
- the directors have taken all the steps that they ought to have taken to make themselves 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.

Independent Auditors

PricewaterhouseCoopers LLP has expressed their willingness to continue in office as auditor.

Approved by the Board of Directors and signed on behalf of the Board.



Ruishan Li
Chief Executive Officer
Date: 27 March 2018

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

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRS 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 Annual Report and Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2017; the statement of comprehensive income, the statement of cash flow, 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 2017 to 31 December 2017.

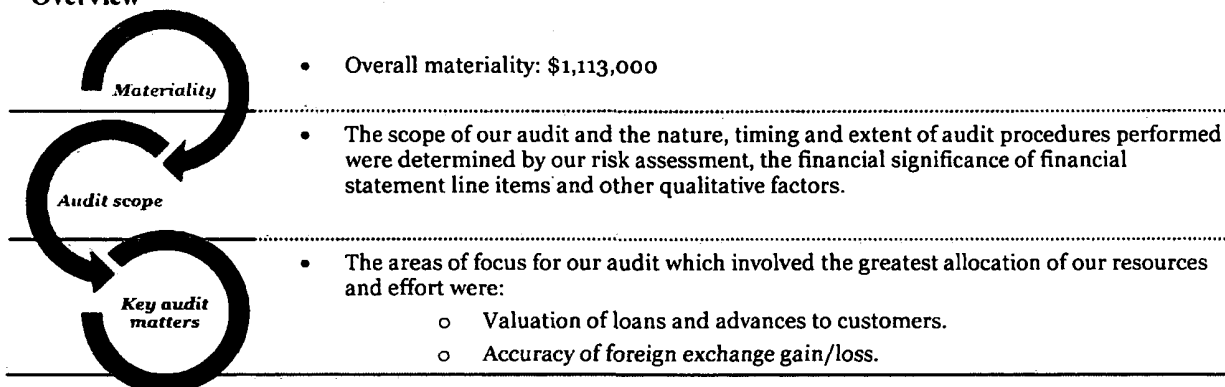
Emphasis of matter - Basis of preparation

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 3 to the financial statements concerning the basis of preparation. This entity is expected to cease trading and liquidate in 2018 following the opening of Agricultural Bank of China Limited London Branch and the transfer of operations thereto. Accordingly, the going concern basis of preparation is no longer appropriate and the financial statements have been prepared on a basis other than going concern as described in note 3 to the financial statements. No adjustments were necessary in these financial statements to reduce assets to their realisable values or to provide for liabilities arising from the decision.

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

Our audit approach

Overview



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, the Financial Conduct Authority and the Prudential Regulation Authority's regulations and UK tax legislation. Our tests included, but were not limited to, review of correspondence with, and reports to, the regulators, review of correspondence with legal advisors, enquiries of 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.

Agricultural Bank of China (UK) Limited

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

Key audit matter	How our audit addressed the key audit matter
<p><i>Completeness of impairment provisions</i></p> <p>The Company lends to corporate customers and impairment on these exposure is assessed individually. If there is objective evidence of impairment a provision is recorded based on the best estimate of the future cash flows to be received. The accounting policy for impairment of financial assets and the interaction with the non-going concern basis of accounting is set out in note 3.</p> <p>At 31 December 2017 impairment provisions of \$nil were held (31 December 2016: \$nil). Despite this nil balance and the relatively low risk appetite of the Company, we considered this a significant audit risk. This is because the magnitude of individual loans means that if just one loan was impaired it would likely result in a material adjustment and given the assessment of whether there has been objective evidence of impairment can be highly judgmental. Given this context we focussed our testing on assessing the completeness of the impairment provisions held.</p>	<p>We understood and evaluated key credit processes including credit approvals, loan disbursement, credit monitoring, and management and reporting to the Risk Committee.</p> <p>We tested the control that the monthly impairment review report is prepared and approved. We were able to place reliance on this control for the purposes of our audit.</p> <p>We critically assessed the criteria for determining whether an impairment event had occurred and therefore whether there was a requirement to calculate an individual impairment provision.</p> <p>We performed some testing on all performing corporate loans. We then independently identified loans that we considered had a relatively higher risk of demonstrating 'objective evidence of impairment'. This included assessing information held by the Bank as well as external information.</p> <p>For the loans selected, we performed additional testing. The nature of this testing varied based on the exposure but typically included assessing industry risk, considering news reports on the company, obtaining evidence to support collateral valuation and considering the ability of the company to refinance.</p> <p>We obtained the analysis of the impact of IFRS 9 prepared by the parent bank in China for group reporting purposes, and considered whether this provided any evidence that objective evidence of impairment was present.</p> <p>Based on the work performed on the valuation of the credit impairment provision, we found that the assumptions used were supported by the evidence we obtained.</p>
<p><i>Accuracy of foreign exchange gain/loss</i></p> <p>The Bank has a functional currency of US dollars, is based in the UK, has customers in various countries and has a parent based in China. It also enters into economic hedges to reduce the impact of currency fluctuations on the income statement.</p> <p>Historically the amount of the gain/loss has been material, and given this and the relative complexity of the calculations we classified this as a significant risk.</p> <p>The gains and losses are disclosed in the income statement and the accounting policy for foreign exchange balances and transactions is disclosed in note 3.</p>	<p>We understood and evaluated management's foreign exchange process. Within this, we tested the control over the independent verification and review of derivative positions. We were able to place reliance on this control for the purposes of our audit.</p> <p>We sent confirmations for a sample of outstanding derivatives to confirm their existence, the rights and obligations and to test the cut-off.</p> <p>We used PwC experts to independently value a sample of derivatives.</p> <p>We recalculated the expected foreign exchange gain/loss including taking account of unrealised and realised derivative positions and residual balance sheet positions.</p> <p>Based on the work performed, we found that the foreign exchange gain/loss was supported by the evidence we obtained.</p>

Agricultural Bank of China (UK) Limited

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

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.

Agricultural Bank of China (UK) Limited is a private limited company, incorporated in the UK. The Company focuses its operations on UK and continental Europe, with its main activity comprising corporate lending/banking. We performed testing on all material financial statement line items. While the majority of the audit testing was carried out in the UK, we instructed the audit team of the ultimate parent, Agricultural Bank of China Limited, which is domiciled in Beijing, China, to perform testing over IT general computer controls.

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	\$1,113,000
How we determined it	1% of net assets
Rationale for benchmark applied	ABCUK is profit orientated and we would typically calculate materiality as a percentage of profits. However, given the Company's level of profits in 2017 this would result in a materiality inconsistent with the size and nature of the business. We considered other benchmarks and, of these, concluded that using 1% of net assets was most relevant to users of the financial statements, in part because the majority of the assets of the Company will be transferred to Agricultural Bank of China London Branch in 2018.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above \$55,675 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

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.

Agricultural Bank of China (UK) Limited

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

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 2017 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 6, 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

Agricultural Bank of China (UK) Limited

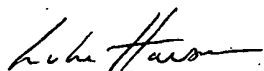
Independent Auditors' Report to the members of Agricultural Bank of China (UK) Limited

- 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 10 October 2013 to audit the financial statements for the year ended 31 December 2013 and subsequent financial periods. The period of total uninterrupted engagement is 5 years, covering the years ended 31 December 2013 to 31 December 2017.



Luke Hanson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors
London

29 March 2018

Agricultural Bank of China (UK) Limited

Statement of Comprehensive Income
For the year ended 31 December 2017

	NOTES	2017 US\$	2016 US\$
Continuing operations			
Interest income		21,215,219	16,206,978
Interest expense		(12,708,863)	(8,278,389)
Net interest income	5	8,506,356	7,928,589
Fee and commission income	6	1,066,340	1,100,719
Net unrealised loss on financial instruments designated at fair value through profit or loss		(1,247,543)	(1,475,215)
Other operating income		466,446	449,570
Net gain on investment securities		-	408,704
Exchange gain/(loss)		2,117,716	(182,286)
Operating income		10,909,315	8,230,081
Operating expenses	7	(10,023,459)	(8,055,714)
Profit before tax		885,856	174,367
Tax expenses	10	(114,453)	(53,961)
PROFIT AFTER TAX	21	771,403	120,406
Other Comprehensive income			
Unrealised gains on available-for-sale Financial instruments		155,682	302,306
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		927,085	422,712

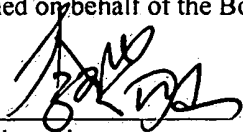
The accompanying notes form an integral part of these financial statements.

Agricultural Bank of China (UK) Limited**Statement of Financial Position****Balance Sheet****As at 31 December 2017**

	NOTES	2017 US\$	2016 US\$
ASSETS			
Cash and cash equivalents		22,630,228	54,853,250
Placements with banks	11	117,483,358	122,993,358
Derivative financial assets	12	20,849,361	4,393,933
Loans and advances to banks	13	15,000,000	305,956,487
Loans and advances to customers	14	630,940,736	448,803,738
Available-for-sale financial instruments	15	268,955,280	190,526,845
Property, plant and equipment	16	312,722	16,159
Other assets	17	3,780,037	5,268,212
TOTAL ASSETS		1,079,951,722	1,132,811,982
LIABILITIES			
Deposits from banks	18	858,776,215	955,291,918
Deposits from other financial institutions and customers		84,434,589	59,739,225
Derivative financial liabilities	12	21,201,304	3,498,333
Other liabilities	19	4,189,209	3,859,186
TOTAL LIABILITIES		968,601,317	1,022,388,662
EQUITY			
Share capital	20	100,000,002	100,000,002
Retained Earnings	21	11,411,381	10,639,978
Available-for-sale reserve		(60,978)	(216,660)
TOTAL EQUITY		111,350,405	110,423,320
TOTAL LIABILITIES AND EQUITY		1,079,951,722	1,132,811,982

The accompanying notes form an integral part of these financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 27 March 2018.
Signed on behalf of the Board of Directors



Ruishan Li
Chief Executive Officer

Company No. 07387225

Agricultural Bank of China (UK) Limited

Statement of Changes in Equity

For the year from 01 January 2017 to 31 December 2017

	NOTE	Share capital US\$	Retained earnings US\$	Available- for-sale reserve US\$	Total Equity US\$
Balance at 1 January 2017		100,000,002	10,639,978	(216,660)	110,423,320
(i) Profit for the year from 1 January to 31 December 2017	21	-	771,403	-	771,403
(ii) Unrealised gains on available-for-sale financial instruments for the year from 1 January to 31 December 2017		-	-	155,682	155,682
Total comprehensive income		-	771,403	155,682	927,085
Balance at 31 December 2017	21	100,000,002	11,411,381	(60,978)	111,350,405

For the year from 01 January 2016 to 31 December 2016

	NOTE	Share capital US\$	Retained earnings US\$	Available- for-sale reserve US\$	Total Equity US\$
Balance at 1 January 2016		100,000,002	10,519,572	(518,966)	110,000,608
(i) Profit for the year from 1 January to 31 December 2016	21	-	120,406	-	120,406
(ii) Unrealised gains on available-for-sale financial instruments for the year from 1 January to 31 December 2016		-	-	302,306	302,306
Total comprehensive income		-	120,406	302,306	422,712
Balance at 31 December 2016	21	100,000,002	10,639,978	(216,660)	110,423,320

The accompanying notes form an integral part of these financial statements.

Agricultural Bank of China (UK) Limited

Statement of Cash Flow

For the year ended 31 December 2017

		2017 US\$	2016 US\$
Operating activities			
Profit for the year before tax		885,856	174,367
Adjustments for:			
Net (gain) on investment securities		-	(408,704)
Depreciation of property and equipment		7,425	135,028
Interest income arising from investment securities		(4,246,715)	(2,835,983)
Other non-cash items including exchange (gain)/loss		1,844,161	2,699,192
Operating cash flows before movements in working capital		(1,509,273)	(236,100)
Net decrease in placement with banks	5,510,000		197,453,725
Net (increase) / decrease in loans and advances to banks	290,956,486		(25,081,296)
Net increase in loans and advances to customers	(182,136,998)		(206,365,336)
Net increase / (decrease) in deposits from banks	(96,515,703)		71,672,254
Net increase in deposits from other financial institutions and customers	24,695,364		42,417,032
(Increase) / decrease in other operating assets	1,488,176		(1,726,972)
Increase in other operating liabilities	326,398		247,919
Net cash flows from operating activities before tax		42,814,450	78,381,226
Tax paid		(70,225)	(567,360)
Net cash flows generated from operating activities		42,744,225	77,813,866

Agricultural Bank of China (UK) Limited**Cash Flow Statement****For the year ended 31 December 2017**

		2017	2016
		US\$	US\$
Cash flows from investing activities			
Cash received from disposal and mature of investments	58,420,000		102,985,642
Cash received from interest income arising from investments	3,914,812		2,645,730
Cash paid for purchase of investments	(136,187,313)		(138,027,200)
Cash paid for purchase tangible assets	(303,988)		(12,361)
Net cash flows generated from investing activities		(74,156,489)	(32,408,189)
Net cash flows after investing activities		(31,412,264)	45,405,677
Net cash flows from financing activities		-	-
Net increase / (decrease) in cash and cash equivalents		(31,412,264)	45,405,677
Cash and cash equivalents at beginning of period		54,853,250	9,775,672
Effect of exchange rate changes on cash and cash equivalents		(810,757)	(328,099)
Cash and cash equivalents at end of year		22,630,229	54,853,250

Agricultural Bank of China (UK) Limited

Notes to the Financial Statements For the year ended 31 December 2017

1. General Information

Agricultural Bank of China (UK) Limited is incorporated as a limited company in Great Britain and registered in England and Wales. The address of the registered office is on page 1. The nature of the Bank's operations, its principal activities, and going concern expectations are set out in the Directors' Report.

2. Adoption of new and revised standards

Standards affecting the reported results and the financial position

For the financial year beginning on or after 1 January 2017, the Bank has not adopted any new or revised standards which had a material impact on the Bank.

Standards in issue but not yet effective

At the date of authorisation of these financial statements, a number of Standards and Interpretations had been issued but were not effective. The impact of these standards is not expected to be significant as described below:

IFRS 9 (Financial Instruments): IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. While it is applicable from 1 January 2018, the impact is expected to be limited because:

- No material changes are expected from applying IFRS 9 classification and measurement, derecognition and hedge accounting guidance.
- The Bank expects to sell its financial assets to ABCLB at their carrying value on an IAS 39 basis (i.e. amortised cost less any incurred losses for impairment). Therefore, while applying the new expected loss impairment requirements under IFRS 9 would likely result in a different impairment figure being recorded, because the financial statements are being prepared on a basis other than going concern, the directors consider it appropriate to continue to account for the financial assets on an IAS 39 basis up to the point they are transferred to ABCLB.

IFRS 15 (Revenue from contracts with customers): The new standard will change guidance over both the measurement and disclosures of Revenue from contracts with customers. The impact on the Bank is not expected to be significant given the majority of revenue recognized is interest, the accounting for which is not directly changing under IFRS 15.

IFRS 16 (Leases): No impact is expected as the Bank is expected to be liquidated prior to the adoption date for IFRS 16.

3. Significant accounting policies

Basis of preparation

The financial statements have been prepared on a non-going concern basis and in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations committee of the IASB (together "IFRS") as adopted by the European Union ("EU").

Agricultural Bank of China (UK) Limited

Notes to the Financial Statements For the year ended 31 December 2017

3. Significant accounting policies (continued)

As the majority of the assets and liabilities will be transferred to the Branch at NBV (Net Book Value), the financial statements have been prepared on the historical cost convention, in compliance with the Companies Act 2006, except for the revaluation of certain financial instruments. The principal accounting policies adopted are set out below.

These financial statements are expressed in US\$ which is the Bank's functional currency.

Accounting year

The Bank has adopted the calendar year as its accounting year, i.e. from 1 January to 31 December.

Going concern

As the assets of the Bank will be transferred to the ABCLB following commencement of the latter's operations and given the intention of the Bank's liquidation, the Board of Directors has concluded that the Bank is no longer a going concern and have prepared the accounts on a basis other than going concern. The majority of the assets and liabilities will be transferred to ABCLB at the amortised cost on the date of transfer, with the exception of derivatives and bond investments, which are already measured at fair value and will be transferred at the fair value at the date of the transfer. No adjustments were necessary in these financial statements to reduce assets to their realisable values or to provide for liabilities arising from the decision.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of sales related taxes. Specific recognition criteria for the different types of revenue are disclosed below.

Interest income and expense for all interest-bearing financial instruments are recognised within "interest income" and "interest expense" in the Statement of Comprehensive Income, using the effective interest method (see page 22).

Fees and commission income is recognised when the service is performed on an accruals basis. For other sundry income categories income is recognised on an accruals basis.

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.

Tangible fixed assets and depreciation

Property, plant and equipment are shown at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Depreciation of these assets is charged to operating expenses. Depreciation is charged so as to write off the cost of these assets, less residual value, over their estimated useful lives, using the straight-line method.

The following rates are used for the depreciation of each category of fixed assets:

Leasehold improvements	5 years
Plant and equipment	3 – 5 years

Agricultural Bank of China (UK) Limited

Notes to the Financial Statements

For the year ended 31 December 2017

3. Significant accounting policies (continued)

The estimated net residual value of a fixed asset is the amount that the Bank has assessed that it would obtain from the disposal of the asset, after deducting the estimated costs of disposal.

Subsequent expenditure incurred on a fixed asset is included in the cost of the fixed asset, only if it is probable that economic benefits associated with the asset will flow to the Bank and the relevant cost can be measured reliably. Other subsequent expenditure that fails to meet the capitalization criteria is charged to profit or loss when incurred.

The Bank reviews the useful life and estimated net residual value of a fixed asset and the depreciation method applied annually at year-end.

When a fixed asset is sold or transferred, the Bank recognises the amount of any proceeds on disposal of the asset net of the carrying amount and related taxes in profit or loss for the current period.

Financial instruments

Financial assets and financial liabilities are recognised in the Bank's balance sheet when the Bank becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or liabilities, respectively, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or liabilities at fair value through profit or loss are recognized immediately in the consolidated income statement.

Financial Assets

Financial assets are classified into the following specified categories: 'fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at fair value through profit or loss

Financial assets at FVTPL have two subcategories — financial assets held for trading and those designated at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of sale in the near future; or
- it forms part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative instrument that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

Agricultural Bank of China (UK) Limited

Notes to the Financial Statements For the year ended 31 December 2017

3. Significant accounting policies (continued)

- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
 - it forms part of a contract containing one or more embedded derivatives, and IAS 39
- Financial Instruments: Recognition and Measurement permit the entire combined contract (asset or liability) to be designated at FVTPL.

Financial assets at FVTPL are recognized initially and subsequently at fair value, with changes in fair value arising from remeasurement recognized directly in the consolidated income statement in the period in which they arise.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments.

Available for sale financial assets ("AFS")

Debt securities issued by governments and listed redeemable notes held by the Bank that are traded in an active market are classified as AFS and are stated at fair value. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in reserves with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the reserves is reclassified to profit or loss.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the balance sheet date. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables including deposits with central banks, deposits and placements with banks and other financial institutions, loans and advances to customers, and debt securities classified as receivables are carried at amortised cost using the effective interest rate method, less any impairment.

Agricultural Bank of China (UK) Limited

Notes to the Financial Statements

For the year ended 31 December 2017

3. Significant accounting policies (continued)

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment. For all other financial assets, including redeemable notes classified as AFS and finance lease receivables, objective evidence of impairment could include:

- a. significant financial difficulty of the issuer or counterparty; or
- b. default or delinquency in interest or principal payments; or
- c. it becomes probable that the borrower will enter bankruptcy or financial re-organisation.

When AFS financial assets become impaired, accumulated losses, due to decreases in fair value previously recognised directly in reserves, are reversed and charged to profit or loss for the current period.

If, in a subsequent period, the carrying amount of financial assets increases and the increase can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment losses are reversed. The reversal of impairment losses of AFS financial instruments are recognised in the statement of comprehensive income.

Impairment losses incurred by the following are not reversed: (1) investments in an unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured; or (2) derivative financial assets linked to, and settled by, delivery of such an unquoted equity instrument which cannot be reliably measured.

Financial liabilities

Financial liabilities are generally classified into financial liabilities at FVTPL and other financial liabilities.

Financial liabilities at FVTPL

Financial liabilities at FVTPL have two subcategories, financial liabilities held for trading and those designated as at FVTPL on initial recognition. The criteria for a financial liability to be classified as held for trading or designated as at FVTPL are the same as those for a financial asset to be classified as held for trading or designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with changes in fair value arising on re-measurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any interest paid on the financial liabilities.

Derivatives

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured at their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately.

Agricultural Bank of China (UK) Limited

Notes to the Financial Statements

For the year ended 31 December 2017

3. Significant accounting policies (continued)

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their characteristics and risks are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss. These embedded derivatives are separately accounted for at fair value, with changes in fair value recognised in profit or loss.

Other financial liabilities

Other financial liabilities are initially recognized at fair value and are subsequently measured at amortised cost, using the effective interest rate method.

Derecognition of financial assets

The Bank derecognises a financial asset only when the contractual rights to the cash flows from the asset expire or when it transfers the financial asset and substantially all of the risks and rewards of ownership to another entity.

Cash and cash equivalents

Cash and cash equivalents comprise cash and demand deposits with banks, together with short-term highly liquid investments that are readily convertible to known amounts of cash and subject to insignificant risk of change in value.

Current and deferred tax

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

Current tax

The tax payable is based on taxable profit or loss for the year. Taxable profit differs from net profit or loss as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Agricultural Bank of China (UK) Limited

Notes to the Financial Statements For the year ended 31 December 2017

3. Significant accounting policies (continued)

Operating leases

Operating lease rentals are charged to the Statement of Comprehensive Income over the lease period. Leases are expected to be transferred to ABCLB on the transfer of business in 2018 and therefore no onerous leases arise as a result of the preparation of the financial statements on a basis other than going concern.

Pensions

Payments to the Bank's defined contribution pension scheme are charged to the profit and loss account as they become payable. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Foreign currency

On initial recognition, foreign currency (currencies other than US Dollars) transactions are translated by applying the spot exchange rate at the dates of the transactions or an exchange rate that approximates the actual spot exchange rate at the dates of the transactions, which is calculated at the average of daily exchange rate in the period.

At the balance sheet date, foreign currency monetary items are translated to US Dollars using the spot exchange rate at that date. Exchange differences arising from the differences between the spot exchange rate prevailing at the balance sheet date and those spot rates used on initial recognition or at the previous balance sheet date are recognised in Statement of Comprehensive Income for the current period.

Foreign currency non-monetary items carried at historical cost continue to be measured at the amounts in functional currency translated using the spot exchange rates at the dates of the transactions; foreign currency non-monetary items carried at fair value are translated using the spot exchange rates at the date when the fair value was determined. Differences between the translated amount and the original amount of functional currency are accounted for as changes in fair value (including changes in foreign exchange rates) and included in profit or loss for the period or owners' equity.

4 Critical accounting judgements and key sources of estimation uncertainty:

In the application of the Bank's accounting policies, which are described in note 3, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily available from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant and are reviewed on a basis other than going concern

Key accounting estimates are around valuation of derivative instruments and impairment assessments. However, the level of judgment inherent in these estimates was relatively limited given the derivatives are vanilla instruments and there were no impairments in the current year.

Agricultural Bank of China (UK) Limited

Notes to the Financial Statements

For the year ended 31 December 2017

5 Net interest income

	2017	2016
	US\$	US\$
Interest income		
Loans and advances to customers and banks	14,989,466	8,854,902
Placement with banks	1,979,038	4,516,093
Available for sale securities	4,246,715	2,835,983
	<u>21,215,219</u>	<u>16,206,978</u>
Interest expense		
Deposits from banks	(12,312,172)	(8,245,568)
Deposits from customers	(396,691)	(32,821)
	<u>8,506,356</u>	<u>7,928,589</u>

6 Net fee and commission income

	2017	2016
	US\$	US\$
Credit related fees	1,064,074	1,099,198
Others	2,266	1,521
	<u>1,066,340</u>	<u>1,100,719</u>

7 Operating expenses

	2017	2016
	US\$	US\$
Staff cost		
Wages and salaries (including Directors' emoluments)	5,867,539	4,669,211
Social security costs	749,376	598,362
Other pension costs	264,505	199,001
Other staff costs	318,664	369,381
	<u>7,200,084</u>	<u>5,835,955</u>
Other operating expenses		
Administration and general expenses	2,249,167	1,510,720
Operating leases	457,275	469,278
Depreciation	7,425	135,026
Auditors' remunerations (Note 9)	109,508	104,735
	<u>10,023,459</u>	<u>8,055,714</u>

The number of employees as at 31 December 2017 was 40 (2016: 35).

Agricultural Bank of China (UK) Limited

Notes to the Financial Statements

For the year ended 31 December 2017

8 Directors' emoluments

	2017	2016
	US\$	US\$
Directors' emoluments included in wages and salaries (in note 7), above	<u>909,476</u>	<u>1,077,767</u>
Highest paid director – Emoluments	<u>429,029</u>	<u>435,526</u>

Further details of directors' emoluments are provided in note 25.

9 Auditor's remuneration

	2017	2016
	US\$	US\$
Statutory audit of Bank's financial statements	109,508	67,817
Other consultancy services to Bank	-	36,918
Total	<u>109,508</u>	<u>104,735</u>

10 Tax expenses

a) Analysis of tax charge in the period	2017	2016
	US\$	US\$
Current year corporation tax	<u>114,453</u>	<u>53,961</u>
Total current year tax charge	<u>114,453</u>	<u>53,961</u>

b) Factors affecting tax charge for the period	2017	2016
	US\$	US\$
Profit on ordinary activities before tax	<u>885,856</u>	<u>174,367</u>
Tax at 19.25%	<u>170,527</u>	<u>34,873</u>
Effects of:		
Expense not deductible for tax purposes	9,734	6,963
Deferred tax not recognised	(28,253)	(16,907)
Other adjustments	(37,555)	29,031
Total current tax charge for the period	<u>114,453</u>	<u>53,961</u>

There were no material deferred tax assets recognised at 31 December 2017 or 2016.

Agricultural Bank of China (UK) Limited

Notes to the Financial Statements

For the year ended 31 December 2017

11 Placements with banks	2017	2016
	US\$	US\$
Non -UK banks	117,483,358	119,043,358
UK banks	-	3,950,000
	<u>117,483,358</u>	<u>122,993,358</u>
12 Derivative financial assets (liabilities)		
	2017	2016
	Fair Value	Fair Value
	Assets	Assets
	US\$	US\$
Exchange rate derivatives		
Foreign currency forwards	-	3,308,741
Foreign currency Swaps	(19,867,848)	-
	<u>20,849,361</u>	<u>1,085,192</u>
Total derivatives financial assets (liabilities)	<u>20,849,361</u>	<u>(3,498,333)</u>
	<u>(1,333,456)</u>	<u>4,393,933</u>
	<u>(21,201,304)</u>	<u>(3,498,333)</u>
13 Loans and advances to banks	2017	2016
	US\$	US\$
Loans to Parent Bank's branches (Note 25)	15,000,000	305,956,487
	<u>15,000,000</u>	<u>305,956,487</u>
14 Loans and advances to customers	2017	2016
	US\$	US\$
Corporate loans	223,221,313	129,892,090
Syndicate loans	407,719,423	318,911,648
	<u>630,940,736</u>	<u>448,803,738</u>
15 Available-for-sale financial instruments	2017	2016
	US\$	US\$
Debt Securities		
Bonds	79,766,133	59,144,550
Floating Rate Notes (FRNs)	189,189,147	131,382,295
	<u>268,955,280</u>	<u>190,526,845</u>

Agricultural Bank of China (UK) Limited

Notes to the Financial Statements

For the year ended 31 December 2017

16 Tangible fixed assets

	Leasehold improvements US\$	Plant and equipment US\$	Total US\$
Cost			
As at 01 January 2017	1,332,299	1,652,803	2,985,102
Additions	-	303,991	303,991
As at 31 December 2017	<u>1,332,299</u>	<u>1,956,794</u>	<u>3,289,093</u>
Accumulated depreciation			
As at 01 January 2017	1,332,299	1,636,644	2,968,943
Charge for the period	-	7,428	7,428
As at 31 December 2017	<u>1,332,299</u>	<u>1,644,072</u>	<u>2,976,373</u>
Net book value			
As at 31 December 2017	<u>-</u>	<u>312,722</u>	<u>312,722</u>
As at 31 December 2016	<u>-</u>	<u>16,159</u>	<u>16,159</u>

17 Other assets

	2017 US\$	2016 US\$
Accrued interest receivable	2,160,137	4,039,623
Rental deposits	690,047	625,153
Other receivables	645,242	344,818
Prepayment	261,389	235,377
Others	23,222	23,241
	<u>3,780,037</u>	<u>5,268,212</u>

As at 31 December 2017, the Bank has other assets of US\$690,047 (2016: US\$625,153) that would normally be considered non-current. However, these are expected to be transferred to ABCLB at par during 2018.

18 Deposits from banks

	2017 US\$	2016 US\$
Deposit from parent company (Note 25)	520,000,000	592,271,928
Deposits from other banks	338,776,215	363,019,990
Total	<u>858,776,215</u>	<u>955,291,918</u>

Agricultural Bank of China (UK) Limited

Notes to the Financial Statements

For the year ended 31 December 2017

19 Other liabilities

	2017 US\$	2016 US\$
Accrual interest payable	1,007,911	975,614
Accrued expenses	1,311,478	1,253,115
Other taxes and social security cost	472,897	307,650
Tax payable	131,067	86,730
Other liabilities	1,265,856	1,236,077
	<u>4,189,209</u>	<u>3,859,186</u>

As at 31 December 2017, the Bank has non-current other liabilities of Nil (2016: US\$ nil).

20 Share capital

The Bank's authorised share capital is £1 divided into 1 share of £1 and US\$100,000,000 divided into 100,000,000 shares of US\$1.

As at 31 December 2017 and 2016, the Bank had issued and fully paid-up share capital amounting to US\$100,000,002. Both classes of shares rank pari passu.

21 Retained earnings

	2017 US\$	2016 US\$
As at 1 January	10,639,978	10,519,572
Net profit	771,403	120,406
As at 31 December	<u>11,411,381</u>	<u>10,639,978</u>

22 Contingencies & Commitments

(a) Operating lease commitments:

At the balance sheet date, the Bank had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2017 US\$	2016 US\$
Within one year	579,492	517,304
In the second to fifth years inclusive	2,317,967	2,069,217
After five years	1,803,569	2,127,325
	<u>4,701,028</u>	<u>4,713,846</u>

The Bank expects to transfer these leases to ABCLB as part of the transfer of business in 2018, therefore the expectation is that all lease commitments will be discharged during 2018.

Agricultural Bank of China (UK) Limited

Notes to the Financial Statements

For the year ended 31 December 2017

(b) Credit Commitments

	2017 US\$	2016 US\$
(i) Credit facilities:		
Undrawn credit facilities	<u>53,602,633</u>	<u>36,579,627</u>
(ii) Risk Participations		
Risk participation	<u>13,203,850</u>	<u>11,607,750</u>

Contingent liabilities and commitments to extend credit are mainly credit exposures which represent the amounts at risk should contracts be fully drawn upon and clients default. Since a significant portion of contingent exposures and commitments are expected to expire without being drawn fully upon or be covered by cash lien, the total of the contractual amounts is not representative of future liquidity requirements.

23 Risk management

The key risks that Agricultural Bank of China (UK) Limited faces in its operations are Financial (Credit, Market, and Liquidity), Compliance, Operational and Conduct Risk. These risks are evaluated and highlighted in the bank's risk management framework. Senior management, in reporting to the Board, is responsible for the day to day management of the Bank's balance sheet.

The Bank's risk management framework is embedded in the Bank through the "Three Lines of Defence" model, which defines the responsibilities and accountabilities for monitoring and complying with the policies and procedures. The first line of defence functions are responsible for the day to day management of inherent risks in their businesses. The second line of defence provides independent oversight to ensure and provide necessary support to confirm that the first line is operating within the Bank's risk appetite and are in compliance with the regulatory requirements. The audit function represents the third line of defence which provides independent assurance over the adequacy and effectiveness of risk control across the Bank.

In its sixth year of business operations, the Bank continued to strengthen its risk infrastructure. Risk policies including the risk framework and risk appetite were regularly reviewed and updated to incorporate the latest risk strategies set out by the Board. Risk exposure is monitored against approved risk appetite, both quantitative and qualitative, supported by appropriate early warning indicators and escalation processes under the Three Lines of Defence.

As required by the Prudential Regulation Authority (PRA), the Bank has in place both the Internal Capital Adequacy Assessment Process (ICAAP) and the Individual Liquidity Adequacy Assessment Processes (ILAAP) documents. Under the guidelines provided in these documents, the Bank has monitored its liquidity and capital positions throughout the year, performing internal assessments through stress testing on liquidity and capital requirements. The ICAAP and ILAAP are updated regularly.

Liquidity risk

The Bank defines liquidity risk as the risk that it is unable to meet its obligations as they fall due. As it does not intend to apply for any liquidity modifications, the Bank intends to meet the PRA's requirements of overall liquidity adequacy.

Agricultural Bank of China (UK) Limited

Notes to the Financial Statements

For the year ended 31 December 2017

23 Risk management (continued)

The Bank has two major sources of funding, intercompany loans from its Parent Bank and interbank deposits taken both from the local market and from the other banks in China. The intercompany loans from Parent Bank are repayable on 180 days' notice but these are not expected to be called in the foreseeable future. This provides the Bank with a solid foundation for its liquidity needs.

The Bank manages liquidity risk by holding unencumbered HQLA (High Quality Liquid Assets, e.g. cash, US Treasury bonds and marketable securities) to cover total net cash outflows over a 30-day period under stress scenarios.

The Bank has a governance structure that ensures that its liquidity position is kept under close review, principally under the Assets and Liabilities Committee. It has put in place a series of quantitative limits to define its risk appetite. Liquidity stress testing is periodically carried out to ensure there are sufficient resources to meet its obligations as they fall due. The Bank has also developed a Contingency Funding Plan which could be activated if its liquidity position deteriorated.

The following is the maturity analysis for financial assets and liabilities held by the Bank as of 31 December 2017. This has been prepared based on contractual maturities and does not take account of the planned transfer of business to ABCLB during 2018.

Maturity analysis (contractual basis)

	31/12/2017					
	Within 1 month	1-3 months	3 months-1 year	1-5 years	over 5 years	Non-defined
	(USD)					
Assets						
Cash and cash equivalents	22,630,228	-	-	-	-	22,630,228
Placements with banks	-	-	117,483,358	-	-	117,483,358
Derivative financial assets	20,849,361	-	-	-	-	20,849,361
Loans and advances to banks	-	15,000,000	-	-	-	15,000,000
Loans and advances to customers	99,071,429	20,547,744	94,965,323	416,356,240	-	630,940,736
Available-for-sale financial instruments	11,000,000	30,055,000	82,542,877	145,357,402	-	268,955,279
Other financial assets	-	2,140,976	1,639,061	-	-	3,780,037
Financial assets total	153,551,018	67,743,720	296,630,619	561,713,642	-	1,079,638,999
Liabilities						
Deposits from banks	75,479,565	84,007,000	699,289,650	-	-	858,776,215
Deposits from other financial institutions and customers	7,356,080	27,732,334	49,346,175	-	-	84,434,589
Derivative financial liabilities	21,201,304	-	-	-	-	21,201,304
Other financial liabilities	275,325	-	2,218,247	-	-	1,695,637
Financial liabilities total	104,312,274	111,739,334	750,854,072	-	-	968,601,317
Net	49,238,744	(43,995,614)	(454,223,453)	561,713,642	-	(1,695,637)

Agricultural Bank of China (UK) Limited

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For the year ended 31 December 2017

23 Risk management (continued)

	31/12/2016						
	Within 1 month	1-3 months	3 months-1 year	1-5 years	over 5 years	Non-defined	Total
	(USD)						
Assets							
Cash and cash equivalents	54,853,250	-	-	-	-	-	54,853,250
Placements with banks	5,510,000	-	-	117,483,358	-	-	122,993,358
Derivative financial assets	4,393,933	-	-	-	-	-	4,393,933
Loans and advances to banks	133,029,925	58,755,953	114,170,609	-	-	-	305,956,487
Loans and advances to customers	45,162,084	-	-	403,641,654	-	-	448,803,738
Available-for-sale financial instruments	-	15,000,000	28,420,000	147,106,845	-	-	190,526,845
Other financial assets	-	3,925,600	520,872	-	-	196,835	4,643,307
Financial assets total	242,949,192	77,681,553	143,111,481	668,231,857	-	196,835	1,132,170,918
Liabilities							
Deposits from banks	45,276,777	75,552,500	753,070,551	81,392,090	-	-	955,291,918
Deposits from other financial institutions and customers	59,113,770	625,455	-	-	-	-	59,739,225
Derivative financial liabilities	3,498,333	-	-	-	-	-	3,498,333
Other financial liabilities	12,849	-	1,863,648	-	-	382,119	2,258,616
Financial liabilities total	107,901,729	76,177,955	754,934,199	81,392,090	-	382,119	1,020,788,092
Net	135,047,463	1,503,598	(611,822,718)	586,839,767	-	(185,284)	111,382,826

The table below analyses the Bank's financial liabilities into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows and therefore include accrued interest. This has been prepared based on contractual cash flows and does not take account of the planned transfer of business to ABCLB during 2018.

Maturity analysis (cash flow basis)

	31/12/2017						
	Within 1 month	1-3 months	3 months-1 year	1-5 years	over 5 years	Non-defined	Total
	(USD)						
Liabilities							
Deposits from banks	75,507,379	84,981,679	711,658,490	-	-	-	872,147,548
Deposits from other financial institutions and customers	7,536,464	27,788,466	49,622,682	-	-	-	84,947,612
Derivative financial liabilities	21,201,304	-	-	-	-	-	21,201,304
Other financial liabilities	275,325	-	2,218,247	-	-	1,695,637	4,189,209
Financial liabilities total	104,520,472	112,770,145	763,499,419	-	-	1,695,637	982,485,673

	31/12/2016						
	Within 1 month	1-3 months	3 months-1 year	1-5 years	over 5 years	Non-defined	Total
	(USD)						
Liabilities							
Deposits from banks	45,300,778	76,082,154	759,723,295	82,139,283	-	-	963,245,510
Deposits from other financial institutions and customers	59,114,031	626,175	-	-	-	-	59,740,206
Derivative financial liabilities	3,498,333	-	-	-	-	-	3,498,333
Other financial liabilities	12,849	-	1,863,648	-	-	382,119	2,258,615
Financial liabilities total	107,925,991	76,708,329	761,586,943	82,139,283	-	382,119	1,028,742,664

Credit risk

Credit Risk is the risk of financial loss to the Bank if any of its customers, clients or market counterparties fail to fulfil their contractual obligations and it principally arises from the Bank's loans and advances to customers and available for sale financial investments.

Agricultural Bank of China (UK) Limited

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For the year ended 31 December 2017

23 Risk management (continued)

Credit Risk Management Framework:

The Bank's board has the highest credit approval authority for the Bank and the board has delegated its authority to the CEO of the Bank. The Credit Committee as a Sub-Committee of the Executive Committee approves and sets credit limits for individual counterparties / Financial Institutions.

The Bank has established a set of credit risk management policies and procedures and credit risk limits to manage and control credit risks that arise from the Bank's normal business activities. It also includes setting limits for Industry, Large Exposures and Country risk. These policies, procedures and limits are monitored and regularly reviewed in light of changes in market situations and business strategy.

Counterparty credit risk is assessed based on qualitative and quantitative analysis as articulated in the credit risk management policies and procedures. Credit analysis is performed on all new and existing exposures in order to assess the ability of counterparties to repay their obligations to the Bank.

Maximum exposure to Credit Risk:

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

	2017	2016
	USD	USD
Cash and cash equivalents	22,630,229	54,853,250
Placements with banks	117,483,358	122,993,358
Derivative financial assets	20,849,361	4,393,933
Loans and advances to banks	15,000,000	305,956,487
Loans and advances to customers	630,940,737	448,803,738
Available-for-sale financial instruments	268,955,279	190,526,845
Other financial assets	3,780,037	4,643,307
Total On Balance Sheet Financial Assets	1,079,639,001	1,132,170,918
Loan Commitments	53,602,633	36,579,627
Risk Participation	13,203,850	11,607,750
Total Off Balance Sheet Financial Assets	66,806,483	48,187,377
Total Exposure	1,146,445,484	1,180,358,295

The carrying amount of the financial assets are neither past due nor impaired at 31 December 2017 and 2016.

Market risk

Market risk is the risk that changes in the level of interest rates, foreign exchange rates or the price of securities and other financial contracts could have an adverse impact on the Bank. A primary example is fluctuations in currency value which results in fluctuations in the Bank's income statement positions.

The Bank manages its market risk by taking broadly equal and opposite derivative positions in the market. This will not necessarily be done by matching individual trades, but by matching overall long and short portfolio positions. However, there may necessarily be some areas where the Bank will inevitably take market risk where precise hedging is not possible. Hedge accounting under IAS 39 is not applied.

Agricultural Bank of China (UK) Limited

Notes to the Financial Statements

For the year ended 31 December 2017

23 Risk management (continued)

Market risk is managed through various thresholds relating to foreign exchange and interest rate risk. In addition, the Bank also has limits on the notional amount of net open positions, the dollar value of a basis point change (DV01), and stop loss limits. These risk factors are monitored daily.

Exchange rate risk

The Bank incurs foreign exchange rate risk primarily as a natural result of mismatches between its functional currency (US\$) and the currencies in which it transacts. It also incurs some risk through the execution of client derivative orders. The Bank manages the exchange rate risks mainly by spot exchange, forward and swap exchange transactions.

The following table summarises the Bank's foreign exchange exposures:

	2017	2016
	USD	USD
CNY	75,802	5,209,313
EUR	(240,045)	790,645
GBP	(887,233)	299,698
HKD	2,788	1,335
JPY	20,453	63,578
SEK	3,789	3,447

The major foreign exchange exposure changes were in CNY from \$5.2m to \$76k, this change reflected management's strategy around sustainability of its balance sheet and associated returns. The largest FX positions as at 31 Dec 2017 was in GBP at -\$887k.

The following table illustrates the foreign exchange risk the Bank is exposed to by demonstrating the impact on profit and loss of an exchange rate fluctuation of +/-5% before the mitigating impact of the bank's hedging activities.

	2017		2016	
	USD		USD	
	5%	-5%	5%	-5%
CNY	3,790	(3,790)	260,466	(260,466)
EUR	(12,002)	12,002	39,532	(39,532)
GBP	(44,362)	44,362	14,985	(14,985)
HKD	139	(139)	67	(67)
JPY	1,023	(1,023)	3,179	(3,179)
SEK	189	(189)	172	(172)

As at 31 December 2017, the effect on the Other Comprehensive Income of CNY depreciating 5% against USD would be \$1,112,859 loss (31 December 2016: \$322,821 loss).

Agricultural Bank of China (UK) Limited

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23 Risk management (continued)

Interest rate sensitivity analysis

The following sensitivity analysis is based on the interest rate gap between the interest bearing assets and interest bearing liabilities as of the balance sheet date. An upward and downward movement of 200 basis points is used by management in evaluating the possible changes in interest rates and the corresponding interest rate risks.

The following table illustrates the impact of a movement in the yield curve by +/- 200 basis points on the shareholder's net interest income and other comprehensive income of the Bank, based on the structure of assets and liabilities on the balance sheet date. The table below demonstrates hypothetical and symmetrical impact on the income due to the yield curve movement on either side by 200 basis points. This is a simplified analysis as it extrapolates current pricing and does not anticipate non-symmetrical impacts (for example the impact of a 200 basis point move to a negative interest rate position would in practice likely differ from an equivalent increase).

	Effect on Income Statement		Effect on OCI	
	2017	2016	2017	2016 (restated)
	USD	USD	USD	USD
Increase (+) by 200 basis	2,220,035	2,161,342	(1,359,207)	(1,016,745)
Decrease (-) by 200 basis	(2,220,035)	(2,161,342)	1,395,441	1,044,240

*2016 restated for calculation error.

Interest rate movements affect reported equity in the following ways:

- (i) Profit and loss arising from net interest income increases or decreases; and
- (ii) Other comprehensive income arising from increases or decreases in fair value reserves of available for sale financial instruments.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition, which is based on the underlying causes of operational risk, includes legal risk, but excludes strategic and reputational risk.

Operational risk is inherent in all banking products, activities, processes and systems. The primary operational risk arises from the potential for core banking system breakdown and the need for the rapid recovery of operational data. Other operational risks include front and back office errors, fraud, breaches in internal controls, and external events which would result in financial loss or reputational damage.

The effective management of operational risk is a fundamental element of the Bank's risk management. The Bank manages these risks through appropriate risk controls and loss mitigation actions. These actions include a balance of policies, procedures, internal control, contractual business continuity arrangements, training, and risk monitoring and reporting. The Risk Management Department conducts operational risk assessments periodically and the assessment results are reported to management. Operational Risk and Incident Log recording is an on-going process. The recording system is implemented with a RAG traffic light system to assess and highlight various levels of risk of an incident. High risk incident records are completed with detailed investigation, impacts assessment and mitigation planning.

Agricultural Bank of China (UK) Limited

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23 Risk management (continued)

Conduct Risk

Conduct Risk is the risk that business strategy, operations or conduct of a firm may produce poor outcomes for customers, resulting in fines, redress costs, and/or damage awards arising from regulatory intervention, or other internally driven remediation expenses.

Compliance Risk

Compliance risk is the risk that a change in laws and regulations applicable to the Bank will materially impact a security, business, sector or market; failure to meet exiting Rules and Guidance; or that ABCUK fails to implement necessary changes in the required timeframe to meet new requirements. It could also arise from a change in laws or regulations made by the government or a regulatory body increasing the costs of operating the Bank or change the competitive landscape in a way to disadvantage the Bank.

Capital management

The Bank's policy is to maintain an actively managed capital base to cover potential and inherent risks in its business activities. The adequacy of capital is ascertained and monitored according to the requirements set out in the Capital Requirements Regulations CRDIV (EU Regulation (EU) No 575/2013 & Directive 2013/36/EU and adopted by the Prudential Regulation Authority (PRA). The primary objective of the Bank's capital management is to ensure the Bank's capital adequacy as per the regulatory capital requirements which is laid out in the Bank's Internal Capital Adequacy Assessment Process ("ICAAP") document.

The ICAAP has been structured to evidence the on-going processes established to ensure existing and new risks to the Bank's corporate objectives and operations are promptly identified and the impact assessed to ensure the Bank has sufficient capital to meet these risks. The document sets out the framework for ABCUK's internal governance, and the operations of the risk and capital management arrangements. The ICAAP is an important management process for the Bank's capital management and is embedded in all material business decisions.

As at 31 December 2017, the Bank's Core Equity Tier 1 (CET1) amounted to \$111.41m (2016: \$110.64m).

24 Fair value of financial instruments

The carrying amounts of financial assets and financial liabilities are recorded at amortised cost in the financial statements.

The following table provides an analysis of financial instruments grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from 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); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Agricultural Bank of China (UK) Limited

Notes to the Financial Statements

For the year ended 31 December 2017

24 Fair value of financial instruments (continued)

(a) Financial instruments not measured at fair value

2017					
At 31 December 2017	Carrying value	Fair value	Level 1	Level 2	Level 3
	USD	USD	USD	USD	USD
Placements with banks	117,483,358	117,483,358	-	117,483,358	-
Loans and advances to banks	15,000,000	15,000,000	-	15,000,000	-
Loans and advances to customers	630,940,736	630,940,736	-	630,940,736	-
Deposits from banks	858,776,215	858,776,215	-	858,776,215	-
Deposits from Other financial institutions and customers	84,434,589	84,434,589	-	84,434,589	-

2016					
At 31 December 2016	Carrying value	Fair value	Level 1	Level 2	Level 3
	USD	USD	USD	USD	USD
Placements with banks	122,993,358	122,993,358	-	122,993,358	-
Loans and advances to banks	305,956,487	305,956,487	-	305,956,487	-
Loans and advances to customers	448,803,738	450,073,453	-	450,073,453	-
Deposits from banks	955,291,918	956,573,561	-	956,573,561	-
Deposits from Other financial institutions and customers	59,739,225	59,739,225	-	59,739,225	-

The fair values of placements with banks, loans and advances to banks and deposits from other financial institutions and customers are approximated by their carrying value. For loans and advances to customers and deposits from banks, the fair values are estimated using discounted cash flows, applying current rates offered for loans and deposits of similar remaining maturities.

(b) Financial instruments measured at fair value

At 31 December 2017	Fair value		
	USD		
	Level 1	Level 2	Level 3
Derivative financial assets	-	20,849,361	-
Available-for-sale financial investments	268,955,280	-	-
Derivative financial liabilities	-	21,201,304	-

At 31 December 2016	Fair value		
	USD		
	Level 1	Level 2	Level 3
Derivative financial assets	-	4,393,933	-
Available-for-sale financial investments	190,526,845	-	-
Derivative financial liabilities	-	3,498,333	-

Agricultural Bank of China (UK) Limited

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25 Related party transactions

(a) Parent and ultimate controlling party

Agricultural Bank of China (UK) Limited's ultimate holding company, ultimate controlling party, and the parent of group into which the Bank is consolidated is Agricultural Bank of China Limited which is registered in People's Republic of China. Copies of its group financial statements can be obtained from:

Agricultural Bank of China Limited
69 Jianguomen Nei Avenue
Dongcheng District
Beijing
People's Republic of China

The Bank has provided loans and advances to Parent Bank branches with a total amount outstanding at 31 December 2017 of US\$15,000,000 (2016: US\$305,956,487) and interest income received for the year was US\$1,929,905 (2016: US\$4,294,545).

Agricultural Bank of China Limited has provided funding to the Bank. The amount outstanding as at 31 December 2017 was US\$520,000,000 (2016: US\$592,271,928) and the interest expense for the year was US\$6,785,825 (2016: US\$4,572,819). Agricultural Bank of China Limited was owed interest of USD\$233,708 (2016: US\$308,133) at the year end.

The Bank has outstanding derivative transactions with Parent Bank branches. As at 31 December 2017, the derivative financial assets balance was nil (2016: US\$4,392,009) and the derivative financial liabilities balance was 20,623,034.99 (2016: nil).

The Bank has provided agency services in relation to 24 hour Forex and metal trading business on behalf of the Parent Bank. The Bank has earned agency fees amounting to \$466,446 (2016: \$449,570) for 2017. This is recorded within other operating income.

The Bank's Directors received pension and social insurance benefits of \$25,218 (2016: \$27,733) of which the highest paid director received \$12,609 (2016: \$10,887). These amounts were paid by the Parent Bank and not recharged to the Company.

(b) Key management compensation

Key management is comprised of the directors of the Bank.

Key management personnel compensation for the year ended 31 December 2017 comprised of salaries and other short term benefits in the amount of US\$909,476 (2016: US\$1,077,767).

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

26 Events after the balance sheet date

There have been no significant events between the year end and the date of approval of these financial statements which would require a change to or disclosure in the financial statements.