中信银行(国际)
CHINA CITIC BANK INTERNATIONAL

你首选的中资银行
The China Bank of Choice

2013 年財務報表
Financial Statements 2013

中信銀行(國際) 2013 年年報之印刷本將於 2014 年 4 月下旬取代此版本。
The printed version of CNCBI's Annual Report 2013 will replace this version in late April 2014.

REPORT OF THE DIRECTORS

The Directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2013.

Principal place of business

China CITIC Bank International Limited ("the Bank") is a licensed bank incorporated and domiciled in Hong Kong and has its registered office at 61-65 Des Voeux Road Central, Hong Kong. The Bank has branches outside Hong Kong and operating in Macau, Shanghai, the Cayman Islands, Singapore, New York and Los Angeles.

Principal activities

The principal activities of the Bank and its subsidiaries ("the Group") are the provision of general banking and related financial services primarily in Hong Kong. Particulars of the Bank's principal subsidiaries at 31 December 2013 are set out in note 25 to the financial statements.

Financial statements

The profit of the Group for the year ended 31 December 2013 and the state of the Bank's and the Group's affairs at that date are set out in the financial statements on pages 5 to 114.

Dividends

The Directors do not recommend the payment of any dividend for the year ended 31 December 2013 (2012: Nil).

Property and equipment

Movements in property and equipment are set out in note 26 to the financial statements.

Reserves

Profit attributable to shareholders before dividends of HK$2,135,481,000 (2012: HK$1,556,558,000) has been transferred to reserves. Other movements in the reserves are set out in the consolidated statement of changes in equity.

Share capital

Details of the movements in share capital of the Bank during the year are set out in note 36 to the financial statements.

Directors

As at the date of this report, the Board of Directors of the Bank comprises:

Chairman
Dr Chen Xiaoxian

Executive Directors
Mr Zhang Xiaowei *(President and Chief Executive Officer)*
Ms Margaret Man *(Deputy Chief Executive Officer)*
Mrs Kan Ng Chau Yuk Helen *(Alternate Chief Executive Officer) (appointed on 15 March 2013)*

Non-executive Directors
Mr Jaime Pablo Azcoiti Leyva *(appointed on 13 November 2013)*
Mr Cao Guoqiang
Mr Patrick Georges Gillot
Mr Ju Weimin
Mr Sun Deshun *(appointed on 15 March 2013)*
Mr Gonzalo Torano
Mr Zhang Qiang *(appointed on 15 April 2013)*

Independent Non-executive Directors
Mr Rafael Gil-Tienda
Mr Lam Kwong Siu
Mr Tang Shisheng *(appointed on 13 November 2013)*
Mr Tsang Yiu Keung Paul
Mr Wu Jiesi *(appointed on 5 August 2013)*
Ms Yin Fenglan *(appointed on 5 August 2013)*

During the year ended 31 December 2013 and up to the date of the report, the following persons have resigned as Directors of the Bank:

Mr Jose Barreiro *(resigned on 1 January 2013)*
Mr Kong Dan *(resigned on 15 March 2013)*
Mr Chang Zhenming *(resigned on 15 March 2013)*
Mr Zhao Shengbiao *(resigned on 15 March 2013)*
Mr Peter Warbanoff *(appointed on 1 January 2013 and resigned on 7 October 2013)*
Mr Cao Tong *(resigned on 22 November 2013)*

In accordance with Article 97 of the Bank's Articles of Association, all present Directors shall retire at the next Annual General Meeting and, being eligible, offer themselves for re-election.

Directors' interests

At no time during the year was the Bank, or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors of the Bank to acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate.

No contract of significance to which the Bank, or any of its holding companies, subsidiaries or fellow subsidiaries was a party, and in which a Director of the Bank had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Compliance with Banking (Disclosure) Rules

The financial statements for the year ended 31 December 2013 comply fully with the applicable disclosure provisions of the Banking (Disclosure) Rules.

Auditors

KPMG retires and, being eligible, offers itself for re-appointment. A resolution for the re-appointment of KPMG as the auditor of the Bank is to be proposed at the forthcoming Annual General Meeting.

On behalf of the Board

Chen Xiaoxian
Chairman

Hong Kong, 26 March 2014

INDEPENDENT AUDITOR'S REPORT

Independent Auditor's Report to the Shareholders of
China CITIC Bank International Limited
(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of China CITIC Bank International Limited ("the Bank") and its subsidiaries (together "the Group") set out on pages 5 to 114, which comprise the consolidated and the Bank statements of financial position as at 31 December 2013, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The directors of the Bank are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting polices used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Bank and of the Group as at 31 December 2013 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

26 March 2014

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2013

(Expressed in Hong Kong dollars)

	Note	2013 HK$'000	2012 HK$'000
Interest income	4(a)	**5,664,037**	4,847,356
Interest expense	4(b)	**(2,333,080)**	(2,508,545)
Net interest income		**3,330,957**	2,338,811
Fee and commission income		**733,683**	678,005
Fee and commission expense		**(38,144)**	(37,839)
Net fee and commission income	5	**695,539**	640,166
Net trading income	6	**665,324**	718,456
Net gain from financial instruments designated at fair value through profit or loss	7	**3,017**	5,272
Net hedging gain	8	**1,970**	503
Net gain/(loss) on disposal of available-for-sale securities	9	**12,324**	(27,523)
Other operating income	10	**38,116**	39,802
Operating income		**4,747,247**	3,715,487
Operating expenses	11	**(2,089,057)**	(1,808,312)
Operating profit before impairment		**2,658,190**	1,907,175
Impairment losses on loans and advances and other accounts	13	**(84,356)**	(91,216)
Impairment losses on available-for-sale securities	23	**(35,590)**	–
Impairment losses		**(119,946)**	(91,216)
Operating profit		**2,538,244**	1,815,959
Net gain/(loss) on disposal of property and equipment		**13,936**	(745)
Revaluation gain on investment properties	26(a)	**2,174**	50,746
Profit before taxation		**2,554,354**	1,865,960
Income tax	14	**(418,873)**	(309,402)
Profit for the year		**2,135,481**	1,556,558
Attributable to equity shareholders of the Bank	15	**2,135,481**	1,556,558

The notes on pages 12 to 114 form part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

(Expressed in Hong Kong dollars)

	Note	2013 HK$'000	2012 HK$'000
Profit for the year		**2,135,481**	1,556,558
Other comprehensive income for the year (after tax and reclassification adjustments)	16		
Item that will not be reclassified to income statement:			
Property revaluation reserve			
– transfer to deferred tax on disposal		**921**	–
Items that may be reclassified subsequently to income statement:			
Exchange differences on translation of financial statements of overseas subsidiaries		**42,751**	25,937
Available-for-sale securities			
– change in fair value		**(91,487)**	415,071
– transfer (from)/to income statement on disposal		**(11,269)**	21,093
– transfer to income statement on impairment		**35,590**	–
– transfer to/(from) deferred tax		**12,174**	(72,000)
Other comprehensive income for the year		**(11,320)**	390,101
Total comprehensive income for the year		**2,124,161**	1,946,659
Attributable to equity shareholders of the Bank		**2,124,161**	1,946,659

The notes on pages 12 to 114 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2013

(Expressed in Hong Kong dollars)

	Note	**2013 HK$'000**	2012 HK$'000
Assets			
Cash and balances with banks, central banks and other financial institutions	18	**12,621,484**	5,290,053
Placements with and advances to banks, central banks and other financial institutions	19	**46,089,324**	43,501,215
Trading assets	20	**2,398,265**	1,849,344
Securities designated at fair value through profit or loss	21	**63,204**	91,500
Loans and advances to customers and other accounts	22	**132,531,544**	107,474,923
Available-for-sale securities	23	**21,661,781**	18,030,653
Property and equipment	26(a)		
– Investment property		**180,056**	238,348
– Other property and equipment		**719,624**	670,605
Tax recoverable	31(a)	**6**	6,038
Deferred tax assets	31(b)	**42,618**	28,761
Total assets		**216,307,906**	177,181,440
Equity and liabilities			
Deposits and balances of banks and other financial institutions	27	**7,522,382**	3,685,575
Deposits from customers	28	**154,658,966**	130,719,661
Trading liabilities	29	**1,568,640**	907,342
Certificates of deposit issued	30	**16,175,173**	14,297,569
Debt securities issued	32	**1,151,253**	1,119,747
Current taxation	31(a)	**179,394**	62,133
Deferred tax liabilities	31(b)	**12,124**	1,478
Other liabilities	33	**9,206,405**	4,637,920
Loan capital	35	**8,657,552**	6,698,159
Total liabilities		**199,131,889**	162,129,584
Equity			
Share capital	36(a)	**7,283,341**	7,283,341
Reserves		**9,892,676**	7,768,515
Total equity attributable to equity shareholders of the Bank		**17,176,017**	15,051,856
Total equity and liabilities		**216,307,906**	177,181,440

Approved and authorised for issue by the Board of Directors on 26 March 2014.

ZHANG Xiaowei
Executive Director, President and Chief Executive Officer

Margaret MAN
Executive Director and Deputy Chief Executive Officer

Helen KAN
Executive Director and Alternate Chief Executive Officer

Steve WONG
Chief Financial Officer

The notes on pages 12 to 114 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

At 31 December 2013

(Expressed in Hong Kong dollars)

	Note	2013 HK$'000	2012 HK$'000
Assets			
Cash and balances with banks, central banks and other financial institutions	18	**12,596,762**	5,992,525
Placements with and advances to banks, central banks and other financial institutions	19	**41,078,733**	34,826,252
Trading assets	20	**2,361,092**	1,841,273
Securities designated at fair value through profit or loss	21	**63,204**	91,500
Loans and advances to customers and other accounts	22	**116,349,957**	97,098,220
Available-for-sale securities	23	**20,639,086**	17,143,921
Amounts due from subsidiaries	24	**9,069,712**	8,651,330
Investments in subsidiaries	25	**1,274,990**	1,274,990
Property and equipment	26(b)		
– Investment property		**148,114**	207,190
– Other property and equipment		**706,653**	656,865
Deferred tax assets	31(b)	**28,490**	21,097
Total assets		**204,316,793**	167,805,163
Equity and liabilities			
Deposits and balances of banks and other financial institutions	27	**7,239,589**	2,237,959
Deposits from customers	28	**145,204,489**	124,395,829
Trading liabilities	29	**1,540,175**	907,079
Certificates of deposit issued	30	**16,175,173**	14,297,569
Debt securities issued	32	**1,151,253**	1,119,747
Current taxation	31(a)	**163,447**	46,022
Deferred tax liabilities	31(b)	**10,062**	–
Other liabilities	33	**8,180,087**	3,986,280
Amounts due to subsidiaries	34	**236,823**	226,743
Loan capital	35	**8,657,552**	6,698,159
Total liabilities		**188,558,650**	153,915,387
Equity			
Share capital	36(a)	**7,283,341**	7,283,341
Reserves	36(b)	**8,474,802**	6,606,435
Total equity attributable to equity shareholders of the Bank		**15,758,143**	13,889,776
Total equity and liabilities		**204,316,793**	167,805,163

Approved and authorised for issue by the Board of Directors on 26 March 2014.

ZHANG Xiaowei
Executive Director, President and Chief Executive Officer

Margaret MAN
Executive Director and Deputy Chief Executive Officer

Helen KAN
Executive Director and Alternate Chief Executive Officer

Steve WONG
Chief Financial Officer

The notes on pages 12 to 114 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013
(Expressed in Hong Kong dollars)

The Group

	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	General reserve HK$'000	Exchange differences reserve HK$'000	Property revaluation reserve HK$'000	Investment revaluation reserve HK$'000	Statutory reserve HK$'000	Regulatory general reserve HK$'000	Retained profits HK$'000	Total reserves (note 36(d)) HK$'000	Total equity HK$'000
At 1 January 2013	**7,283,341**	**282,930**	**6,589**	**100,000**	**98,150**	**4,718**	**50,146**	**33,241**	**124,915**	**7,067,826**	**7,768,515**	**15,051,856**
Changes in equity for 2013:												
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,135,481**	**2,135,481**	**2,135,481**
Other comprehensive income for the year	**-**	**-**	**-**	**-**	**42,751**	**921**	**(54,992)**	**-**	**-**	**-**	**(11,320)**	**(11,320)**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**42,751**	**921**	**(54,992)**	**-**	**-**	**2,135,481**	**2,124,161**	**2,124,161**
Transfer from retained profits	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**5,108**	**24,585**	**(29,693)**	**-**	**-**
Release of reserve upon disposal of property	**-**	**-**	**-**	**-**	**-**	**(5,584)**	**-**	**-**	**-**	**5,584**	**-**	**-**
At 31 December 2013	**7,283,341**	**282,930**	**6,589**	**100,000**	**140,901**	**55**	**(4,846)**	**38,349**	**149,500**	**9,179,198**	**9,892,676**	**17,176,017**
At 1 January 2012	7,283,341	282,930	6,589	100,000	72,213	4,718	(314,018)	20,862	122,740	5,525,822	5,821,856	13,105,197
Changes in equity for 2012:												
Profit for the year	–	–	–	–	–	–	–	–	–	1,556,558	1,556,558	1,556,558
Other comprehensive income for the year	–	–	–	–	25,937	–	364,164	–	–	–	390,101	390,101
Total comprehensive income for the year	–	–	–	–	25,937	–	364,164	–	–	1,556,558	1,946,659	1,946,659
Transfer from retained profits	–	–	–	–	–	–	–	12,379	2,175	(14,554)	–	–
At 31 December 2012	7,283,341	282,930	6,589	100,000	98,150	4,718	50,146	33,241	124,915	7,067,826	7,768,515	15,051,856

The notes on pages 12 to 114 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2013

(Expressed in Hong Kong dollars)

	2013 HK$'000	2012 HK$'000
Operating activities		
Profit before taxation	**2,554,354**	1,865,960
Adjustments for non-cash items:		
Impairment losses on loans and advances and other accounts	**84,356**	91,216
Impairment losses on available-for-sale securities	**35,590**	–
Net (gain)/loss on disposal of available-for-sale securities	**(12,324)**	27,523
Net (gain)/loss on disposal of property and equipment	**(13,936)**	745
Revaluation gain on investment properties	**(2,174)**	(50,746)
Amortisation of deferred expenses	**55,558**	68,276
Depreciation on property and equipment	**116,258**	101,574
Dividend income from equity securities	**(5,568)**	(5,303)
Interest expense on loan capital	**385,388**	410,791
Foreign exchange differences	**394,870**	135,376
	3,592,372	2,645,412
(Increase)/decrease in operating assets		
Placements with and advances to banks, central banks and other financial institutions with original maturity beyond 3 months	**(8,106,403)**	4,796,934
Treasury bills with original maturity beyond 3 months	**(397,794)**	829,626
Certificates of deposit held with original maturity beyond 3 months	**(1,469,741)**	(2,494,558)
Trading assets	**(548,921)**	230,340
Securities designated at fair value through profit or loss	**28,296**	264,177
Loans and advances to customers and other accounts	**(25,202,223)**	(11,260,756)
Available-for-sale securities	**(3,757,083)**	6,835,143
	(39,453,869)	(799,094)
Increase/(decrease) in operating liabilities		
Deposits and balances of banks and other financial institutions	**3,836,807**	(1,435,723)
Deposits from customers	**23,939,305**	3,679,265
Trading liabilities	**661,297**	(423,855)
Certificates of deposit issued	**1,519,989**	2,036,639
Debt securities issued	**–**	714,667
Other liabilities	**4,171,848**	797,453
	34,129,246	5,368,446
Cash (used in)/generated from operations	**(1,732,251)**	7,214,764

CONSOLIDATED CASH FLOW STATEMENT *(continued)*

For the year ended 31 December 2013

(Expressed in Hong Kong dollars)

	Note	**2013** **HK$'000**	2012 HK$'000
Cash (used in)/generated from operations		**(1,732,251)**	7,214,764
Income tax paid			
Hong Kong Profits Tax paid		**(193,587)**	(325,800)
Overseas tax paid		**(46,757)**	(45,933)
Net cash (used in)/generated from operating activities		**(1,972,595)**	6,843,031
Investing activities			
Dividends received from equity securities		**5,568**	5,303
Purchase of property and equipment		**(176,028)**	(126,880)
Proceeds from disposal of property and equipment		**84,317**	63
Net cash used in investing activities		**(86,143)**	(121,514)
Financing activities			
Proceeds from loan capital issued		**2,325,852**	2,312,589
Redemption of loan capital		**–**	(3,878,422)
Interest paid on loan capital		**(357,034)**	(463,160)
Net cash from/(used in) financing activities		**1,968,818**	(2,028,993)
Net (decrease)/increase in cash and cash equivalents		**(89,920)**	4,692,524
Cash and cash equivalents at 1 January		**43,702,447**	39,009,923
Cash and cash equivalents at 31 December	38	**43,612,527**	43,702,447
Cash flows from operating activities include:			
Interest received		**5,578,775**	4,850,950
Interest paid		**(1,830,143)**	(2,047,201)

The notes on pages 12 to 114 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1 Principal activities

The principal activities of China CITIC Bank International Limited ("the Bank") and its subsidiaries (together referred to as "the Group"), which materially affect the results or comprise the assets and liabilities of the Group, are the provision of banking and related financial services.

2 Significant accounting policies

China CITIC Bank International Limited is a licensed bank incorporated and domiciled in Hong Kong and has its registered office at 61-65 Des Voeux Road Central, Hong Kong. The consolidated financial statements for the year ended 31 December 2013 comprise the Bank and its subsidiaries.

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collectively include all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs"), Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong, and the requirements of the Hong Kong Companies Ordinance. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Bank. Note 3 provides information on any changes in accounting policies resulting from the initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is the historical cost basis, except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

- financial instruments classified as trading, designated at fair value through profit or loss and available-for-sale (see note 2(e)(ii))

- investment property (see note 2(h)).

The preparation of financial statements in conformity with HKFRSs requires that management make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The 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 if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have a significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 48.

2 Significant accounting policies *(continued)*

(c) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) Interest income
Interest income for all interest-bearing financial instruments is recognised in the income statement on an accruals basis using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Cash rebates granted in relation to residential mortgage loans are capitalised and amortised to the income statement over their expected life.

For impaired loans, the accrual of interest income based on the original terms of the loan is discontinued, but any increase in the present value of impaired loans due to the passage of time is reported as interest income.

Net income from financial instruments designated at fair value through profit or loss and net trading income comprises all gains and losses from changes in fair value (net of accrued coupon) of such financial assets and financial liabilities, together with interest income and expense and dividend income attributable to those financial instruments.

(ii) Fee and commission income
Fee and commission income is recognised when the corresponding service is provided, except where the fee is charged to cover the costs of a continuing service to, or risk borne for, the customer, or is interest in nature. In these cases, the fee is recognised as income in the accounting period in which the cost or risk is incurred and is accounted for as interest income.

Origination or commitment fees received/paid by the Group which result in the creation or acquisition of a financial asset are deferred and recognised as an adjustment to the effective interest rate. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

(iii) Finance income from finance lease and hire purchase contract
Finance income implicit in the finance lease and hire purchase payments is recognised as interest income over the period of the leases so as to produce an approximately constant periodic rate of return on the outstanding net investment in the leases for each accounting period. Commission paid to dealers for the acquisition of finance lease loans or hire purchase contracts is included in the carrying value of the assets and amortised to the income statement over the expected life of the lease as an adjustment to interest income.

(iv) Rental income from operating lease
Rental income received under operating leases is recognised in the income statement in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in the income statement as an integral part of the aggregate net lease payments receivable.

2 Significant accounting policies *(continued)*

(c) Revenue recognition *(continued)*

(v) Dividend income

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established. Dividend income from listed investments is recognised when the share price of the investment is quoted ex-dividend.

(d) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows, and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in the income statement. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(e)(i)).

In the Bank's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses, if any (see note 2(l)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 2(s)).

(e) Financial instruments

(i) Initial recognition

The Group classifies its financial instruments into different categories at inception, depending on the purpose for which the assets were acquired or the liabilities were incurred. The categories are: fair value through profit or loss, loans and receivables, available-for-sale securities and other financial liabilities.

Financial instruments are initially measured at fair value, which will normally be equal to the transaction price plus, in the case of a financial asset or financial liability not held at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset or issue of the financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately.

The Group recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets and financial liabilities at fair value through profit or loss is recognised using trade date accounting. Other financial assets and financial liabilities are recognised using settlement date accounting. From these dates, any gains and losses arising from changes in fair value of the financial assets or financial liabilities at fair value through profit or loss are recorded.

2 Significant accounting policies *(continued)*

(e) Financial instruments *(continued)*

(ii) Categorisation

Fair value through profit or loss

This category comprises financial assets and liabilities held for trading, and those designated at fair value through profit or loss upon initial recognition, but excludes those investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured.

Trading financial instruments are financial assets or financial liabilities which are acquired or incurred principally for the purpose of trading, or are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives that do not qualify for hedge accounting (note 2(g)) are accounted for as trading instruments.

The Group has the option of designating its financial instruments at fair value through profit or loss upon initial recognition when:

– the assets or liabilities are managed, evaluated and reported internally on a fair value basis

– the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise

– the asset or liability contains embedded derivatives that significantly modify the cash flows that would otherwise be required under the contract; or

– the separation of the embedded derivatives from the financial instrument is not prohibited.

Financial assets and liabilities under this category are carried at fair value. Changes in the fair value are included in the income statement in the period in which they arise. Upon disposal or repurchase, the difference between the net sale proceeds or the net payment and the carrying value is included in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than (a) those that the Group intends to sell immediately or in the near term, which will be classified as held for trading; (b) those that the Group, upon initial recognition, designates as being at fair value through profit or loss or as available-for-sale; or (c) those where the Group may not recover substantially all of its initial investment, other than because of credit deterioration, which will be classified as available-for-sale. Loans and receivables mainly comprise loans and advances to customers and placements with and advances to banks, central banks and other financial institutions.

Loans and receivables are carried at amortised cost using the effective interest method, less impairment losses, if any (see note 2(l)).

Available-for-sale securities

Available-for-sale securities are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other two categories above. They include financial assets intended to be held for an indefinite period of time, but which may be sold in response to needs for liquidity or changes in the market environment.

Available-for-sale securities are carried at fair value. Unrealised gains and losses arising from changes in the fair value are recognised in other comprehensive income and accumulated separately in equity, except for impairment losses and foreign exchange gains and losses on monetary items such as debt securities which are recognised in the income statement.

2 Significant accounting policies *(continued)*

(e) Financial instruments *(continued)*

(ii) Categorisation (continued)
Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be measured reliably, and derivatives that are linked to and must be settled by delivery of such unquoted equity securities, are carried at cost less impairment losses, if any (see note 2(l)).

When the available-for-sale securities are sold, gains or losses on disposal include the difference between the net sale proceeds and the carrying value, and the accumulated fair value adjustments which are previously recognised in other comprehensive income shall be reclassified from equity to the income statement.

Other financial liabilities
Financial liabilities, other than trading liabilities and those designated at fair value through profit or loss, are measured at amortised cost using the effective interest method.

(iii) Fair value measurement principles
The fair value of financial instruments is based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices.

If there is no publicly available latest traded price nor a quoted market price on a recognised stock exchange or a price from a broker/dealer for non-exchange-traded financial instruments, or if the market for them is not active, the fair value of the instrument is estimated using valuation techniques that provide a reliable estimate of prices which could be obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the end of the reporting period applicable for an instrument with similar terms and conditions. Where other pricing models are used, input is based on market data at the end of the reporting period.

(iv) Derecognition
A financial asset is derecognised when the contractual rights to receive the cash flows from the financial asset expire, or when the financial asset together with substantially all the risks and rewards of ownership, have been transferred.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expires.

(v) Offsetting
Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(vi) Embedded derivatives
An embedded derivative is a component of a hybrid (combined) instrument that includes both the derivative and a host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. The embedded derivatives are separated from the host contract and accounted for as a derivative when (a) the economic characteristics and risks of the embedded derivative are not closely related to the host contract; and (b) the hybrid (combined) instrument is not measured at fair value, with changes in fair value recognised in the income statement.

When the embedded derivative is separated, the host contract is accounted for in accordance with the accounting policies of financial instruments (see note 2(e)(ii)).

2 Significant accounting policies *(continued)*

(f) Repurchase and reverse repurchase transactions

Securities sold subject to a simultaneous agreement to repurchase these securities at a certain later date at a fixed price (repurchase agreements) are retained in the financial statements and measured in accordance with their original measurement principles. The proceeds from the sale are reported as liabilities and are carried at amortised cost.

Securities purchased under agreements to resell (reverse repurchase agreements) are reported not as purchases of the securities, but as receivables, and are carried in the statement of financial position at amortised cost.

Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements are recognised as interest income or interest expense respectively over the life of each agreement, using the effective interest rate method.

(g) Hedging

Hedge accounting recognises the offsetting effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item. The Group assesses and documents whether the financial instruments that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items attributable to the hedged risks both at hedge inception and on an ongoing basis. The Group discontinues hedge accounting prospectively when (a) the hedging instrument expires or is sold, terminated or exercised; (b) the hedge no longer meets the criteria for hedge accounting; or (c) the Group revokes the designation.

(i) Fair value hedge

A fair value hedge seeks to offset the risks of changes in the fair value of a recognised asset or liability that will give rise to a gain or loss being recognised in the income statement.

The hedging instrument is measured at fair value, with fair value changes recognised in the income statement. The carrying amount of the hedged item is adjusted by the amount of the changes in fair value of the hedging instrument attributable to the risk being hedged. This adjustment is recognised in the income statement to offset the effect of the gain or loss on the hedging instrument.

When a hedging instrument expires or is sold, terminated or exercised; the hedge no longer meets the criteria for hedge accounting; or the Group revokes designation of the hedge relationship, any adjustment up to that point, to a hedged item for which the effective interest rate method is used, is amortised to the income statement as part of the recalculated effective interest rate of the item over its remaining life.

(ii) Hedge effectiveness testing

In order to qualify for hedge accounting, the Group carries out prospective effectiveness testing to demonstrate that it expects the hedge to be highly effective (prospective effectiveness) at the inception of the hedge and throughout its life. Actual effectiveness (retrospective effectiveness) also needs to be demonstrated on an ongoing basis.

The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed. The method which the Group adopts for assessing hedge effectiveness will depend on its risk management strategy.

For fair value hedge relationships, the Group utilises the cumulative dollar offset method or regressive analysis as effectiveness testing methodologies.

For prospective effectiveness, the hedging instrument must be expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated. For actual effectiveness, the changes in fair value or cash flows must offset each other in the range of 80% to 125% for the hedge to be deemed effective.

2 Significant accounting policies *(continued)*

(h) Investment property

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 2(j)) to earn rental income and/or for capital appreciation. These include land and buildings held for a currently undetermined future use.

Investment properties are stated in the statement of financial position at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in the income statement. Rental income from investment properties is accounted for as described in note 2(c)(iv).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 2(j)(ii)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 2(c)(iii).

(i) Other property and equipment

In preparing these financial statements, advantage has been taken of the transitional provisions set out in paragraph 80A of HKAS 16, *Property, plant and equipment*, issued by the HKICPA, with the effect that other premises which are carried at revalued amounts in financial statements relating to periods ended before 30 September 1995 have not been revalued to fair value at the end of the reporting period.

The following items of property and equipment are stated at cost less accumulated depreciation and impairment losses, if any (see note 2(l)):

– buildings held for own use which are situated on leasehold land classified as held under operating leases (see note 2(j)(iii))

– other items of equipment.

Changes arising on the revaluation of properties held for own use are generally dealt with in other comprehensive income and are accumulated separately in equity in the property revaluation reserve.

Gains or losses arising from the retirement or disposal of an item of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item, and are recognised in the income statement on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained profits and is not reclassified to the income statement.

Depreciation is calculated to write off the cost or valuation of items of property and equipment, less their estimated residual value, if any, using the straight line method over the estimated useful lives as follows:

– Freehold land is not depreciated.

– Leasehold land classified as held under finance leases is depreciated over the unexpired term of lease.

– Buildings – over 30 years or the unexpired terms of the land leases, whichever is shorter.

– Furniture, fixtures and equipment – 3 to 10 years.

Where parts of an item of property and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts, and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

2 Significant accounting policies *(continued)*

(j) Leases and hire purchase contracts

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and applies regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of leased assets
Assets that are held by the Group under leases and which transfer to the Group substantially all the risks and rewards of ownership are classified as finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the lessee are classified as operating leases.

(ii) Finance leases
Where the Group is a lessor under finance leases, an amount representing the net investment in the lease is included in the statement of financial position as loans and advances to customers. Hire purchase contracts which have the characteristics of finance leases are accounted for in the same manner as finance leases. Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(l).

(iii) Operating leases
Where the Group leases out assets under operating leases, the assets are included in the statement of financial position according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in note 2(i). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(l). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 2(c)(iv).

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made.

(k) Repossessed assets

In the recovery of impaired loans and advances, the Group may take possession of assets held as collateral through court proceedings or voluntary delivery of possession by the borrowers. Where it is intended to achieve an orderly realisation of the impaired assets and the Group is no longer seeking repayment from the borrower, repossessed assets are reported in "Other assets". The Group does not hold the repossessed assets for its own use.

Repossessed assets are recognised at the lower of the carrying amount of the related loans and advances and fair value less costs to sell at the date of exchange. They are not depreciated or amortised.

Impairment losses on initial classification and on subsequent remeasurement are recognised in the income statement.

2 Significant accounting policies *(continued)*

(l) Impairment of assets

The carrying amount of the Group's assets is reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence that financial assets are impaired includes observable data that comes to the attention of the Group about one or more of the following loss events which has an impact on the future cash flows of the assets that can be estimated reliably:

– significant financial difficulty of the issuer or borrower

– a breach of contract, such as a default or delinquency in interest or principal payments

– it becoming probable that the borrower will enter bankruptcy or other financial reorganisation

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the borrower

– the disappearance of an active market for financial assets because of financial difficulties

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, the carrying amount is reduced to the estimated recoverable amount by means of a charge to the income statement.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of loans and receivables, which are measured at amortised cost, and whose recovery is considered doubtful but not remote. In this case, the impairment losses are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against loans and receivables directly and any amounts held in the allowance account relating to that borrower/investment are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in the income statement.

(i) Loans and receivables
Impairment losses on loans and receivables are measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets). Receivables with a short duration are not discounted if the effect of discounting is immaterial.

The total allowance for credit losses consists of two components: individual impairment allowances and collective impairment allowances.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The individual impairment allowance is based upon management's best estimate of the present value of the cash flows which are expected to be received discounted at the original effective interest rate. In estimating these cash flows, management makes judgements about the borrower's financial situation and the net realisable value of any underlying collateral or guarantees in favour of the Group. Each impaired asset is assessed on its own merits.

2 Significant accounting policies *(continued)*

(l) Impairment of assets *(continued)*

(i) Loans and receivables (continued)
In assessing the need for collective impairment allowances, management uses statistical modelling and considers historical trends of factors such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowance, the Group makes assumptions both to define the way the Group models inherent losses and to determine the required input parameters, based on historical experience and current economic conditions.

The accuracy of the impairment allowances the Group makes depends on how well the Group can estimate future cash flows for individually assessed impairment allowances, and the model assumptions and parameters used in determining collective impairment allowances. While this necessarily involves judgement, the Group believes that the impairment allowances on loans and advances to customers are reasonable and supportable.

Any subsequent changes to the amounts and timing of the expected future cash flows compared to the prior estimates that can be linked objectively to an event occurring after the write-down, will result in a change in the impairment allowances on loans and receivables and be charged or credited to the income statement. A reversal of impairment losses is limited to the loans and receivables' carrying amount that would have been determined had no impairment loss been recognised in prior years.

When there is no reasonable prospect of recovery, the loan and the related interest receivables are written off.

Loans and receivables with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Renegotiated loans and receivables are subject to ongoing monitoring to determine whether they remain impaired or past due.

(ii) Available-for-sale securities
When there is objective evidence that an available-for-sale security is impaired, the cumulative loss that had been recognised in the fair value reserve is reclassified to the income statement. The amount of the cumulative loss that is recognised in the income statement is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in the income statement.

For unquoted available-for-sale equity securities that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the equity securities and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Such impairment losses are not reversed.

Impairment losses recognised in the income statement in respect of available-for-sale equity securities are not reversed through the income statement. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in the income statement.

(iii) Other assets
Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, an impairment loss previously recognised no longer exists or may have decreased:

– property and equipment (other than properties carried at revalued amounts)

– investments in subsidiaries and associates.

2 Significant accounting policies *(continued)*

(l) Impairment of assets *(continued)*

(iii) Other assets (continued)
If any such indication exists, the asset's recoverable amount is estimated.

– Calculation of recoverable amount
The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses
An impairment loss is recognised in the income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable), or value in use (if determinable).

– Reversal of impairment losses
In respect of assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(iv) Interim financial reporting and impairment
The Group prepares an interim financial report in compliance with HKAS 34, *Interim financial reporting*, in respect of the first six months of the year. At the end of the interim period, the Group applies the same impairment testing, recognition and reversal criteria as it would at the end of the year (see notes 2(l)(i) to (iii)).

(m) Cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(n) Employee benefits

(i) Employee benefits and contributions to defined contribution retirement plans
Salaries, annual bonuses, paid annual leave, contributions to defined contribution plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Staff retirement scheme
The Group operates a defined contribution provident fund and a Mandatory Provident Fund scheme. Contributions are charged to the income statement as and when the contributions fall due.

2 Significant accounting policies *(continued)*

(o) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits; that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 2(h), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Additional income tax that arise from the distribution of dividends is recognised when the liability to pay the related dividends is recognised.

2 Significant accounting policies *(continued)*

(o) Income tax *(continued)*

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(p) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into Hong Kong dollars using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

Exchange differences relating to investments at fair value through profit or loss and derivative financial instruments are included in gains less losses from trading securities or financial instruments designated at fair value through profit or loss. All other exchange differences relating to monetary items are presented as gains less losses from dealing in foreign currencies in the income statement. Differences arising on the translation of available-for-sale equity instruments are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Hong Kong dollars at the foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to the income statement when the profit or loss on disposal is recognised.

2 Significant accounting policies *(continued)*

(q) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the holder) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee to customers, the fair value of the guarantee is initially recognised as deferred income within other liabilities. The fair value of financial guarantees issued at the time of issuance is determined by reference to fees charged in an arm's length transaction for similar services when such information is obtainable, or is otherwise estimated by reference to interest rate differentials by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged had the guarantees not been available, where reliable estimates of such information can be made. Where the Bank issues a financial guarantee to its subsidiaries, the fair value of the guarantee is estimated and capitalised as the cost of investment in subsidiaries and deferred income within other liabilities.

The deferred income is amortised in the income statement over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2(q)(ii) if and when (a) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (b) the amount of that claim on the Group is expected to exceed the amount currently carried in other liabilities in respect of that guarantee, i.e. the amount initially recognised, less accumulated amortisation.

(ii) Other provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Bank has a legal or constructive obligation arising as a result of a past event. It is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(r) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:
- (i) has control or joint control over the Group
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:
- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others)
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member)
- (iii) Both entities are joint ventures of the same third party
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group

2 Significant accounting policies *(continued)*

(r) Related parties *(continued)*

(vi) The entity is controlled or jointly controlled by a person identified in (a)

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by that person in their dealings with the entity.

(s) Non-current assets held for sale

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use, and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

When the Group is committed to a sales plan involving loss of control of a subsidiary, all the assets and liabilities of that subsidiary are classified as held for sale when the above criteria for classification as held for sale are met, regardless of whether the Group will retain a non-controlling interest in the subsidiary after the sale.

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up to date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), or disposal groups, are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the Group and the Bank are concerned are deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries, associates and joint ventures) and investment properties. These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 2.

Impairment losses on initial classification as held for sale and on subsequent remeasurement while held for sale, are recognised in the income statement. As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the non-current asset is not depreciated or amortised.

(t) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 Changes in accounting policies

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group and the Bank. Of these, the following developments are relevant to the Group's financial statements:

– Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*

– HKFRS 13, *Fair value measurement*

– Amendments to HKFRS 7, *Disclosures – Offsetting financial assets and financial liabilities*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The impacts of the adoption of the new or amended HKFRSs are as follows:

Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*

The amendments require entities to present separately the items of other comprehensive income that would be reclassified to the income statement in the future if certain conditions are met separately from those that would never be reclassified to the income statement. The presentation of other comprehensive income in the consolidated statement of comprehensive income in these financial statements has been modified accordingly.

HKFRS 13, *Fair value measurement*

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 is required to be applied prospectively from the beginning of the first annual period in which it is applied. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. To the extent that the requirements are applicable to the Group, the Group has provided those disclosures in notes 26 and 43. The adoption of HKFRS 13 does not have any material impact on the fair value measurements of the Group's assets and liabilities.

Amendments to HKFRS 7, *Disclosures – Offsetting financial assets and financial liabilities*

The amendments introduce new disclosures in respect of offsetting financial assets and financial liabilities, which enable users of its financial statements to evaluate the effect or potential effect of netting arrangements on the entity's financial position. Those new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32, *Financial instruments: Presentation* and those that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether the financial instruments are set off in accordance with HKAS 32. To the extent that the requirements are applicable to the Group, the Group has expanded its disclosures about the offsetting of financial assets and financial liabilities in note 42(a)(iii).

4 Interest income and interest expense

(a) Interest income

	2013 HK$'000	2012 HK$'000
Listed securities	**1,189**	3,284
Unlisted securities	**357,073**	390,717
Others (Note)	**5,305,775**	4,453,355
Interest income on financial assets that are not at fair value through profit or loss	**5,664,037**	4,847,356

(b) Interest expense

	2013 HK$'000	2012 HK$'000
Deposits from customers, banks and other financial institutions, certificates of deposit issued and others	**1,904,390**	2,084,184
Debt securities issued	**43,302**	13,570
Loan capital issued	**385,388**	410,791
Interest expense on financial liabilities that are not at fair value through profit or loss	**2,333,080**	2,508,545
Of which:		
Loan capital issued repayable after 5 years	**170,909**	161,165

Note:
Included in the above is interest income accrued on impaired financial assets of HK$7,217,000 (2012: HK$5,240,000), which includes interest income on the unwinding of the discount on loan impairment losses of HK$4,828,000 (2012: HK$5,120,000) (note 22(b)) for the year ended 31 December 2013.

5 Net fee and commission income

	2013 HK$'000	2012 HK$'000
Fee and commission income:		
Bills commission	**131,639**	124,387
Card-related income	**24,187**	24,218
General banking services	**86,130**	80,795
Insurance	**167,791**	190,645
Investment and structured investment products	**126,873**	96,533
Loans, overdrafts and facilities fees	**196,481**	160,819
Others	**582**	608
	733,683	678,005
Fee and commission expense	**(38,144)**	(37,839)
	695,539	640,166
Of which:		
Net fee and commission income (other than the amounts included in determining the effective interest rate) relating to financial assets and liabilities not at fair value through profit or loss:		
– Fee and commission income	**352,307**	309,424
– Fee and commission expense	**(12,901)**	(14,540)
	339,406	294,884

6 Net trading income

	2013 HK$'000	2012 HK$'000
Gains less losses from dealing in foreign currencies	**120,257**	277,918
Gains less losses from trading securities	**577**	735
Gains less losses from other dealing activities	**492,800**	489,194
Interest income on trading assets	**51,690**	–
Interest expense on trading liabilities	**–**	(49,391)
	665,324	718,456

7 Net gain from financial instruments designated at fair value through profit or loss

	2013 HK$'000	2012 HK$'000
Net gain	**2,546**	2,901
Interest income		
– Listed	**–**	921
– Unlisted	**471**	1,450
	3,017	5,272

8 Net hedging gain

	2013 HK$'000	2012 HK$'000
Net gain on fair value hedge	**1,970**	503

9 Net gain/(loss) on disposal of available-for-sale securities

	2013 HK$'000	2012 HK$'000
Net revaluation gain/(loss) transferred from reserves	**11,269**	(21,093)
Net gain/(loss) arising in current year	**1,055**	(6,430)
	12,324	(27,523)

10 Other operating income

	2013 HK$'000	2012 HK$'000
Dividend income from available-for-sale equity securities		
– Listed	**268**	103
– Unlisted	**5,300**	5,200
Rental income from investment properties less direct outgoings of HK$315,000 (2012: HK$276,000)	**6,208**	4,823
Others	**26,340**	29,676
	38,116	39,802

11 Operating expenses

	2013 HK$'000	2012 HK$'000
(a) Staff costs		
Salaries and other staff costs	**1,201,473**	1,027,081
Retirement costs (note 37)	**72,748**	67,356
	1,274,221	1,094,437
(b) Depreciation		
Depreciation of property and equipment (note 26(a))		
– Assets held for use under operating leases	**25,763**	21,374
– Other assets	**90,495**	80,200
	116,258	101,574
(c) Other operating expenses		
Property and equipment expenses (excluding depreciation) (Note)		
– Rental of properties	**238,269**	180,451
– Others	**149,333**	125,466
Auditor's remuneration	**7,184**	6,494
Advertising	**47,674**	43,596
Communication, printing and stationery	**77,738**	67,863
Legal and professional fees	**29,653**	28,865
Others	**148,727**	159,566
	698,578	612,301
Total operating expenses	**2,089,057**	1,808,312

Note:
Included in other operating expenses are minimum lease payments under operating leases of HK$2,234,000 (2012: HK$2,095,000) for the hire of equipment, and HK$227,643,000 (2012: HK$172,488,000) for the hire of other assets (including property rentals).

12 Directors' remuneration

The Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2013 HK$'000	2012 HK$'000
Directors' fees	**3,324**	2,775
Salaries, allowances and benefits in kind (notes (i) to (ii))	**18,932**	31,485
Discretionary bonuses	**13,216**	7,411
Retirement scheme contributions	**1,503**	974
	36,975	42,645

Note:
(i) Under the retention incentive scheme (using a deferred mechanism), cash benefits amounting to HK$800,000 (2012: HK$3,385,000) were paid to the Executive Directors of the Group in 2013.

(ii) Under the long-term incentive scheme ("LTI"), eligible persons will be granted a number of Appreciation Rights. Payment for each Appreciation Right is determined by the appreciation in the Group's net asset value over a three-year performance period. In 2013, HK$18,000,000 (2012: HK$5,000,000) was accrued in the staff costs, including the amount payable to the Directors based on management's best estimation.

13 Impairment losses on loans and advances and other accounts

	2013 HK$'000	2012 HK$'000
Impairment losses charged		
– Loans and advances	**(84,356)**	(83,101)
– Other accounts	**–**	(8,115)
	(84,356)	(91,216)
Impairment losses (charged)/written back on loans and advances and other accounts (note 22(b))		
– Individual assessment	**(36,674)**	(154,125)
– Collective assessment	**(47,682)**	62,909
	(84,356)	(91,216)
of which (note 22(b)):		
– Additions	**(226,491)**	(227,916)
– Releases	**122,878**	107,885
– Recoveries	**19,257**	28,815
	(84,356)	(91,216)

14 Income tax in the consolidated income statement

(a) Income tax in the consolidated income statement

	2013 HK$'000	2012 HK$'000
Current tax – Hong Kong Profits Tax		
Provision for the year (note 31(a))	**374,852**	237,983
Under/(over)-provision in respect of prior years	**2,992**	(922)
	377,844	237,061
Current tax – Overseas		
Provision for the year	**31,936**	64,555
(Over)/under-provision in respect of prior years	**(944)**	1,113
	30,992	65,668
Deferred tax		
Origination of temporary differences (note 31(b))	**10,037**	6,673
	418,873	309,402

The provision for Hong Kong Profits Tax for 2013 is calculated at 16.5% (2012: 16.5%) of the estimated assessable profits for the year, taking into account a one-off reductions of 75% of the tax payable for the year of assessment 2012-2013 subject to a ceiling of HK$10,000 allowed by the Hong Kong SAR Government for each business. Taxation for overseas branches and subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

14 Income tax in the consolidated income statement *(continued)*

(b) Reconciliation between tax expense and accounting profit at applicable tax rates

	2013 HK$'000	2012 HK$'000
Profit before tax	**2,554,354**	1,865,960
Notional tax on profit before tax, calculated at the rates applicable to profits in the countries concerned	**423,279**	322,695
Tax effect of non-deductible expenses	**19,607**	40,893
Tax effect of non-taxable revenue	**(34,813)**	(43,369)
Under-provision in prior years	**2,048**	191
Others	**8,752**	(11,008)
Actual tax expense	**418,873**	309,402

15 Profit attributable to equity shareholders of the Bank

The consolidated profit attributable to equity shareholders of the Bank includes a profit of HK$1,898,261,000 (2012: HK$1,363,282,000) which has been dealt with in the financial statements of the Bank.

16 Other comprehensive income

Tax effects relating to each component of other comprehensive income

	2013			2012		
	Before tax amount HK$'000	Tax benefit HK$'000	Net-of-tax amount HK$'000	Before tax amount HK$'000	Tax expense HK$'000	Net-of-tax amount HK$'000
Property revaluation reserve – release of reserve upon disposal of properties	**–**	**921**	**921**	–	–	–
Exchange differences on translation of financial statements of overseas subsidiaries	**42,751**	**–**	**42,751**	25,937	–	25,937
Available-for-sale securities – net movement in available-for-sale fair value reserve	**(67,166)**	**12,174**	**(54,992)**	436,164	(72,000)	364,164
Other comprehensive income	**(24,415)**	**13,095**	**(11,320)**	462,101	(72,000)	390,101

17 Segment reporting

Segment information is presented consistently with reportable segments which are regularly reviewed or evaluated internally by the chief operating decision-maker to allocate resources to the segments and to assess their performance. The Group has identified the following four main reportable segments:

Wholesale and cross-border banking business includes wholesale banking business in Hong Kong and overseas branches, and China banking. Wholesale banking mainly comprises corporate lending and syndicated loans, trade financing and cash management. Overseas branches include the management office unit in Hong Kong and the branches operated overseas. China banking mainly includes a branch and a subsidiary bank in China, and the China banking management office in Hong Kong.

Personal and business banking mainly comprises deposit account services, residential mortgages, other consumer lending, credit card services, and Small and Medium Enterprises ("SMEs") banking business, wealth management services and private banking.

Treasury and markets covers the provision of foreign exchange services, money market activities, the management of investment securities and central cash management.

Others mainly comprises unallocated revenue and expenses, head office, and corporate expenses.

For the purpose of segment reporting, the allocation of operating income reflects the benefits of funding resources allocated to the business segments based on the internal funds transfer pricing mechanism. Cost allocation is based on the direct costs incurred by the respective business segments and the apportionment of overheads on a reasonable basis to the business segments. Rental charges at the market rate for the use of bank premises are reflected as inter-segment income for the 'Others' segment and inter-segment expenses for the respective business segments.

17 Segment reporting *(continued)*

(a) Reportable segments

	The Group 2013				
	Wholesale and cross-border banking HK$'000	Personal and business banking HK$'000	Treasury and markets HK$'000	Others HK$'000	Consolidated HK$'000
Net interest income	1,915,735	1,075,798	304,133	35,291	3,330,957
Other operating income/(expense)	357,681	466,780	610,162	(30,657)	1,403,966
Net gain on disposal of available-for-sale securities	1,747	–	10,577	–	12,324
Operating income	2,275,163	1,542,578	924,872	4,634	4,747,247
Operating expenses	(535,052)	(607,369)	(62,490)	(884,146)	(2,089,057)
Inter-segment (expenses)/income	(213,318)	(317,666)	(99,862)	630,846	–
Operating profit/(loss) before impairment	1,526,793	617,543	762,520	(248,666)	2,658,190
Impairment losses (charged)/ written back on loans and advances and other accounts	(49,569)	(36,840)	(35,590)	2,053	(119,946)
Operating profit/(loss)	1,477,224	580,703	726,930	(246,613)	2,538,244
Net gain/(loss) on disposal of property and equipment	(6)	(2,786)	–	16,728	13,936
Revaluation gain on investment properties	–	–	–	2,174	2,174
Profit/(loss) before taxation	1,477,218	577,917	726,930	(227,711)	2,554,354
Income tax	–	–	–	(418,873)	(418,873)
Profit/(loss) for the year	1,477,218	577,917	726,930	(646,584)	2,135,481
Other segment items:					
Depreciation	22,805	21,210	1,171	71,072	116,258
Segment assets	113,582,102	37,828,073	80,366,118	(15,468,387)	216,307,906
Segment liabilities	104,843,268	79,625,938	30,640,754	(15,978,071)	199,131,889
Capital expenditure incurred during the year	6,749	66,156	14,770	88,353	176,028

17 Segment reporting *(continued)*

(a) Reportable segments *(continued)*

	The Group 2012				
	Wholesale and cross-border banking HK$'000	Personal and business banking HK$'000	Treasury and markets HK$'000	Others HK$'000	Consolidated HK$'000
Net interest income/(expense)	1,711,640	920,084	(339,068)	46,155	2,338,811
Other operating income	362,423	463,929	558,419	19,428	1,404,199
Net gain/(loss) on disposal of available-for-sale securities	2,454	–	(29,977)	–	(27,523)
Operating income	2,076,517	1,384,013	189,374	65,583	3,715,487
Operating expenses	(438,200)	(491,998)	(65,423)	(812,691)	(1,808,312)
Inter-segment (expenses)/income	(236,871)	(327,318)	(98,521)	662,710	–
Operating profit/(loss) before impairment	1,401,446	564,697	25,430	(84,398)	1,907,175
Impairment losses (charged)/ written back on loans and advances and other accounts	(88,858)	(2,846)	–	488	(91,216)
Operating profit/(loss)	1,312,588	561,851	25,430	(83,910)	1,815,959
Net loss on disposal of property and equipment	(27)	(249)	–	(469)	(745)
Revaluation gain on investment properties	–	–	–	50,746	50,746
Profit/(loss) before taxation	1,312,561	561,602	25,430	(33,633)	1,865,960
Income tax	–	–	–	(309,402)	(309,402)
Profit/(loss) for the year	1,312,561	561,602	25,430	(343,035)	1,556,558
Other segment items:					
Depreciation	22,374	17,739	1,153	60,308	101,574
Segment assets	89,435,758	36,158,116	66,827,598	(15,240,032)	177,181,440
Segment liabilities	84,101,987	70,618,597	24,557,741	(17,148,741)	162,129,584
Capital expenditure incurred during the year	65,637	29,380	5,367	26,496	126,880

17 Segment reporting *(continued)*

(b) Geographical information

The geographical information analysis is based on the location of the principal operations of the subsidiaries, or in the case of the Bank itself, of the location of the branches responsible for reporting the results or booking the assets and liabilities.

	The Group 2013				
	Profit before taxation HK$'000	**Total assets HK$'000**	**Total liabilities HK$'000**	**Operating income HK$'000**	**Contingent liabilities and commitments HK$'000**
Hong Kong	**2,284,302**	**194,916,371**	**178,534,484**	**4,161,496**	**67,812,885**
Mainland China	**141,919**	**19,015,509**	**17,198,708**	**285,361**	**4,878,624**
United States	**50,826**	**3,874,987**	**3,800,062**	**82,469**	**1,427,437**
Singapore	**58,098**	**13,671,664**	**13,581,566**	**189,840**	**11,478,559**
Others	**19,221**	**1,345,525**	**1,332,175**	**28,342**	**2,261,195**
Inter-segment items	**(12)**	**(16,516,150)**	**(15,315,106)**	**(261)**	**–**
	2,554,354	**216,307,906**	**199,131,889**	**4,747,247**	**87,858,700**

	The Group 2012				
	Profit before taxation HK$'000	Total assets HK$'000	Total liabilities HK$'000	Operating income HK$'000	Contingent liabilities and commitments HK$'000
Hong Kong	1,531,465	164,052,152	149,648,756	3,067,651	50,472,916
Mainland China	161,947	15,768,774	14,089,151	338,587	3,585,517
United States	48,600	2,332,154	2,245,266	84,859	384,394
Singapore	89,520	9,090,833	9,010,369	180,199	3,357,070
Others	34,411	1,100,193	1,070,164	44,357	1,757,384
Inter-segment items	17	(15,162,666)	(13,934,122)	(166)	–
	1,865,960	177,181,440	162,129,584	3,715,487	59,557,281

18 Cash and balances with banks, central banks and other financial institutions

	The Group		The Bank	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash in hand	**289,630**	218,535	**289,288**	217,985
Balances with central banks	**2,318,538**	1,263,007	**464,581**	317,170
Balances with banks	**6,129,079**	1,911,261	**7,958,656**	3,560,120
Balances with other financial institutions	**3,884,237**	1,897,250	**3,884,237**	1,897,250
	12,621,484	5,290,053	**12,596,762**	5,992,525

19 Placements with and advances to banks, central banks and other financial institutions

	The Group		The Bank	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Placements with banks	**38,016,559**	34,819,543	**33,041,127**	27,522,498
Advances to banks	**8,072,765**	8,681,672	**8,037,606**	7,303,754
	46,089,324	43,501,215	**41,078,733**	34,826,252
Maturing:				
– within 1 month	**17,109,988**	24,982,655	**14,903,988**	21,202,437
– between 1 month and 1 year	**28,944,177**	18,480,773	**26,174,745**	13,623,815
– after 1 year	**35,159**	37,787	**–**	–
	46,089,324	43,501,215	**41,078,733**	34,826,252

There were no impaired advances to banks and other financial institutions at 31 December 2013 and 2012, nor were there any individually assessed impairment allowances made for them on these two dates.

20 Trading assets

	The Group		The Bank	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trading securities – investment funds	**2,675**	2,662	**2,675**	2,662
Positive fair values of derivatives (note 44(b))	**2,395,590**	1,846,682	**2,358,417**	1,838,611
	2,398,265	1,849,344	**2,361,092**	1,841,273
Issued by:				
Corporate entities	**2,675**	2,662	**2,675**	2,662
Analysed by place of listing:				
Unlisted	**2,675**	2,662	**2,675**	2,662

21 Securities designated at fair value through profit or loss

	The Group and the Bank	
	2013	2012
	HK$'000	HK$'000
Certificates of deposit held	**–**	30,950
Debt securities	**63,204**	60,550
	63,204	91,500
Issued by:		
Sovereigns	**12,927**	12,642
Banks and other financial institutions	**–**	30,975
Corporate entities	**50,277**	47,883
	63,204	91,500
Analysed by place of listing:		
Unlisted	**63,204**	91,500

22 Loans and advances to customers and other accounts

(a) Loans and advances to customers and other accounts less impairment allowances

	The Group		The Bank	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Gross loans and advances to customers	**127,016,841**	105,091,832	**111,566,240**	95,094,376
Impairment allowances (note 22(b))				
– Individually assessed	**(160,920)**	(265,356)	**(135,696)**	(225,964)
– Collectively assessed	**(315,055)**	(280,985)	**(309,877)**	(275,357)
	126,540,866	104,545,491	**111,120,667**	94,593,055
Accrued interest and other accounts	**5,992,286**	2,931,040	**5,229,910**	2,505,785
Impairment allowances (note 22(b))				
– Individually assessed	**(1,608)**	(1,608)	**(620)**	(620)
	5,990,678	2,929,432	**5,229,290**	2,505,165
	132,531,544	107,474,923	**116,349,957**	97,098,220
Included in loans and advances to customers are:				
Trade bills	**8,610,825**	9,470,863	**8,610,825**	9,457,310
Impairment allowances (note 22(b))				
– Collectively assessed	**(854)**	(552)	**(854)**	(552)
	8,609,971	9,470,311	**8,609,971**	9,456,758

22 Loans and advances to customers and other accounts *(continued)*

(b) Movement in impairment allowances on loans and advances to customers and other accounts

The Group

	2013 Individually assessed HK$'000	2013 Collectively assessed HK$'000	2013 Total HK$'000	2012 Individually assessed HK$'000	2012 Collectively assessed HK$'000	2012 Total HK$'000
At 1 January	266,964	280,985	547,949	197,881	346,898	544,779
Impairment losses charged on the income statement (note 13)	90,960	135,531	226,491	199,893	28,023	227,916
Impairment losses released to the income statement (note 13)	(54,286)	(87,849)	(142,135)	(45,768)	(90,932)	(136,700)
Amounts written off	(150,763)	(18,388)	(169,151)	(102,864)	(8,877)	(111,741)
Recoveries of loans and advances written off in previous years	14,481	4,776	19,257	22,942	5,873	28,815
Unwinding of discount on loan impairment losses (note 4)	(4,828)	–	(4,828)	(5,120)	–	(5,120)
At 31 December	162,528	315,055	477,583	266,964	280,985	547,949
Deducted from (note 22(a)):						
Loans and advances to customers	160,920	314,201	475,121	265,356	280,433	545,789
Other accounts	1,608	–	1,608	1,608	–	1,608
Trade bills	–	854	854	–	552	552
	162,528	315,055	477,583	266,964	280,985	547,949

The Bank

	2013 Individually assessed HK$'000	2013 Collectively assessed HK$'000	2013 Total HK$'000	2012 Individually assessed HK$'000	2012 Collectively assessed HK$'000	2012 Total HK$'000
At 1 January	226,584	275,357	501,941	196,280	346,859	543,139
Impairment losses charged on the income statement	89,280	133,934	223,214	173,274	22,426	195,700
Impairment losses released to the income statement	(48,879)	(85,593)	(134,472)	(44,628)	(90,723)	(135,351)
Amounts written off	(142,330)	(18,388)	(160,718)	(102,864)	(8,877)	(111,741)
Recoveries of loans and advances written off in previous years	14,285	4,567	18,852	22,663	5,672	28,335
Unwinding of discount on loan impairment losses	(2,624)	–	(2,624)	(4,292)	–	(4,292)
Exchange and other adjustments	–	–	–	(13,849)	–	(13,849)
At 31 December	136,316	309,877	446,193	226,584	275,357	501,941
Deducted from (note 22(a)):						
Loans and advances to customers	135,696	309,023	444,719	225,964	274,805	500,769
Other accounts	620	–	620	620	–	620
Trade bills	–	854	854	–	552	552
	136,316	309,877	446,193	226,584	275,357	501,941

22 Loans and advances to customers and other accounts *(continued)*

(c) Loans and advances to customers analysed by industry sectors

The following economic sector analysis is based on categories and definitions used by the Hong Kong Monetary Authority ("HKMA").

	The Group			
	2013		2012	
	Gross loans and advances to customers HK$'000	**Impaired loans and advances to customers HK$'000**	Gross loans and advances to customers HK$'000	Impaired loans and advances to customers HK$'000
Industrial, commercial and financial				
– Property development	**15,227**	**–**	10,762	–
– Property investment	**14,074,440**	**1,375**	14,165,266	–
– Financial concerns	**4,073,785**	**–**	1,785,418	–
– Stockbrokers	**255,937**	**–**	31,000	–
– Wholesale and retail trade	**13,762,091**	**4,353**	7,984,910	30,630
– Manufacturing	**5,843,972**	**51,344**	3,401,071	46,821
– Transport and transport equipment	**2,252,707**	**218**	2,604,952	3,963
– Recreational activities	**271,979**	**–**	189,213	–
– Information technology	**882,728**	**–**	1,336	–
– Others	**2,272,510**	**–**	2,208,005	1,879
Individuals				
– Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**17,790**	**–**	20,100	–
– Loans for the purchase of other residential properties	**10,254,515**	**6,137**	9,671,193	4,818
– Credit card advances	**318,683**	**435**	288,991	868
– Others	**5,853,436**	**7,127**	6,132,235	4,281
Gross loans and advances for use in Hong Kong	**60,149,800**	**70,989**	48,494,452	93,260
Trade finance	**15,489,383**	**197,296**	13,930,092	83,966
Gross loans and advances for use outside Hong Kong	**51,377,658**	**138,180**	42,667,288	298,694
Gross loans and advances to customers	**127,016,841**	**406,465**	105,091,832	475,920

22 Loans and advances to customers and other accounts *(continued)*

(c) Loans and advances to customers analysed by industry sectors *(continued)*

	The Bank			
	2013		2012	
	Gross loans and advances to customers HK$'000	**Impaired loans and advances to customers HK$'000**	Gross loans and advances to customers HK$'000	Impaired loans and advances to customers HK$'000
Industrial, commercial and financial				
– Property development	**15,227**	**–**	10,762	–
– Property investment	**12,638,290**	**1,375**	12,698,464	–
– Financial concerns	**4,073,785**	**–**	1,785,418	–
– Stockbrokers	**255,937**	**–**	31,000	–
– Wholesale and retail trade	**13,761,940**	**4,353**	7,984,729	30,630
– Manufacturing	**5,843,972**	**51,344**	3,400,506	46,821
– Transport and transport equipment	**2,245,632**	**218**	2,595,631	3,963
– Recreational activities	**271,979**	**–**	189,213	–
– Information technology	**882,728**	**–**	1,336	–
– Others	**2,270,521**	**–**	2,205,212	1,879
Individuals				
– Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**17,790**	**–**	20,100	–
– Loans for the purchase of other residential properties	**6,971,935**	**4,809**	6,697,456	4,818
– Credit card advances	**318,683**	**435**	288,991	868
– Others	**4,561,431**	**7,127**	4,718,446	3,321
Gross loans and advances for use in Hong Kong	**54,129,850**	**69,661**	42,627,264	92,300
Trade finance	**15,489,383**	**197,296**	13,930,092	83,966
Gross loans and advances for use outside Hong Kong	**41,947,007**	**26,523**	38,537,020	221,336
Gross loans and advances to customers	**111,566,240**	**293,480**	95,094,376	397,602

(d) Impaired loans and advances to customers

	The Group		The Bank	
	2013 HK$'000	2012 HK$'000	**2013 HK$'000**	2012 HK$'000
Gross impaired loans and advances to customers	**406,465**	475,920	**293,480**	397,602
Impairment allowances – Individually assessed	**(160,920)**	(265,356)	**(135,696)**	(225,964)
	245,545	210,564	**157,784**	171,638
Gross impaired loans and advances as a % of total loans and advances to customers	**0.32%**	0.45%	**0.26%**	0.42%

22 Loans and advances to customers and other accounts *(continued)*

(d) Impaired loans and advances to customers *(continued)*

Impaired loans and advances are individually assessed loans which exhibit objective evidence of impairment on an individual basis.

Individually assessed impairment allowances were made after taking into account the realisable value of collateral in respect of such loans and advances of HK$202,649,000 and HK$115,029,000 (2012: HK$249,667,000 and HK$204,094,000) of the Group and the Bank respectively. This collateral mainly comprises mortgage interest over residential or commercial properties and cash with the Group.

(e) Net investment in finance leases and hire purchase contracts

Loans and advances to customers include net investment in motor vehicles, and equipment leased to customers under finance leases and hire purchase contracts which have the characteristics of finance leases. These contracts usually run for an initial period of five to 20 years, with an option of acquiring the leased asset at nominal value. The total minimum lease payments receivable under finance leases and hire purchase contracts and their present values at the year end are as follows:

	The Group			
	2013		2012	
	Present value of the minimum lease payments HK$'000	**Total minimum lease payments HK$'000**	Present value of the minimum lease payments HK$'000	Total minimum lease payments HK$'000
Within 1 year	**175,141**	**200,370**	230,295	265,899
After 1 year but within 5 years	**242,396**	**285,959**	324,120	391,879
After 5 years	**467,504**	**530,197**	731,762	842,411
	885,041	**1,016,526**	1,286,177	1,500,189
Impairment allowances:				
– Individually assessed	**(3,569)**		(234)	
– Collectively assessed	**(510)**		(36)	
Net investment in finance leases and hire purchase contracts	**880,962**		1,285,907	

	The Bank			
	2013		2012	
	Present value of the minimum lease payments HK$'000	**Total minimum lease payments HK$'000**	Present value of the minimum lease payments HK$'000	Total minimum lease payments HK$'000
Within 1 year	**174,679**	**199,744**	229,671	265,061
After 1 year but within 5 years	**240,442**	**283,457**	321,481	388,525
After 5 years	**462,845**	**524,943**	725,705	835,554
	877,966	**1,008,144**	1,276,857	1,489,140
Impairment allowances:				
– Individually assessed	**(3,569)**		(234)	
– Collectively assessed	**(510)**		(36)	
Net investment in finance leases and hire purchase contracts	**873,887**		1,276,587	

23 Available-for-sale securities

	The Group		The Bank	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Certificates of deposit held	**6,140,890**	4,671,149	**6,140,890**	4,671,149
Debt securities	**11,231,492**	7,581,974	**10,208,797**	6,695,242
Treasury bills (including Exchange Fund Bills)	**4,213,637**	5,718,900	**4,213,637**	5,718,900
Equity securities	**75,762**	58,630	**75,762**	58,630
	21,661,781	18,030,653	**20,639,086**	17,143,921
Issued by:				
Sovereigns	**4,444,409**	6,533,226	**4,444,409**	6,156,019
Banks and other financial institutions	**11,475,530**	10,000,576	**10,452,835**	9,491,051
Corporate entities	**5,741,842**	1,496,851	**5,741,842**	1,496,851
	21,661,781	18,030,653	**20,639,086**	17,143,921
Analysed by place of listing:				
Listed in Hong Kong	**77,144**	–	**77,144**	–
Listed outside Hong Kong	**134,165**	198,373	**134,165**	198,373
Unlisted	**21,450,472**	17,832,280	**20,427,777**	16,945,548
	21,661,781	18,030,653	**20,639,086**	17,143,921
Fair value of individually impaired debt securities (Note)	**211,309**	–	**211,309**	–

Note:
During 2013, the Group's management decided to provide an impairment loss to the profit or loss on the carrying values of two debt securities held by the Group, in consideration of the prolonged underperformance in their market prices and their entities' declining profit outlook. As a result, an investment revaluation reserve deficit of approximately HK$35.6 million was transferred to and recognised as an impairment loss in the income statement for the year ended 31 December 2013.

24 Amounts due from subsidiaries

	The Bank	
	2013	2012
	HK$'000	HK$'000
Cash and balances with banks and other financial institutions	**827,605**	395,839
Placements with banks and other financial institutions	**8,142,514**	8,161,827
Loans and advances to subsidiaries and other accounts	**99,593**	93,664
	9,069,712	8,651,330

25 Investments in subsidiaries

	The Bank	
	2013	2012
	HK$'000	HK$'000
Unlisted shares, at cost	**1,274,990**	1,274,990

The following list contains the particulars of the principal subsidiaries at 31 December 2013 which materially affect the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	**Place of incorporation/ operation**	**% of shares held**	**Principal activities**	**Issued and paid-up capital**
Carford International Limited	Hong Kong	100%	Property holding	HK$2
CITIC Bank International (China) Limited ("CBI (China)")	People's Republic of China ("Mainland China")	100%	Banking	RMB1,000,000,000
CITIC Insurance Brokers Limited	Hong Kong	100%	Insurance broker	HK$5,000,000
CKWB-SN Limited	Cayman Islands/ Hong Kong	100%	Issue of structured notes and investments	US$1
CKWH-UT2 Limited	Cayman Islands/ Hong Kong	100%	Issue of subordinated notes	US$1
HKCB Finance Limited	Hong Kong	100%	Consumer financing	HK$200,000,000
The Hongkong Chinese Bank (Nominees) Limited	Hong Kong	100%	Nominee services	HK$5,000
The Ka Wah Bank (Trustee) Limited	Hong Kong	100%	Trustee services	HK$3,000,000
Viewcon Hong Kong Limited	Hong Kong	100%	Mortgage financing	HK$2

26 Property and equipment

(a) The Group

	Investment properties HK$'000	Other premises HK$'000	Furniture, fixtures and equipment HK$'000	Total HK$'000
Cost or valuation:				
At 1 January 2013	**238,348**	**641,814**	**1,024,814**	**1,904,976**
Additions	**–**	**–**	**176,028**	**176,028**
Disposals	**(60,466)**	**(9,805)**	**(41,849)**	**(112,120)**
Surplus on revaluation	**2,174**	**–**	**–**	**2,174**
Exchange adjustments	**–**	**–**	**(254)**	**(254)**
At 31 December 2013	**180,056**	**632,009**	**1,158,739**	**1,970,804**
The analysis of cost or valuation of the above assets is as follows:				
Cost	**–**	**614,412**	**1,158,739**	**1,773,151**
Valuation				
– 1985	**–**	**17,597**	**–**	**17,597**
– 2013	**180,056**	**–**	**–**	**180,056**
	180,056	**632,009**	**1,158,739**	**1,970,804**
At 1 January 2012	187,602	641,814	934,266	1,763,682
Additions	–	–	126,880	126,880
Disposals	–	–	(39,290)	(39,290)
Surplus on revaluation	50,746	–	–	50,746
Exchange adjustments	–	–	2,958	2,958
At 31 December 2012	238,348	641,814	1,024,814	1,904,976
The analysis of cost or valuation of the above assets is as follows:				
Cost	–	624,217	1,024,814	1,649,031
Valuation				
– 1985	–	17,597	–	17,597
– 2012	238,348	–	–	238,348
	238,348	641,814	1,024,814	1,904,976
Accumulated depreciation:				
At 1 January 2013	**–**	**271,505**	**724,518**	**996,023**
Charge for the year (note 11(b))	**–**	**13,694**	**102,564**	**116,258**
Written back on disposals	**–**	**(6,728)**	**(35,011)**	**(41,739)**
Exchange adjustments	**–**	**–**	**582**	**582**
At 31 December 2013	**–**	**278,471**	**792,653**	**1,071,124**
At 1 January 2012	–	257,577	673,983	931,560
Charge for the year (note 11(b))	–	13,928	87,646	101,574
Written back on disposals	–	–	(38,481)	(38,481)
Exchange adjustments	–	–	1,370	1,370
At 31 December 2012	–	271,505	724,518	996,023
Net book value:				
At 31 December 2013	**180,056**	**353,538**	**366,086**	**899,680**
At 31 December 2012	238,348	370,309	300,296	908,953

26 Property and equipment *(continued)*

(b) The Bank

	Investment properties HK$'000	Other premises HK$'000	Furniture, fixtures and equipment HK$'000	Total HK$'000
Cost or valuation:				
At 1 January 2013	**207,190**	**641,814**	**963,520**	**1,812,524**
Additions	**–**	**–**	**170,715**	**170,715**
Disposals	**(60,466)**	**(9,805)**	**(41,479)**	**(111,750)**
Surplus on revaluation	**1,390**	**–**	**–**	**1,390**
Exchange adjustments	**–**	**–**	**(1,830)**	**(1,830)**
At 31 December 2013	**148,114**	**632,009**	**1,090,926**	**1,871,049**
The analysis of cost or valuation of the above assets is as follows:				
Cost	**–**	**614,412**	**1,090,926**	**1,705,338**
Valuation				
– 1985	**–**	**17,597**	**–**	**17,597**
– 2013	**148,114**	**–**	**–**	**148,114**
	148,114	**632,009**	**1,090,926**	**1,871,049**
At 1 January 2012	158,202	641,814	878,282	1,678,298
Additions	–	–	121,802	121,802
Disposals	–	–	(38,596)	(38,596)
Surplus on revaluation	48,988	–	–	48,988
Exchange adjustments	–	–	2,032	2,032
At 31 December 2012	207,190	641,814	963,520	1,812,524
The analysis of cost or valuation of the above assets is as follows:				
Cost	–	624,217	963,520	1,587,737
Valuation				
– 1985	–	17,597	–	17,597
– 2012	207,190	–	–	207,190
	207,190	641,814	963,520	1,812,524
Accumulated depreciation:				
At 1 January 2013	**–**	**271,505**	**676,964**	**948,469**
Charge for the year	**–**	**13,694**	**96,209**	**109,903**
Written back on disposals	**–**	**(6,728)**	**(34,644)**	**(41,372)**
Exchange adjustments	**–**	**–**	**(718)**	**(718)**
At 31 December 2013	**–**	**278,471**	**737,811**	**1,016,282**
At 1 January 2012	–	257,577	632,733	890,310
Charge for the year	–	13,928	81,414	95,342
Written back on disposals	–	–	(37,794)	(37,794)
Exchange adjustments	–	–	611	611
At 31 December 2012	–	271,505	676,964	948,469
Net book value:				
At 31 December 2013	**148,114**	**353,538**	**353,115**	**854,767**
At 31 December 2012	207,190	370,309	286,556	864,055

26 Property and equipment *(continued)*

(c) Fair value measurement of investment properties

(i) Fair value hierarchy

The following table presents the fair value of the Group's and the Bank's investment properties measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement classified is determined with reference to the observability and significance of the input used in the valuation technique as follows:

Level 1 – Quoted (unadjusted) market price in active markets for identical assets at the measurement date.

Level 2 – Valuation techniques based on observable inputs, which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

Level 3 – Fair value measured using significant unobservable inputs.

		The Group Fair value measurements at 31 December 2013 using		
Recurring fair value measurement	Fair value at 31 December 2013 HK$'000	Quoted prices in active market (Level 1) HK$'000	Significant other observable input (Level 2) HK$'000	Significant unobservable input (Level 3) HK$'000
Investment properties				
– Held in Hong Kong	142,300	–	–	142,300
– Held outside Hong Kong	37,756	–	–	37,756
	180,056	–	–	180,056

		The Bank Fair value measurements at 31 December 2013 using		
Recurring fair value measurement	Fair value at 31 December 2013 HK$'000	Quoted prices in active market (Level 1) HK$'000	Significant other observable input (Level 2) HK$'000	Significant unobservable input (Level 3) HK$'000
Investment properties				
– Held in Hong Kong	142,300	–	–	142,300
– Held outside Hong Kong	5,814	–	–	5,814
	148,114	–	–	148,114

During the years ended 31 December 2013 and 2012, there were no transfers between Level 1 and Level 2, or transfer into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

All investment properties of the Group and the Bank were revalued on 31 December 2013 by Prudential Surveyors (Hong Kong) Limited, an independent firm of surveyors. The basis of the property valuation was market value which is consistent with the definition of fair value under HKFRS 13, *Fair value measurement*. The revaluation surpluses of HK$2,174,000 and HK$1,389,000 were recognised by the Group and the Bank respectively (2012: HK$50,746,000 and HK$48,988,000 were recognised by the Group and the Bank respectively), which have been credited to the income statement. Prudential Surveyors (Hong Kong) Limited has among its staff fellows of the Hong Kong Institute of Surveyors who have recent experience in the locations and categories of properties being valued.

26 Property and equipment *(continued)*

(c) Fair value measurement of investment properties *(continued)*

(ii) Reconciliation of fair value measurements in Level 3 of the fair value hierarchy

The movements during the year in the balance of these Level 3 fair value measurements are as follows:

	The Group HK$'000	**The Bank HK$'000**
At 1 January 2013	**238,348**	**207,190**
Disposals	**(60,466)**	**(60,466)**
Fair value adjustment	**2,174**	**1,390**
At 31 December 2013	**180,056**	**148,114**

(iii) Information about Level 3 fair value measurements

	Valuation technique	**Unobservable input**	**Range**
Investment properties	Market comparison approach	Premium (discount) on quality of properties	–15% to 15%

The fair value of investment properties located in or outside Hong Kong is determined by using the market comparison approach by reference to the recent sales price of comparable properties on a price per square foot basis, adjusted for a premium or a discount specific to the quality of the Group's or the Bank's properties compared to the recent sales.

(d) The analysis of net book value of investment properties and other premises is as follows:

	The Group		**The Bank**	
	2013 HK$'000	2012 HK$'000	**2013 HK$'000**	2012 HK$'000
Leasehold				
Held in Hong Kong				
– Long-term leases	**79,426**	80,296	**79,426**	80,296
– Medium-term leases	**416,412**	492,779	**416,412**	492,779
Held outside Hong Kong				
– Medium-term leases	**37,756**	35,582	**5,814**	4,424
	533,594	608,657	**501,652**	577,499

The gross rental income arising from investment properties is HK$6,523,000 (2012: HK$5,099,000).

During the year, the loss on disposal of investment properties amounted to HK$634,000 (2012: Nil).

Some of the other premises of the Group and the Bank have been revalued in previous years. The net book value of other premises of the Group and the Bank at 31 December 2013 would have been HK$5,110,000 (2012: HK$5,175,000) had they been carried at cost less accumulated depreciation.

26 Property and equipment *(continued)*

(e) Property and equipment leased out under operating leases

The Group leases out investment properties under operating leases. The leases typically run for an initial period of two to three years, with an option to renew the leases after that date, at which time all terms are renegotiated.

The Group's and the Bank's total future minimum lease payments under non-cancellable operating leases for investment and subletting properties are receivable as follows:

	The Group		The Bank	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within 1 year	**6,709**	3,276	**4,866**	2,975
After 1 year but within 5 years	**7,015**	1,530	**4,865**	1,530
	13,724	4,806	**9,731**	4,505

27 Deposits and balances of banks and other financial institutions

	The Group		The Bank	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Deposits and balances from banks	**7,522,382**	3,685,575	**7,239,589**	2,237,959

28 Deposits from customers

	The Group		The Bank	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Demand deposits and current deposits	**15,669,859**	16,005,718	**14,595,898**	15,106,951
Savings deposits	**26,396,880**	25,269,118	**26,321,343**	25,198,990
Time, call and notice deposits	**112,592,227**	89,444,825	**104,287,248**	84,089,888
	154,658,966	130,719,661	**145,204,489**	124,395,829

29 Trading liabilities

	The Group		The Bank	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Negative fair value of derivatives (note 44(b))	**1,568,640**	907,342	**1,540,175**	907,079

30 Certificates of deposit issued

	The Group and the Bank	
	2013	2012
	HK$'000	HK$'000
Non-trading	**16,175,173**	14,297,569

31 Income tax in the statement of financial position

(a) Current taxation in the statement of financial position represents:

	The Group		The Bank	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Provision for Hong Kong Profits Tax for the year (note 14(a))	**374,852**	237,983	**351,171**	221,806
Provisional Profits Tax paid	**(223,244)**	(225,387)	**(207,602)**	(203,725)
	151,608	12,596	**143,569**	18,081
Provision for overseas taxation	**27,780**	43,499	**19,878**	27,941
	179,388	56,095	**163,447**	46,022
Of which:				
Tax recoverable	**(6)**	(6,038)	**–**	–
Current taxation	**179,394**	62,133	**163,447**	46,022
	179,388	56,095	**163,447**	46,022

31 Income tax in the statement of financial position *(continued)*

(b) Deferred tax assets and liabilities recognised

The components of deferred tax (assets)/liabilities recognised in the statement of financial position and the movements during the year are as follows:

	The Group						
Deferred tax arising from:	**Depreciation allowances in excess of related depreciation HK$'000**	**Impairment allowances for loans and advances HK$'000**	**Revaluation adjustments for properties HK$'000**	**Revaluation adjustments for available-for-sale securities HK$'000**	**Tax losses HK$'000**	**Others HK$'000**	**Total HK$'000**
At 1 January 2013	**23,562**	**(42,215)**	**2,351**	**9,351**	**(757)**	**(19,575)**	**(27,283)**
Charged/(credited) to income statement (note 14(a))	**10,529**	**(2,682)**	**149**	**–**	**745**	**1,296**	**10,037**
Credited to reserves	**–**	**–**	**(921)**	**(12,174)**	**–**	**–**	**(13,095)**
Exchange and other adjustments	**(78)**	**–**	**–**	**–**	**12**	**(87)**	**(153)**
At 31 December 2013	**34,013**	**(44,897)**	**1,579**	**(2,823)**	**–**	**(18,366)**	**(30,494)**
At 1 January 2012	25,947	(55,778)	14,902	(62,648)	–	(23,350)	(100,927)
Charged/(credited) to income statement (note 14(a))	(2,563)	18,643	(12,552)	–	(757)	3,902	6,673
Charged to reserves	–	–	–	72,000	–	–	72,000
Exchange and other adjustments	178	(5,080)	1	(1)	–	(127)	(5,029)
At 31 December 2012	23,562	(42,215)	2,351	9,351	(757)	(19,575)	(27,283)

	The Bank						
Deferred tax arising from:	**Depreciation allowances in excess of related depreciation HK$'000**	**Impairment allowances for loans and advances HK$'000**	**Revaluation adjustments for properties HK$'000**	**Revaluation adjustments for available-for-sale securities HK$'000**	**Tax losses HK$'000**	**Others HK$'000**	**Total HK$'000**
At 1 January 2013	**26,257**	**(40,812)**	**932**	**10,567**	**(757)**	**(17,284)**	**(21,097)**
Charged/(credited) to income statement	**9,500**	**(2,792)**	**–**	**–**	**745**	**2,294**	**9,747**
Credited to reserves	**–**	**–**	**(921)**	**(6,089)**	**–**	**–**	**(7,010)**
Exchange and other adjustments	**(78)**	**–**	**–**	**–**	**12**	**(2)**	**(68)**
At 31 December 2013	**35,679**	**(43,604)**	**11**	**4,478**	**–**	**(14,992)**	**(18,428)**
At 1 January 2012	28,525	(55,774)	13,484	(62,648)	–	(16,789)	(93,202)
Charged/(credited) to income statement	(2,450)	19,732	(12,552)	–	(757)	(454)	3,519
Charged to reserves	–	–	–	73,215	–	–	73,215
Exchange and other adjustments	182	(4,770)	–	–	–	(41)	(4,629)
At 31 December 2012	26,257	(40,812)	932	10,567	(757)	(17,284)	(21,097)

31 Income tax in the statement of financial position *(continued)*

(b) Deferred tax assets and liabilities recognised *(continued)*

	The Group		The Bank	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Net deferred tax assets recognised on the statement of financial position	**(42,618)**	(28,761)	**(28,490)**	(21,097)
Net deferred tax liabilities recognised on the statement of financial position	**12,124**	1,478	**10,062**	–
	(30,494)	(27,283)	**(18,428)**	(21,097)

(c) Deferred tax assets not recognised

The Group and the Bank have not recognised deferred tax assets in respect of cumulative tax losses of HK$2,682,000 (2012: HK$2,633,000) and Nil (2012: Nil) respectively, as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under current tax legislation.

32 Debt securities issued

	The Group and the Bank	
	2013	2012
	HK$'000	HK$'000
Non-trading debt securities issued	**1,151,253**	1,119,747

33 Other liabilities

	The Group		The Bank	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Items in the course of transmission to other financial institutions	**–**	126,867	**–**	126,867
Accruals and other payables	**9,206,405**	4,511,053	**8,180,087**	3,859,413
	9,206,405	4,637,920	**8,180,087**	3,986,280

34 Amounts due to subsidiaries

	The Bank	
	2013	2012
	HK$'000	HK$'000
Other liabilities	**32,515**	32,515
Deposits and balances from banks and other financial institutions	**66,061**	77,335
Deposits from customers	**138,247**	116,893
	236,823	226,743

35 Loan capital

	The Group		The Bank	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Subordinated notes with US$500 million of 6.875% *	**4,098,142**	4,390,437	**4,098,142**	4,390,437
Subordinated notes with US$300 million of 3.875% **	**2,277,706**	2,307,722	**2,277,706**	2,307,722
Subordinated notes with US$300 million of 6.000% ***	**2,281,704**	–	**2,281,704**	–
	8,657,552	6,698,159	**8,657,552**	6,698,159

* Under a US$2 billion Medium Term Note Programme ("the Programme") issued in December 2007 and the new Offering Circular issued in June 2010, the Bank issued subordinated notes on 24 June 2010 with a face value of US$500 million (equivalent to HK$3,888.9 million). The notes bear an interest rate of 6.875% per annum, payable semi-annually. The notes are listed on the Singapore Exchange Securities Trading Limited and will mature on 24 June 2020.

** Under the Programme and the new Offering Circular issued in August 2012, the Bank issued subordinated notes on 27 September 2012 with a face value of US$300 million (equivalent to HK$2,326.1 million). The notes bear interest at a fixed rate of 3.875% per annum, payable semi-annually until 28 September 2017 and are fixed at an interest rate of the prevailing five-year US Treasury bonds yield plus 3.25% per annum thereafter if the notes are not redeemed early at the option of the Bank. The notes are listed on the Singapore Exchange Securities Trading Limited and will mature on 28 September 2022.

*** Under the Programme and the new Offering Circular issued in October 2013, the Bank issued subordinated notes on 7 November 2013 with a face value of US$300 million (equivalent to HK$2,325.8 million) and qualifying as Basel III-compliant Tier-2 capital. The notes bear interest at a fixed rate of 6.000% per annum, payable semi-annually until 7 May 2019 and are fixed at the interest rate of the prevailling five-year US Treasury bonds yield plus 4.718% per annum thereafter if the notes are not redeemed on the call date. The notes are listed on the Hong Kong Stock Exchange and will mature on 7 May 2024.

36 Capital, reserves and dividend

(a) Share capital

Authorised and issued share capital

	2013	2012
	HK$'000	HK$'000
Authorised:		
8,000,000,000 ordinary shares of HK$1 each	**8,000,000**	8,000,000
Issued and fully paid:		
At 1 January and at 31 December: 7,283,341,176 (2012: 7,283,341,176) ordinary shares of HK$1 each	**7,283,341**	7,283,341

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the shareholders' meetings of the Bank. All ordinary shares rank equally with regard to the Bank's residual assets.

36 Capital, reserves and dividend *(continued)*

(b) Movement in components of equity of the Bank

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Bank's individual components of equity between the beginning and the end of the year are set out below:

	The Bank								
	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	General reserve HK$'000	Property revaluation reserve HK$'000	Investment revaluation reserve HK$'000	Retained profits HK$'000	Total reserves (note 36(d)) HK$'000	Total equity HK$'000
At 1 January 2013	**7,283,341**	**282,930**	**2,903**	**100,000**	**4,718**	**53,456**	**6,162,428**	**6,606,435**	**13,889,776**
Changes in equity for 2013:									
Profit for the year	–	–	–	–	–	–	**1,898,261**	**1,898,261**	**1,898,261**
Other comprehensive income for the year	–	–	–	–	**921**	**(30,815)**	–	**(29,894)**	**(29,894)**
Total comprehensive income for the year	–	–	–	–	**921**	**(30,815)**	**1,898,261**	**1,868,367**	**1,868,367**
Release of reserve upon disposal of property	–	–	–	–	**(5,584)**	–	**5,584**	–	–
At 31 December 2013	**7,283,341**	**282,930**	**2,903**	**100,000**	**55**	**22,641**	**8,066,273**	**8,474,802**	**15,758,143**
At 1 January 2012	7,283,341	282,930	2,903	100,000	4,718	(317,049)	4,799,146	4,872,648	12,155,989
Changes in equity for 2012:									
Profit for the year	–	–	–	–	–	–	1,363,282	1,363,282	1,363,282
Other comprehensive income for the year	–	–	–	–	–	370,505	–	370,505	370,505
Total comprehensive income for the year	–	–	–	–	–	370,505	1,363,282	1,733,787	1,733,787
At 31 December 2012	7,283,341	282,930	2,903	100,000	4,718	53,456	6,162,428	6,606,435	13,889,776

(c) Dividend

No dividend was declared and paid during the year ended 31 December 2013 (2012: Nil).

(d) Nature and purpose of components of reserves

(i) Share premium
The application of the share premium account is governed by section 48B of the Hong Kong Companies Ordinance.

(ii) Capital reserve
The capital reserve is not available for distribution to shareholders.

(iii) General reserve
The general reserve was set up from the transfer of retained earnings, and is available for distribution to shareholders.

(iv) Exchange differences reserve
The exchange differences reserve comprises all foreign exchange differences arising from the translation of the financial statement of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 2(p).

36 Capital, reserves and dividend *(continued)*

(d) Nature and purpose of components of reserves *(continued)*

(v) Property revaluation reserve

The property revaluation reserve is dealt with in accordance with the accounting polices set out in note 2(i) and is not available for distribution to shareholders because it does not constitute realised profits within the meaning of section 79B(2) of the Hong Kong Companies Ordinance.

(vi) Investment revaluation reserve

The investment revaluation reserve comprises the cumulative net change in the fair value of available-for-sale securities held at the end of the reporting period and is dealt with in accordance with the accounting policies in note 2(e)(ii).

(vii) Statutory reserve

Under the relevant legislation of mainland China, CBI (China) is required to transfer 10% of its profit after taxation to a non-distributable statutory reserve until such reserve has reached 50% of its registered share capital.

(viii) Regulatory general reserve

Pursuant to the banking regulations of mainland China, CBI (China) is required to set up a regulatory general reserve through a direct transfer from the current year's profit appropriation, as determined based on the 1% of the total risk assets at the end of the reporting period to cover its unidentified potential loss exposures. The regulatory general reserve forms part of the equity of the Group.

(ix) Retained profits

A regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes by earmarking amounts in respect of impairment losses recognised which the Bank will or may incur on loans and advances. Movements in the reserve are earmarked directly through retained profits and in consultation with the HKMA. At 31 December 2013, HK$1,816,253,000 (2012: HK$1,440,192,000) was included in the retained profits in this respect, which was distributable to equity holders of the Bank subject to consultation with the HKMA.

(e) Distributability of reserve

At 31 December 2013, the aggregate amount of reserves available for distribution to equity shareholders of the Bank, as calculated under the provision of section 79B of the Hong Kong Companies Ordinance, was HK$6,186,242,000 (2012: HK$4,665,431,000). The difference between the aggregate distributable reserves of HK$6,186,242,000 (2012: HK$4,665,431,000) and the Bank's retained profits of HK$8,066,273,000 (2012: HK$6,162,428,000) as reported in note 36(b) mainly represents the inclusion of general reserves and the exclusion of unrealised revaluation gains on investment properties and the above regulatory reserve of the Bank.

37 Staff retirement scheme

The Group has a defined contribution provident fund scheme ("the Retirement Scheme") under which it contributes 10% of the employees' basic salaries. The Retirement Scheme is a Mandatory Provident Fund ("MPF") exempted scheme and covers all permanent full-time employees of the Group. No employee contributions are required. Contributions forfeited by leavers prior to vesting fully may not be used by the Group to reduce the existing level of contribution, but are transferred to a separate welfare fund which shall be applied for the welfare of the Retirement Scheme's members.

In addition to the Retirement Scheme, the Group has also participated in an approved MPF scheme effective from 1 December 2000 to provide a choice of schemes to both existing and new employees. Mandatory benefits are provided under the MPF Scheme.

During the year, the Group contributed approximately HK$72,748,000 (2012: HK$67,356,000) (note 11(a)) to these schemes.

38 Cash and cash equivalents

	The Group	
	2013	2012
	HK$'000	HK$'000
(i) Components of cash and cash equivalents in the consolidated cash flow statement		
Cash and balances with banks, central banks and other financial institutions	**12,621,484**	5,290,053
Placements with and advances to banks, central banks and other financial institutions with original maturity within 3 months	**27,382,234**	32,900,528
Treasury bills and certificates of deposit held with original maturity within 3 months:		
– Available-for-sale securities	**3,608,809**	5,511,866
	43,612,527	43,702,447
(ii) Reconciliation with the consolidated statement of financial position		
Cash and balances with banks, central banks and other financial institutions	**12,621,484**	5,290,053
Placements with and advances to banks, central banks and other financial institutions	**46,089,324**	43,501,215
Treasury bills and certificates of deposit held:		
– Available-for-sale securities	**10,354,527**	10,390,049
Amounts shown in the consolidated statement of financial position	**69,065,335**	59,181,317
Less: Amounts with an original maturity of over 3 months	**(25,452,808)**	(15,478,870)
Cash and cash equivalents in the consolidated cash flow statement	**43,612,527**	43,702,447

The balances of cash and cash equivalents included cash balances with central banks and other financial institutions that are subject to exchange control and regulatory restrictions, amounting to HK$1,844,563,000 at 31 December 2013 (2012: HK$982,111,000).

39 Assets pledged as security

	The Group and the Bank	
	2013	2012
	HK$'000	HK$'000
Available-for-sale securities	**85,291**	85,403

Note:
The assets pledged represented statutory deposits pledged by the overseas branches of the Bank to the Office of the Comptroller of the Currency in the United States.

40 Assets subject to sale and repurchase transactions

At 31 December 2013, the Group entered into repurchase agreements ("the Agreements") with certain banks or financial institutions to sell available-for-sale securities which are subject to the Agreements to repurchase these securities at the agreed dates and prices. The consideration received under the Agreements was reported as 'Deposits and balances of banks and financial institutions' at 31 December 2013. At 31 December 2013, no outstanding transferred financial assets in which the Group has a continuing involvement were derecognised in their entirety.

According to the Agreements, there was no transfer of the legal ownership of these securities to the counterparty banks during the cover period. However, the Group was not allowed to sell or pledge these securities during the covered period unless both parties mutually agreed with such arrangement. Accordingly, these securities were not derecognised from the financial statements but regarded as 'collateral' for the secured lending from these counterparty banks, who could only claim the collateral when an event of default existed.

Carrying amounts of financial assets and associated financial liabilities not qualifying for derecognition

	The Group and the Bank	
	2013	2012
	HK$'000	HK$'000
Included in available-for-sale securities	**2,080,745**	643,176
Included in deposits and balances of banks and other financial institutions	**1,884,363**	604,700

41 Material related party transactions

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions.

(a) Transactions with group companies

During the year, the Group entered into a number of transactions with related parties in the normal course of its banking business, including, inter alia, lending, the acceptance and placement of interbank deposits, participation in loan syndicates, correspondent banking transactions and foreign exchange transactions. The transactions were priced based on relevant market rates at the time of each transaction, and were under the same terms as those available to other counterparties and customers of the Group. In the opinion of the Directors, these transactions were conducted on normal commercial terms.

The amount of related party transactions during the year and outstanding balances at the end of the year are set out below:

The Group and the Bank	Ultimate controlling party		Immediate parent		Fellow subsidiaries		Associates (note (i))		Related companies (note (ii))	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Interest income	**–**	–	**–**	–	**12,966**	16,802	**3,270**	3,126	**717,908**	683,935
Interest expense	**–**	(2,234)	**(5,550)**	(5,024)	**(71,126)**	(71,416)	**(14,027)**	(48,520)	**(419)**	(174,051)
Other operating income	**–**	–	**–**	–	**–**	–	**34,834**	29,592	**–**	–
Operating expenses	**–**	–	**(2,755)**	(3,367)	**(6,741)**	(5,808)	**(4,423)**	(4,720)	**(8)**	(630)
Trading (loss)/gain on derivatives	**–**	–	**–**	–	**(1,127)**	(447)	**–**	–	**228,391**	339,280
Assets										
Derivative financial instruments	**–**	–	**–**	–	**–**	–	**–**	–	**280,838**	397,459
Other receivables	**–**	–	**–**	–	**4,065**	4,736	**2,978**	757	**102,155**	61,220
Liabilities										
Derivative financial instruments	**–**	–	**–**	–	**1,127**	–	**–**	–	**52,447**	51,511
Other payables	**–**	–	**4,604**	4,116	**31,137**	26,294	**727**	1,811	**17,029**	28,482
Loan capital	**–**	–	**–**	–	**–**	–	**–**	46,154	**–**	2,195,219
Debt securities issued	**–**	–	**–**	–	**–**	–	**–**	115,504	**–**	–
Lending activities										
At 31 December	**–**	–	**–**	–	**408,438**	540,068	**90,000**	205,000	**18,647,543**	17,783,405
Average for the year	**–**	–	**–**	–	**511,280**	576,791	**199,500**	181,839	**18,175,332**	17,198,980
Acceptance of deposits										
At 31 December	**–**	1	**429,904**	425,860	**3,555,608**	8,279,000	**2,464,814**	3,980,800	**1,245,983**	679,969
Average for the year	**–**	889,069	**419,843**	435,120	**6,821,887**	5,285,669	**3,293,795**	3,987,656	**1,126,896**	1,237,462
Off-statement of financial position items										
Acceptances, guarantees and letters of credit – contract amounts payable	**–**	–	**–**	–	**(4,371)**	–	**(9,137)**	(3,000)	**–**	–
Lease commitments	**–**	–	**–**	–	**7,137**	24,313	**8,655**	10,983	**–**	–
Other commitments	**–**	–	**–**	–	**572,802**	542,606	**599,938**	291,030	**–**	–
Derivative financial instruments – notional amounts	**–**	–	**–**	–	**972,465**	–	**–**	–	**12,061,012**	15,850,782

41 Material related party transactions *(continued)*

(a) Transactions with group companies *(continued)*

No impairment allowances were made in respect of the above loans to and placements with related parties.

The Bank

	Subsidiaries	
	2013	2012
	HK$'000	HK$'000
Interest income	**219,639**	232,246
Interest expense	**(15)**	(73,840)
Other operating (expense)/income	**(3,301)**	352
Trading loss on derivatives	**2,101**	(9,464)

Note:

(i) Associates of the Group and the Bank include the associates of the ultimate controlling party and immediate parent respectively.

(ii) Related companies refers to shareholders of the immediate parent, which exercise significant influence on the immediate parent.

(b) Transactions with key management personnel

Remuneration for key management personnel of the Group and the Bank, including amounts paid to the Bank's Directors as disclosed in note 12 is as follows:

	The Group and the Bank	
	2013	2012
	HK$'000	HK$'000
Short-term employee benefits	**76,785**	82,750
Post-employment benefits	**2,968**	2,819
	79,753	85,569

Total remuneration is included in 'staff costs' (note 11(a)).

41 Material related party transactions *(continued)*

(b) Transactions with key management personnel *(continued)*

During the year, the Bank provided credit facilities to key management personnel of the Bank and its holding companies and their close family members, as well as to companies controlled or significantly influenced by them. The credit facilities were provided in the ordinary course of business and on substantially the same terms as for comparable transactions with persons of a similar standing, or where applicable, with other employees.

	The Group and the Bank	
	2013	2012
	HK$'000	HK$'000
At 1 January	**10,876**	11,981
At 31 December	**20,311**	10,876
Maximum amount during the year	**24,187**	12,785

No impairment losses were recorded against outstanding balances with key management personnel during the year, and no individually assessed impairment allowance was made on balances with key management personnel and their immediate relatives at the year end.

(c) Loans to officers

Loans to officers of the Bank disclosed pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

	The Bank	
	2013	2012
	HK$'000	HK$'000
Aggregate amount of relevant loans made by the Bank outstanding at 31 December	**2,045**	21,769
Maximum aggregate amount of relevant loans made by the Bank outstanding during the year	**23,240**	24,344

There were no impairment allowances made against these loans at 31 December 2013 and 2012.

42 Financial risk management

This section presents information about the Group's exposure to risks, and its management and control of risks, in particular the primary risks associated with its use of financial instruments as follows:

- Credit risk: The risk of financial loss due to the failure of a customer or counterparty to fulfil its contractual obligations.

- Market risk: The risk that movements in market risk factors, including foreign exchange rates, commodity prices, interest rates, credit spreads and equity prices, will reduce the Group's income, the value of its portfolios and its reserve value.

- Liquidity risk: The risk of being unable to meet financial obligations as they fall due. This may be caused by a funding liquidity problem such as the inability to liquidate assets or obtain funding to meet obligations, or may be attributable to a market liquidity problem significantly resulting in market disruptions, thus hindering the Group's ability to unwind or offset specific exposures without lowering market prices.

- Operational risk: The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

The Group has established policies and procedures to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor these risks and limits continually by means of reliable and up-to-date management and information systems. The Group continually modifies and enhances its risk management framework and infrastructure in keeping with the market, product offerings and international best practice. The Group's internal auditor also performs regular independent audits to ensure due compliance with internal policies and regulatory requirements.

In addition to the Group's exposure to and management of the aforesaid risks, this note also includes information about the Group's capital management.

(a) Credit risk management

Credit risk is the risk of financial loss due to the failure of a customer or counterparty to fulfil its contractual obligations. Credit exposure principally arises in loans and advances, debt securities, treasury bills and trading derivatives, as well as in the credit risk from financial arrangements in the off-statement of financial position such as loan commitments. The Group has developed standards, policies and procedures to measure, monitor and mitigate the risk of its lending business. The policies and procedures are reviewed as required, to respond quickly to the changing market environment to better reflect the risk factors for the Group's credit considerations.

Credit risk management and control is centralised in the Risk Management Group ("RMG") under the oversight of the Credit Committee, and is reported to the Credit & Risk Management Committee ("CRMC") at the board level on a quarterly basis. These committees provide appropriate oversight of the Group's risk management practices by defining the Group's policies and risk appetite, and providing the RMG with the means to implement measures to mitigate credit risk arising from the Group's adopted strategy.

Credit risk embedded in products is identified and measured in product programmes. Credit risk pertaining to individual customers is identified and measured by credit officers utilising internal risk rating models. Credit applications are approved by credit officers under delegated authorities or by the Credit Committee.

The Group mitigates credit risk by taking collateral and entering into offsetting or netting agreements with borrowers and counterparties, as the case may be, should such clauses and agreements be legally established and enforceable.

42 Financial risk management *(continued)*

(a) Credit risk management *(continued)*

Concentration of credit risk exists when changes in geographic, economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is material in relation to the Group's total exposures. The Group's portfolio of financial instruments is diversified among geographic, industry and product sectors. Credit risk concentration of the Group's respective financial assets is disclosed in notes 20 to 23.

Credit risk for treasury transactions is managed in the same way as the Group manages its corporate lending risk. Risk grading is applied to the debt issuers, with individual credit limits set.

Credit and counterparty risks related to countries and financial institutions are assessed and monitored regularly according to the Group's Country Risks and Financial Institution Risks policies. The policies are implemented together to effectively assess and control credit limits and tenors made available to the respective financial institutions under an umbrella country risk limit for each country.

The Group applies the same credit policy in respect of contingent liabilities as in respect of financial instruments recorded on the statement of financial position, based on loan approval procedures, use of limits to reduce risk and monitoring. Credit risk is also mitigated by obtaining collateral in the form of pledged assets and guarantees from borrowers and third parties.

(i) Credit quality

The Group has a 14-grade internal risk rating system (Grades 1-11 for performing loans and Grades 12-14 for non-performing loans) that maps to external agencies' Master Scales, providing calibrated internal ratings. The integration of this framework into the Group's reporting structure has enabled more accurate risk reporting, thus enhancing the internal management. The risk rating tools are calibrated according to differing customer segments (manufacturing, trading, property development/investment, etc.) which enables the ranking of the credit quality of each customer and the governing of the credit exposure for individual customers or counterparties.

Customers' risk ratings are reviewed regularly and amendments, where necessary, are implemented promptly, particularly in times of fluctuating market conditions such as the financial crisis in 2008. The Group also maintains a committee to regularly oversee weaker credits (which have lower risk ratings of 8-11) to preserve the Group's quality portfolio. The table below outlines the Group's rating scale benchmarked against external credit agencies:

42 Financial risk management *(continued)*

(a) Credit risk management *(continued)*

(i) Credit quality (continued)

Internal Rating System (14-grade)	ECAI Rating (note(i)) (S&P/Moody's/Fitch)	Rating Principles
1	AA-/Aa3/AA–or above	– Borrowers are almost risk-free – Extremely strong ability to meet financial obligations
2	A-/A3/A–to A+/A1/A+	– Borrowers with minimal risk of default – Very strong ability to meet financial obligations
3	BBB/Baa2/BBB to BBB+/Baa1/BBB+	– Borrowers with very low risk of default – Strong ability to meet financial obligations
4	BBB-/Baa3/BBB–	– Borrowers with low risk of default – Satisfactory ability to meet financial obligations
5	BB+/Ba1/BB+	– Borrowers with below average risk – A medium grade which possesses certain speculative characteristics
6	BB/Ba2/BB	– Borrowers with average risk – Satisfactory ability to meet financial obligations
7	BB-/Ba3/BB–	– Borrowers with acceptable but above average risk
8	B+/B1/B+	– Borrowers with moderate risk of default
9	B/B2/B	– Borrowers with substantial risk of default
10	B-/B3/B–	– Borrowers with high risk of default
11 Special Mention	C/C/C to CCC+/Caa1/CCC+	– Borrowers with clear difficulties meeting financial obligations
12 Substandard	D/-/D	– Identical to Substandard of Loan Classification Policy (note (ii))
13 Doubtful	–	– Identical to Doubtful of Loan Classification Policy
14 Loss	–	– Identical to Loss of Loan Classification Policy

Note:
(i) ECAI stands for External Credit Assessment Institutions.

(ii) The Loan Classification Policy sets out a system for classifying relevant assets in accordance with the Loan Classification Guideline issued by the HKMA such that consistent criteria and timing for the grading of relevant assets shall be put into effect.

42 Financial risk management *(continued)*

(a) Credit risk management *(continued)*

(ii) Exposure of credit risk

The maximum exposure to credit risk at the end of the reporting period, without considering any collateral held or other credit enhancements, is represented by the carrying amount of each financial asset in the statement of financial position after deducting any impairment allowances. A summary of the maximum exposure is as follows:

	The Group		The Bank	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and balances with banks, central banks and other financial institutions	**12,621,484**	5,290,053	**12,596,762**	5,992,525
Placements with and advances to banks, central banks and other financial institutions	**46,089,324**	43,501,215	**41,078,733**	34,826,252
Trading assets	**2,395,590**	1,846,682	**2,358,417**	1,838,611
Securities designated at fair value through profit or loss	**63,204**	91,500	**63,204**	91,500
Loans and advances to customers and other accounts	**132,384,202**	107,331,436	**116,211,752**	96,961,940
Available-for-sale securities	**21,586,019**	17,972,023	**20,563,324**	17,085,291
Financial guarantees and other credit-related contingent liabilities	**16,863,031**	9,469,348	**12,557,882**	6,384,622
Loan commitments and other credit-related commitments	**70,995,669**	50,087,933	**70,422,194**	49,587,142
	302,998,523	235,590,190	**275,852,268**	212,767,883

(iii) Master netting arrangement

The Group enters into enforceable master netting arrangements with counterparties. If an event of default occurs, all outstanding transactions with the counterparty will be terminated and all amounts outstanding will be settled on a net basis. Except for the event of default, all outstanding transactions with the counterparty are settled on a gross basis and generally do not result in offsetting the assets and liabilities in the statement of financial position. The Group discloses information for financial statement users to evaluate the effect or potential effect of netting arrangements, including the rights of set-off associated with the Group's recognised financial assets and recognised financial liabilities, on the Group's financial position.

	The Group 2013			
		Related amounts that are not offset in the statement of financial position		
	Net amounts of financial instruments presented in the statement of financial position HK$'000	**Financial instruments HK$'000**	**Cash collateral received HK$'000**	**Net amount HK$'000**
Financial assets				
– Derivative financial instruments	**2,395,590**	**(865,377)**	**(439,315)**	**1,090,898**
Financial liabilities				
– Derivative financial instruments	**1,568,640**	**(865,377)**	**–**	**703,263**

42 Financial risk management *(continued)*

(a) Credit risk management *(continued)*

(iii) Master netting arrangement (continued)

The Group 2012

	Net amounts of financial instruments presented in the statement of financial position HK$'000	Related amounts that are not offset in the statement of financial position: Financial instruments HK$'000	Related amounts that are not offset in the statement of financial position: Cash collateral received HK$'000	Net amount HK$'000
Financial assets				
– Derivative financial instruments	1,846,682	(473,107)	(348,227)	1,025,348
Financial liabilities				
– Derivative financial instruments	907,342	(473,107)	–	434,235

The Bank 2013

	Net amounts of financial instruments presented in the statement of financial position HK$'000	**Related amounts that are not offset in the statement of financial position: Financial instruments HK$'000**	**Related amounts that are not offset in the statement of financial position: Cash collateral received HK$'000**	**Net amount HK$'000**
Financial assets				
– Derivative financial instruments	**2,358,417**	**(865,377)**	**(439,315)**	**1,053,725**
Financial liabilities				
– Derivative financial instruments	**1,540,175**	**(865,377)**	**–**	**674,798**

The Bank 2012

	Net amounts of financial instruments presented in the statement of financial position HK$'000	Related amounts that are not offset in the statement of financial position: Financial instruments HK$'000	Related amounts that are not offset in the statement of financial position: Cash collateral received HK$'000	Net amount HK$'000
Financial assets				
– Derivative financial instruments	1,838,611	(473,107)	(348,227)	1,017,277
Financial liabilities				
– Derivative financial instruments	907,079	(473,107)	–	433,972

42 Financial risk management *(continued)*

(a) Credit risk management *(continued)*

(iv) Mitigation of credit risk – Collateral and other credit enhancements

The Group dedicates great effort and resources to mitigating credit risk, and this takes many forms. In general, risk to the Group's ultimate credit exposure is mitigated by recognised collateral and credit risk enhancement. The Group continuously seeks to enhance its level of credit risk mitigation, and it was particularly successful at safeguarding its credit quality during the financial crisis in 2008.

The principal collateral received to secure loans and advances includes mortgages, cash collateral, equities listed on a main index/recognised exchanges, accounts receivable assignments, standby letters of credit and listed debt securities acceptable to the Group. In some cases, depending on the customer's position and the types of credit products, loans may be granted on a clean basis, backed by corporate or personal guarantees.

The Group has guidelines on the acceptability of specific classes of collateral or credit risk enhancements accompanied by the determination of valuation parameters. Such parameters are expected to be conservative and reviewed regularly. Security structures and covenants (financial and non-financial) are subject to regular review to ensure they comply with the stipulated conditions. The collateral is important to mitigate credit risk, but it is the Group's policy to assess the repayment ability of individual customers or counterparties rather than just solely relying on security.

The Group's collateralised credit risk at 31 December 2013 and 2012, excluding impaired exposure, is broken down as follows:

	The Group		The Bank	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Lower of gross loans and advances and fair value of collateral and other credit enhancements held against financial assets that are:				
– neither past due nor impaired	**69,012,310**	60,387,453	**59,060,870**	51,741,951
– past due but not impaired	**781,593**	406,573	**664,544**	311,862
	69,793,903	60,794,026	**59,725,414**	52,053,813

(v) Portfolio management and risk concentration

Portfolio management – Risk-based Pricing Model

As part of the Group's portfolio management practices, the Risk-based Pricing Model has been adopted with the aim of improving the overall return for the Group (value creation), after taking into account the risks of the customers and facilities, and thus the capital required to support the loan exposure and other costs. Stress tests on the Group's credit risk are conducted regularly. The result is approved by the Credit Committee and is endorsed by the Board through the CRMC.

Risk concentration

A Credit Risk Concentration Policy is in place and the Group constantly reviews its loan exposure to monitor the concentration of credit risk relating to customers, countries, market segments and products.

Capital adequacy

The Bank has introduced significant enhancements to its Internal Capital Adequacy Assessment Process ("ICAAP") which comply with the HKMA's requirement in accordance with the Supervisory Policy Manual "Supervisory Review Process". According to the HKMA's requirement on Pillar II, ICAAP has been performed to assess the Bank's capital adequacy and determine if the Bank should hold additional capital to cater for risks that are not covered, or not adequately covered under Pillar I.

42 Financial risk management *(continued)*

(a) Credit risk management *(continued)*

(vi) Credit quality of loans and advances

The Group uses every means to manage and monitor its risks, and has a prudent Loan Classification Policy and Impairment Assessment Policy in place to govern this aspect.

At 31 December 2013 and 2012, all loans and advances to banks were not impaired. The credit quality of loans and advances to customers is analysed as follows:

	The Group		The Bank	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Gross loans and advances to customers				
– neither past due nor impaired	**125,492,524**	104,132,732	**110,271,956**	94,308,305
– past due but not impaired	**1,117,852**	483,180	**1,000,803**	388,469
– impaired	**406,465**	475,920	**293,481**	397,602
	127,016,841	105,091,832	**111,566,240**	95,094,376

Of which:

	The Group		The Bank	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Gross loans and advances to customers that are neither past due nor impaired				
– Pass includes Grades 1 to 10	**125,092,145**	102,902,110	**109,871,577**	93,104,868
– Special Mention includes Grade 11	**400,379**	1,230,622	**400,379**	1,203,437
	125,492,524	104,132,732	**110,271,956**	94,308,305

The ageing analysis of loans and advances to customers that are past due but not impaired is as follows:

	The Group		The Bank	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Gross loans and advances to customers that are past due but not impaired				
– Overdue 3 months or less	**1,117,852**	483,180	**1,000,803**	388,469

Loans and advances that would have been past due or impaired had the terms not been rescheduled amounted to HK$728,855,000 at 31 December 2013 (2012: HK$687,311,000).

Further detailed analyses of the impaired loan by industry sector or by geographical location are provided in note 22(c) and note (C) of the unaudited supplementary information respectively.

42 Financial risk management *(continued)*

(a) Credit risk management *(continued)*

(vii) Credit quality of financial assets other than loans and advances

The credit risk of treasury transactions is managed in the same way as the Group manages its corporate lending risk. Risk grading is applied to the debt issuers, with individual credit limits set. In response to the recent debt crisis in European countries, the Group performed credit and market risk assessments at 31 December 2013 for certain European debt securities and has significantly reduced the exposures in the region.

The following table presents the credit quality of investments in debt securities analysed by the designated external credit assessment agency, Moody's Investors Service ratings (or its equivalent), at the end of the reporting period. During the year ended 31 December 2013, the Group reassessed the credit ratings for these debt securities and they are represented by the issue, the issuer or sovereigns ratings. Ratings designated for the issuers or sovereigns are reported if there are no issue ratings and certain comparatives for the following credit rating analysis have been restated accordingly.

	The Group 2013		
	Securities designated at fair value through profit or loss HK$'000	**Available-for-sale securities HK$'000**	**Total HK$'000**
Aaa	**–**	**1,636,185**	**1,636,185**
Aa3 to Aa1	**–**	**5,618,387**	**5,618,387**
A3 to A1	**12,927**	**7,802,162**	**7,815,089**
Lower than A3	**–**	**4,767,681**	**4,767,681**
	12,927	**19,824,415**	**19,837,342**
Unrated	**50,277**	**1,761,604**	**1,811,881**
Total	**63,204**	**21,586,019**	**21,649,223**

	The Group 2012		
	Securities designated at fair value through profit or loss HK$'000	Available-for-sale securities HK$'000	Total HK$'000
Aaa	–	907,118	907,118
Aa3 to Aa1	–	7,276,346	7,276,346
A3 to A1	43,618	7,554,390	7,598,008
Lower than A3	–	1,587,067	1,587,067
	43,618	17,324,921	17,368,539
Unrated	47,882	647,102	694,984
Total	91,500	17,972,023	18,063,523

42 Financial risk management *(continued)*

(a) Credit risk management *(continued)*

(vii) Credit quality of financial assets other than loans and advances (continued)

	The Bank 2013		
	Securities designated at fair value through profit or loss HK$'000	**Available-for-sale securities HK$'000**	**Total HK$'000**
Aaa	**–**	**1,636,185**	**1,636,185**
Aa3 to Aa1	**–**	**5,618,387**	**5,618,387**
A3 to A1	**12,927**	**6,779,468**	**6,792,395**
Lower than A3	**–**	**4,767,681**	**4,767,681**
	12,927	**18,801,721**	**18,814,648**
Unrated	**50,277**	**1,761,603**	**1,811,880**
Total	**63,204**	**20,563,324**	**20,626,528**

	The Bank 2012		
	Securities designated at fair value through profit or loss HK$'000	Available-for-sale securities HK$'000	Total HK$'000
Aaa	–	907,118	907,118
Aa3 to Aa1	–	7,276,346	7,276,346
A3 to A1	43,618	6,667,658	6,711,276
Lower than A3	–	1,587,067	1,587,067
	43,618	16,438,189	16,481,807
Unrated	47,882	647,102	694,984
Total	91,500	17,085,291	17,176,791

42 Financial risk management *(continued)*

(b) Market risk management

Market risk arises from all financial instruments sensitive to market risk, including securities, foreign exchange contracts, equity and derivative instruments, as well as available-for-sale securities ("AFS") or structural positions. The Group mainly separates exposures to market risk into trading and AFS portfolios. Trading portfolios include positions arising from proprietary position-taking and other mark-to-market positions designated to the trading book. AFS portfolios include positions that primarily arise from the Group's investment portfolio and liquidity portfolio in securities, which are neither intended to be held to maturity nor purchased for trading purposes. The change in valuation for the trading portfolios from market risks affects the income statement, while that for the AFS portfolios affects the investment revaluation reserve. The Group needs to ensure impacts on both the income statement and the reserves from market risks have proper prudent controls. The objectives of market risk management are to:

- identify, monitor and control market risk exposures through the measurement of the risks; establish position limits, sensitivity limits and value at risk ("VaR") limits based on the Group's Tier 1 capital base; and communicate risks to senior management

- support business growth with reference to a risk-controlled framework

- ensure a proper balance between risk and return.

Market risk framework

The Group has a clear market risk appetite as set out through a set of global risk indicators ("GRI"), the establishment of a limit structure, and policies for the trading and AFS portfolios. Limits are categorised into the hierarchy of policy limits, business limits and transaction limits. This market risk appetite has been approved by the Asset and Liability Committee ("ALCO") and is endorsed by the Board through the CRMC. The hierarchy of the limit structure is set up to control the position, size, profit and loss, and sensitivities from the portfolio level to the individual trader level. All business units with market risks are required to strictly comply with the policies and the limits. The Treasury & Markets ("T&M") unit is the primary business unit involved in market risk exposures.

The Market Risk and Liquidity Modelling ("MR&LM") unit is an independent risk measurement and control unit overseen by the Head of MR&LM, who reports to the Chief Risk Officer ("CRO"). MR&LM uses a set of quantitative techniques to identify, measure and control the market risks, which are regularly reported to the ALCO and the Board through the CRMC. These techniques include sensitivity analyses, VaR and stress tests, which are measured relative to the Group's capital base.

The following table provides an overview of the types of quantitative measures in various market risk reports:

	Trading Portfolios	**AFS Portfolios**
	Risk measures	**Risk measures**
Risk type		
Foreign exchange	VaR	Not applicable
Interest rate	VaR and sensitivity	VaR and sensitivity
Commodity	VaR	Not applicable
Equity	VaR	Sensitivity
Credit spread	Not applicable	VaR and sensitivity
Portfolio type	VaR, sensitivity and stress test	VaR, sensitivity and stress test

42 Financial risk management *(continued)*

(b) Market risk management *(continued)*

Market risk framework *(continued)*

The Group's approval process for new products is controlled by the "New Product Evaluation and Approval Policy" ("the Policy") approved by the CRMC. According to the Policy, new products are subject to risk clearance by various functional units, including the Financial Management Group, the Legal Department and the Compliance Department, the Operations and Technology Group, and the Risk Management Group. After obtaining functional clearance, the sponsoring Business Head shall submit the Product Proposal for the approval of the CRO and the Chief Executive Officer ("CEO")/ Deputy CEO ("DCEO")/Alternate Chief Executive Officer ("ACEO") as appropriate.

Methodology and characteristics of the market risk model

The following explains the types of quantitative risk measures the Group adopts.

Sensitivity analysis

Sensitivity measures are used to monitor the market risk positions of each type of risk exposure. For example, the present value of a basis point movement in interest rates and the present value of a basis point movement in credit spreads for credit spread risk are used for monitoring purposes.

Value at risk

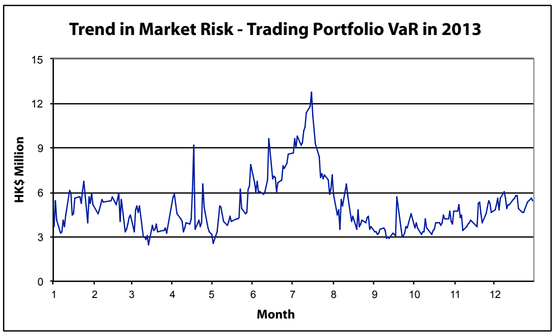
VaR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon, and that provides a level of confidence. The model is designed to capture the different risk types including interest rate risk, foreign exchange risk, credit spread risk, equity risk, commodity risk and volatility risk.

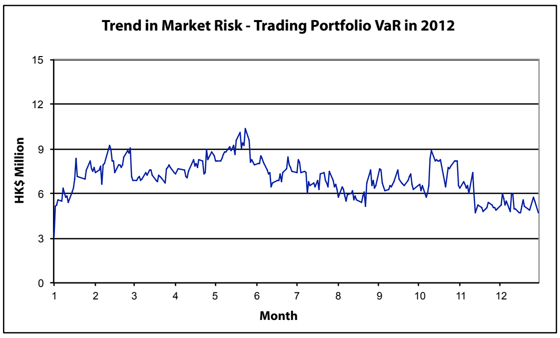
The VaR models used by the Group are predominantly based on historical simulations, and Monte Carlo simulations are also used as a reference. These models derive plausible future scenarios from historical market rates and prices, taking into account the correlation of different markets and rates such as interest rates and foreign exchange rates. The models also incorporate the effect of embedded options of the underlying exposures.

The historical simulation model used by the Group includes the following elements:

– Potential market movements are calculated with reference to data from the previous two years for the trading portfolios and the AFS portfolios, including the historical market rates, prices and associated volatilities.

– For the trading portfolio, VaR is calculated with a 99% confidence level and for a one-day holding period.





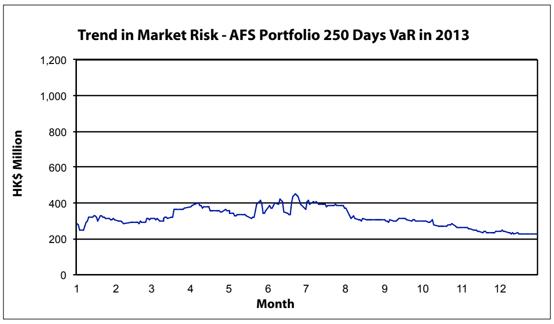
42 Financial risk management *(continued)*

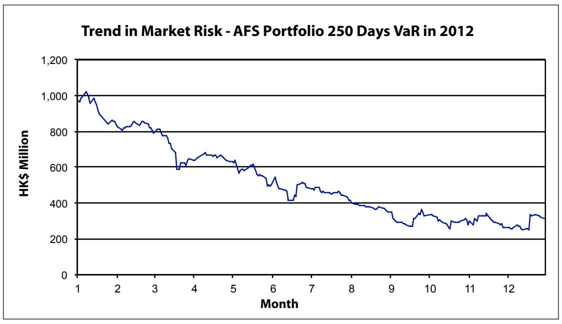
(b) Market risk management *(continued)*

Methodology and characteristics of the market risk model *(continued)*

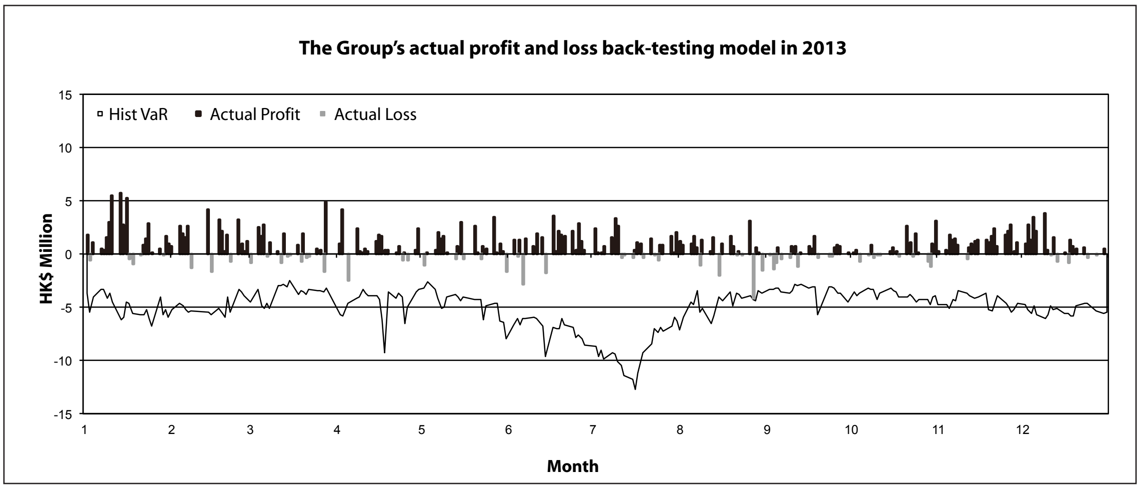
Value at risk *(continued)*

- For the AFS portfolio, VaR is calculated with a 99% confidence level and for a 250-day holding period; and





- The Group routinely validates the accuracy of its VaR model for its trading portfolios through back-testing by comparing the actual and hypothetical daily profit and loss results, adjusted for items including fees and commissions, against the corresponding VaR numbers. Statistically, the Group only expects to see losses in excess of VaR 1% of the time over a one-year period. The actual number of excesses over this period can therefore be used to gauge how well the model is performing. For the year ended 31 December 2013, there were no exceptions in the back-testing results (2012: no exception), which corresponds to the green zone specified by the HKMA and the international Basel principles.

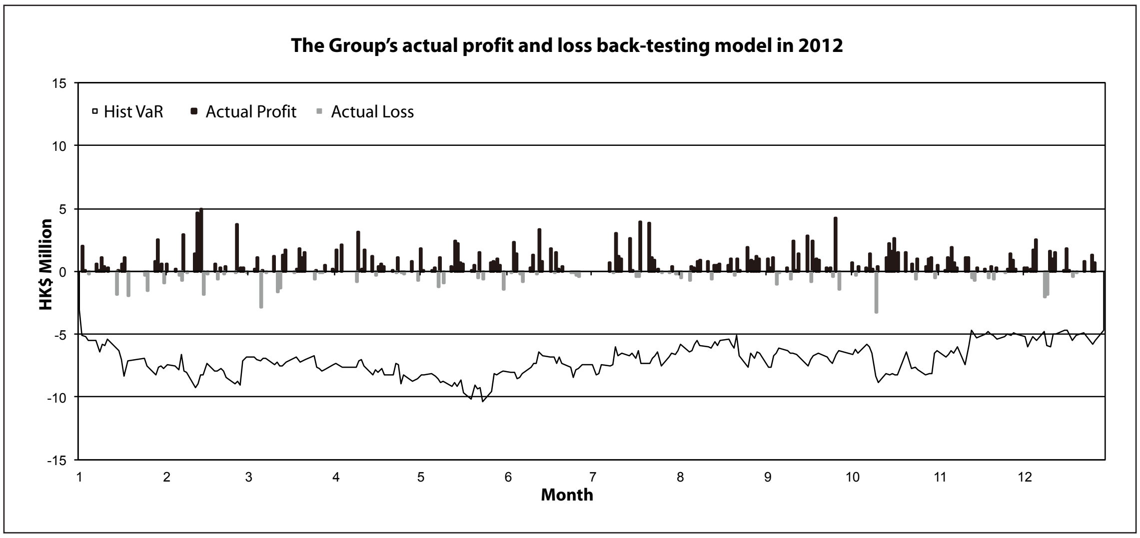


42 Financial risk management *(continued)*

(b) Market risk management *(continued)*

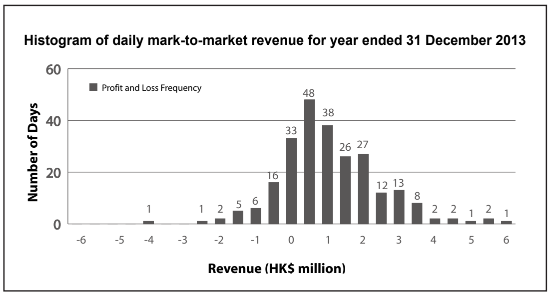
Methodology and characteristics of the market risk model *(continued)*

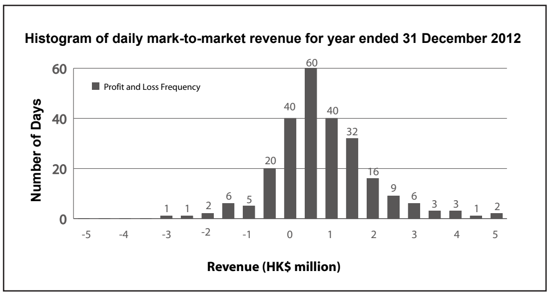
Value at risk *(continued)*



While VaR calculated using this approach can serve as a good guide for market risk under normal market conditions, it has its limitations. For example, the use of historical data as a proxy may not encompass all potential events and the events beyond the 99% confidence interval are not considered. In order to mitigate such limitations, the MR&LM provides the ALCO with the stress test results reflecting potential extreme events on the market risk exposures for the trading and AFS portfolios.

For the year ended 31 December 2013, the average daily mark-to-market revenue from the Group's trading portfolio and fund investments was a gain of HK$825,000 (2012: HK$530,000). The standard deviation of the daily revenue was HK$1,391,000 (2012: HK$1,191,000). The graphs below show the histograms of the Group's daily mark-to-market revenue for the years ended 31 December 2013 and 2012 respectively.





The tables below show the VaR statistics for the trading book and AFS portfolio:

Market Risk for the Trading Portfolio – 1-day VaR 99%

	2013				2012			
	Maximum HK$'000	**Minimum HK$'000**	**Mean HK$'000**	**At 31 December HK$'000**	Maximum HK$'000	Minimum HK$'000	Mean HK$'000	At 31 December HK$'000
Foreign exchange risk	**6,989**	**253**	**1,776**	**1,354**	5,469	998	3,326	2,389
Interest rate risk	**5,411**	**1,262**	**3,279**	**5,127**	4,235	965	2,128	1,445
Total VaR	**12,739**	**2,444**	**5,054**	**5,431**	10,377	3,086	7,021	4,711

42 Financial risk management *(continued)*

(b) Market risk management *(continued)*

Methodology and characteristics of the market risk model *(continued)*

Value at risk *(continued)*

	Market Risk for the AFS Portfolio							
	2013				2012			
	Maximum HK$'000	**Minimum HK$'000**	**Mean HK$'000**	**At 31 December HK$'000**	Maximum HK$'000	Minimum HK$'000	Mean HK$'000	At 31 December HK$'000
Interest rate risk	**257,618**	**52,649**	**163,113**	**211,931**	145,944	54,376	111,915	54,376
Credit spread risk	**451,956**	**228,532**	**320,448**	**243,027**	976,851	240,515	498,538	329,459
Total 250-day VaR	**451,090**	**225,156**	**318,387**	**225,156**	1,020,047	250,901	515,052	312,408

Stress testing

Stress testing is implemented to mitigate the weaknesses in the VaR model in order to capture remote but plausible events. The Group uses the following scenarios for market risk stress testing:

– sensitivity scenarios, which consider the impact of any single risk factor or a set of factors that are unlikely to be captured by the VaR model, such as breaking the HK dollar and US dollar currency peg

– historical scenarios, which incorporate the historical observation of market moves during previous stress periods which would not be captured by the VaR model, such as the impact on valuation under the crisis scenario.

Stress testing results are reported to the ALCO, which provides an assessment of the financial impact that such events would have on the Group's income statement and reserve. The daily losses for the trading portfolio and the yearly negative reserve impact for the AFS portfolios experienced in 2013 were below the stress loss alerts and limits.

Credit spread risk

In addition to interest rate risk and extreme market volatility, a significant widening of credit spread such as in a financial crisis situation would have a heavy negative impact on the valuation of the AFS portfolios. Also, the extreme market conditions would make the availability of market prices for some of the securities infrequent, and to a certain extent, less reliable, which would further increase the challenge and complexity for the portfolio valuation of some of the securities in the AFS portfolio.

In the risk control of the AFS portfolios, the Bank has a risk management framework that enables the estimation of the fair value of option adjusted spreads in order to calculate the fair value of illiquid securities. In addition, it consists of a 250-day credit spread VaR, credit spread sensitivity risk statistics, stress testing, and a limit structure and early alert indicators. The objective of choosing the 250-day credit spread VaR statistics is to measure the potential adverse impact on the Group's reserve on an annual basis.

42 Financial risk management *(continued)*

(b) Market risk management *(continued)*

Currency risk

The Group's foreign exchange risk stems from taking foreign exchange positions from commercial dealings, investments in foreign currency securities, and operations of the Group and its overseas branches and subsidiaries. The Group's foreign exchange positions are subject to exposure limits approved by the ALCO. Methods adopted to measure foreign currency risk exposure against corresponding limits include individual currency positions, overall foreign exchange positions and sensitivities such as Greeks (for foreign exchange options). For the year ended 31 December 2013, the Group's average daily trading profit and loss from foreign exchange positions was a profit of HK$570,000 (2012: HK$425,000) with a standard deviation of HK$1,180,000 (2012: HK$1,208,000).

Significant foreign currency exposures at the end of the reporting period were as follows:

	The Group							
	2013				2012			
Equivalent in HK$'000	**USD**	**RMB**	**Others**	**Total**	USD	RMB	Others	Total
Spot assets	**79,645,849**	**59,058,951**	**4,355,246**	**143,060,046**	57,070,920	44,646,981	2,471,373	104,189,274
Spot liabilities	**(46,860,315)**	**(48,203,556)**	**(17,850,334)**	**(112,914,205)**	(39,101,835)	(30,439,250)	(12,203,069)	(81,744,154)
Forward purchases	**121,528,234**	**93,438,490**	**17,922,579**	**232,889,303**	69,140,302	41,340,778	17,450,341	127,931,421
Forward sales	**(152,152,154)**	**(103,337,170)**	**(4,564,835)**	**(260,054,159)**	(85,439,312)	(55,288,591)	(7,893,574)	(148,621,477)
Net options position	**89,661**	**(52,740)**	**34,676**	**71,597**	(782,680)	530,762	165,431	(86,487)
Net long/(short) position	**2,251,275**	**903,975**	**(102,668)**	**3,052,582**	887,395	790,680	(9,498)	1,668,577
Net structural position	**–**	**767,871**	**48,532**	**816,403**	–	747,770	48,544	796,314

	The Bank							
	2013				2012			
Equivalent in HK$'000	**USD**	**RMB**	**Others**	**Total**	USD	RMB	Others	Total
Spot assets	**79,209,581**	**47,243,452**	**4,355,237**	**130,808,270**	56,026,674	36,140,811	2,471,357	94,638,842
Spot liabilities	**(46,057,358)**	**(37,452,535)**	**(17,851,421)**	**(101,361,314)**	(37,201,937)	(23,398,057)	(12,154,281)	(72,754,275)
Forward purchases	**119,524,635**	**92,303,568**	**17,922,579**	**229,750,782**	68,113,723	41,340,778	17,449,692	126,904,193
Forward sales	**(150,676,019)**	**(101,298,315)**	**(4,564,835)**	**(256,539,169)**	(85,434,096)	(53,778,537)	(7,941,646)	(147,154,279)
Net options position	**89,661**	**(52,740)**	**34,676**	**71,597**	(782,680)	530,762	165,431	(86,487)
Net long/(short) position	**2,090,500**	**743,430**	**(103,764)**	**2,730,166**	721,684	835,757	(9,447)	1,547,994
Net structural position	**–**	**–**	**48,532**	**48,532**	–	–	48,544	48,544

The net option position is calculated using the Model User Approach which has been approved by the HKMA.

42 Financial risk management *(continued)*

(b) Market risk management *(continued)*

Sensitivity analysis on foreign exchange exposures

(i) At 31 December 2013, if the HKD had weakened by 10% against other currencies (other than the USD) with all other variables held constant, the Group's and the Bank's profit before tax for the year would have been higher by HK$80,131,000 and HK$63,967,000 respectively (2012: higher by HK$78,118,000 and HK$82,631,000 respectively), mainly as a result of foreign exchange gains on the translation of non-HKD denominated financial assets compensated by foreign exchange losses on the translation of non-HKD denominated financial liabilities.

Conversely, if the HKD had strengthened by 10% against other currencies (other than the USD) with all other variables held constant, the Group's and the Bank's profit before tax for the year would have been lower by HK$80,131,000 and HK$63,967,000 respectively (2012: lower by HK$78,118,000 and HK$82,631,000 respectively).

(ii) The Group or the Bank is exposed to currency risks primarily arising from financial instruments that are denominated in USD, excluding structural foreign exchange positions of RMB 600,000,000 and MOP 50,000,000. As the USD is pegged to the HKD, the Group or the Bank considers the risk of movements in exchange rates between the HKD and the USD to be insignificant.

Interest rate risk

The Group's ALCO oversees all interest rate risks arising from the interest rate profile of the Group's assets and liabilities. The Group has interest rate risk exposures from both its banking and trading books. The interest rate risk in the banking book is caused by repricing risks, basis risks among different interest rate benchmarks, yield curve movements and risks from embedded options, if any. The Group's management of the interest rate risk in the banking book is governed by the Interest Rate Risk Management Policy for the Banking Book. Moreover, the Central Treasury unit of T&M manages the interest rate risk in the banking book according to the policy.

To mitigate interest rate risk, the Group has used interest rate derivatives, especially interest rate swaps, to hedge both assets and liabilities such as AFS and non-trading liabilities ("NTL"). The Group has also adopted hedge accounting principles, under which the fair value changes of the AFS/NTL and the corresponding fair value changes of the hedging derivative instruments offset each other.

The Group's management of the interest rate risk in the trading book is guided by the Market Risk Policy. The Group mainly uses the present value of a basis point movement and VaR to measure its interest rate risk exposure in the trading book. For the year ended 31 December 2013, the Group's average daily trading profit and loss from interest rate positions was a gain of HK$255,000 (2012: HK$105,000), with a standard deviation of HK$1,096,000 (2012: HK$770,000).

42 Financial risk management *(continued)*

(b) Market risk management *(continued)*

Interest rate risk *(continued)*

Sensitivity analysis on interest rate exposures

The Group measures the interest rate risk of the banking book by conducting a sensitivity analysis on the interest rate exposure on a quarterly basis. In the sensitivity analysis, the potential impacts of movements in interest rates on the Group's earnings are assessed assuming that the interest rates of three major currencies (HKD, RMB and USD) will rise by 200 basis points on the repricing dates (the midpoint of the corresponding time bands) of each asset and liability. Nevertheless, the Group does not expect the interest rates of these three major currencies to decrease by 200 basis points on the repricing dates because of the current low level of interest rates. The impacts on both the on- and off-statement of the financial position items are included in the assessment.

	The Group					
	2013			2012		
Equivalent in HK$'000	**HKD**	**RMB**	**USD**	HKD	RMB	USD
Impact on earnings over the next 12 months if interest rates rise by 200 basis points	**184,307**	**199,151**	**14,934**	372,472	169,064	(148,998)
Impact on economic value if interest rates rise by 200 basis points	**(113,272)**	**(45,351)**	**244,977**	(61,922)	(43,711)	21,467

	The Bank					
	2013			2012		
Equivalent in HK$'000	**HKD**	**RMB**	**USD**	HKD	RMB	USD
Impact on earnings over the next 12 months if interest rates rise by 200 basis points	**145,698**	**139,913**	**2,862**	327,954	122,380	(153,859)
Impact on economic value if interest rates rise by 200 basis points	**(92,310)**	**28,312**	**247,640**	(43,473)	(26,107)	24,211

This sensitivity analysis, which is based on an interest rate risk profile of assets and liabilities, is used for risk management purposes only. The analysis is based on the following assumptions:

(i) There is a parallel shift in the yield curve and in interest rates.

(ii) There are no other changes to the portfolio.

(iii) No loan prepayment is assumed as the majority of loans are on a floating rate base.

(iv) Deposits without fixed maturity dates are assumed to be repriced the next day.

Actual changes in the Group's net interest income and the economic value resulting from the increase in interest rates may differ from the results of this sensitivity analysis.

42 Financial risk management *(continued)*

(b) Market risk management *(continued)*

Interest rate risk *(continued)*

The following tables indicate the mismatches of the expected next repricing dates (or maturity dates, whichever are earlier) for the interest bearing assets and liabilities at the end of the reporting period.

	The Group					
	2013					
	Total HK'000	3 months or less (including overdue) HK'000	Over 3 months to 1 year HK'000	Over 1 year to 5 years HK'000	Over 5 years HK'000	Non-interest bearing HK'000
Assets						
Cash and balances with banks, central banks and other financial institutions	12,621,484	12,331,854	–	–	–	289,630
Placements with and advances to banks, central banks and other financial institutions	46,089,324	32,168,758	13,920,566	–	–	–
Trading assets	2,398,265	–	–	–	–	2,398,265
Securities designated at fair value through profit or loss	63,204	–	12,927	–	–	50,277
Loans and advances to customers and other accounts	132,531,544	116,149,210	9,511,982	720,454	17,013	6,132,885
Available-for-sale securities	21,661,781	10,052,324	4,037,679	7,341,770	150,246	79,762
Non-interest bearing assets	942,304	–	–	–	–	942,304
Total assets	216,307,906	170,702,146	27,483,154	8,062,224	167,259	9,893,123
Liabilities						
Deposits and balances of banks and other financial institutions	7,522,382	6,260,371	–	–	–	1,262,011
Deposits from customers	154,658,966	116,585,505	28,378,871	3,219,209	–	6,475,381
Trading liabilities	1,568,640	–	–	–	–	1,568,640
Certificates of deposit issued	16,175,173	5,478,493	10,067,522	629,158	–	–
Debt securities issued	1,151,253	–	1,151,253	–	–	–
Loan capital	8,657,552	–	–	2,277,706	6,379,846	–
Non-interest bearing liabilities	9,397,923	151,641	107,043	–	–	9,139,239
Total liabilities	199,131,889	128,476,010	39,704,689	6,126,073	6,379,846	18,445,271
Interest rate sensitivity gap		42,226,136	(12,221,535)	1,936,151	(6,212,587)	

42 Financial risk management *(continued)*

(b) Market risk management *(continued)*

Interest rate risk *(continued)*

	The Group 2012					
	Total HK'000	3 months or less (including overdue) HK'000	Over 3 months to 1 year HK'000	Over 1 year to 5 years HK'000	Over 5 years HK'000	Non-interest bearing HK'000
Assets						
Cash and balances with banks, central banks and other financial institutions	5,290,053	5,071,519	–	–	–	218,534
Placements with and advances to banks, central banks and other financial institutions	43,501,215	41,195,985	2,305,230	–	–	–
Trading assets	1,849,344	–	–	–	–	1,849,344
Securities designated at fair value through profit or loss	91,500	30,951	25	12,642	–	47,882
Loans and advances to customers and other accounts	107,474,923	93,671,427	10,357,024	375,007	9,744	3,061,721
Available-for-sale securities	18,030,653	11,286,824	3,031,811	3,649,388	–	62,630
Non-interest bearing assets	943,752	–	–	–	–	943,752
Total assets	177,181,440	151,256,706	15,694,090	4,037,037	9,744	6,183,863
Liabilities						
Deposits and balances of banks and other financial institutions	3,685,575	3,036,454	–	–	–	649,121
Deposits from customers	130,719,661	101,494,654	22,174,786	1,128,103	–	5,922,118
Trading liabilities	907,342	–	–	–	–	907,342
Certificates of deposit issued	14,297,569	6,795,404	6,278,171	1,223,994	–	–
Debt securities issued	1,119,747	–	–	1,119,747	–	–
Loan capital	6,698,159	–	–	2,307,721	4,390,438	–
Non-interest bearing liabilities	4,701,531	–	–	–	–	4,701,531
Total liabilities	162,129,584	111,326,512	28,452,957	5,779,565	4,390,438	12,180,112
Interest rate sensitivity gap		39,930,194	(12,758,867)	(1,742,528)	(4,380,694)	

42 Financial risk management *(continued)*

(b) Market risk management *(continued)*

Interest rate risk *(continued)*

	The Bank 2013					
	Total HK'000	3 months or less (including overdue) HK'000	Over 3 months to 1 year HK'000	Over 1 year to 5 years HK'000	Over 5 years HK'000	Non-interest bearing HK'000
Assets						
Cash and balances with banks, central banks and other financial institutions	12,596,762	12,307,474	–	–	–	289,288
Placements with and advances to banks, central banks and other financial institutions	41,078,733	28,003,315	13,075,418	–	–	–
Trading assets	2,361,092	–	–	–	–	2,361,092
Securities designated at fair value through profit or loss	63,204	–	12,927	–	–	50,277
Loans and advances to customers and other accounts	116,349,957	102,147,977	8,156,853	720,454	17,013	5,307,660
Available-for-sale securities	20,639,086	9,900,550	3,976,194	6,532,334	150,246	79,762
Amounts due from subsidiaries	9,069,712	7,727,051	–	–	–	1,342,661
Non-interest bearing assets	2,158,247	–	–	–	–	2,158,247
Total assets	204,316,793	160,086,367	25,221,392	7,252,788	167,259	11,588,987
Liabilities						
Deposits and balances of banks and other financial institutions	7,239,589	5,977,578	–	–	–	1,262,011
Deposits from customers	145,204,489	112,512,344	25,876,423	340,341	–	6,475,381
Trading liabilities	1,540,175	–	–	–	–	1,540,175
Certificates of deposit issued	16,175,173	5,478,493	10,067,522	629,158	–	–
Debt securities	1,151,253	–	1,151,253	–	–	–
Amounts due to subsidiaries	236,823	–	–	–	–	236,823
Loan capital	8,657,552	–	–	2,277,706	6,379,846	–
Non-interest bearing liabilities	8,353,596	151,641	107,043	–	–	8,094,912
Total liabilities	188,558,650	124,120,056	37,202,241	3,247,205	6,379,846	17,609,302
Interest rate sensitivity gap		35,966,311	(11,980,849)	4,005,583	(6,212,587)	

42 Financial risk management *(continued)*

(b) Market risk management *(continued)*

Interest rate risk *(continued)*

	The Bank 2012					
	Total HK'000	3 months or less (including overdue) HK'000	Over 3 months to 1 year HK'000	Over 1 year to 5 years HK'000	Over 5 years HK'000	Non-interest bearing HK'000
Assets						
Cash and balances with banks, central banks and other financial institutions	5,992,525	5,774,540	–	–	–	217,985
Placements with and advances to banks, central banks and other financial institutions	34,826,252	34,716,422	109,830	–	–	–
Trading assets	1,841,273	–	–	–	–	1,841,273
Securities designated at fair value through profit or loss	91,500	30,951	25	12,642	–	47,882
Loans and advances to customers and other accounts	97,098,220	83,991,088	10,118,225	375,007	9,744	2,604,156
Available-for-sale securities	17,143,921	11,137,272	2,808,581	3,135,438	–	62,630
Amounts due from subsidiaries	8,651,330	7,719,479	35,000	–	–	896,851
Non-interest bearing assets	2,160,142	–	–	–	–	2,160,142
Total assets	167,805,163	143,369,752	13,071,661	3,523,087	9,744	7,830,919
Liabilities						
Deposits and balances of banks and other financial institutions	2,237,959	1,588,838	–	–	–	649,121
Deposits from customers	124,395,829	98,720,607	19,414,847	338,257	–	5,922,118
Trading liabilities	907,079	–	–	–	–	907,079
Certificates of deposit issued	14,297,569	6,795,404	6,278,171	1,223,994	–	–
Debt securities	1,119,747	–	–	1,119,747	–	–
Amounts due to subsidiaries	226,743	–	–	–	–	226,743
Loan capital	6,698,159	–	–	2,307,721	4,390,438	–
Non-interest bearing liabilities	4,032,302	–	–	–	–	4,032,302
Total liabilities	153,915,387	107,104,849	25,693,018	4,989,719	4,390,438	11,737,363
Interest rate sensitivity gap		36,264,903	(12,621,357)	(1,466,632)	(4,380,694)	

42 Financial risk management *(continued)*

(c) Liquidity risk management

Liquidity risk is the risk that the Group may not be able to fund an increase in assets or meet obligations as they fall due without incurring unacceptable losses. Such funding liquidity risk arises from the maturity mismatch of the assets and liabilities that the Group manages. Market liquidity risk is a risk that occurs when additional costs are involved in disposing of a position in the market under abnormal or stressed market conditions. Under these conditions, the bid-ask spreads for the position are much wider than under normal market conditions or there could even be an extreme lack of buyers. Under these market conditions, the Bank will have to pay extra costs in order to dispose of the position.

The liquidity risk management framework comprises the following:

- The management of the Group's liquidity risk is governed by the Liquidity Management Policy, approved by the ALCO and endorsed by the CRMC.

- The CRMC is delegated by the Board of Directors to oversee the Group's liquidity risk management. Its main responsibilities are to review and approve policies, set strategies, and define risk appetite and tolerance limits.

- The ALCO is delegated by the CRMC to be the governing body responsible for formulating and implementing policies, strategies, guidelines and limit structures. It also identifies, measures and monitors the liquidity profile to ensure current and future funding requirements are met. In addition, the ALCO monitors a set of GRI for liquidity risk. Regular liquidity stress testing, which includes general market-wide, institution-specific and combined (general market-wide and institution-specific) stress scenarios is conducted by the Risk Management Group; and the stress test results are regularly reviewed by the ALCO to assess the current risk tolerance level and the level of the liquidity cushion. A Contingency Funding Plan, which is developed by the Central Treasury Unit, is reviewed and approved by the ALCO on a regular basis.

- Daily liquidity management is managed by the Central Treasury unit to monitor funding requirements. This unit is supported by other functional departments including the Financial Management Group and Risk Management Group, which monitor the liquidity risk and provide regular reports to management, the committees and local regulatory bodies. Limits for net cash flow per different time bucket have been set to ensure that adequate funding and liquid assets are available to meet liquidity needs. Moreover, limits, triggers or alerts are set for other liquidity risk indicators such as liquidity ratio and loan to deposit ratio. Both quantitative (e.g. statistical methods) and qualitative measures (e.g. liquidity index/premium) are employed to identify and measure market liquidity risk. Limits and alert levels related to market and funding liquidity risk are monitored and reported by the Financial Management Group or Risk Management Group to the ALCO to review and approve on a regular basis. The Internal Audit department performs periodic reviews to ensure liquidity risk management functions are carried out effectively.

Liquidity management is conducted at the Group and the Bank levels, and at individual overseas branches and subsidiaries. Financial subsidiaries and overseas branches are responsible for implementing their own liquidity management policies under the framework established by the ALCO and local regulatory requirements. Their liquidity situation is monitored as a whole by the ALCO. Policy and respective counterparty limits are set for overseas branches and subsidiaries in respect of the funding support extended to them. The Group expects all business units to contribute to the success of managing liquidity under normal and contingency situations by maintaining a rapport with depositors, customers, interbank counterparties, related companies and the HKMA.

42 Financial risk management *(continued)*

(c) Liquidity risk management *(continued)*

The objective of liquidity management is to meet obligations payable under normal and emergency circumstances, to fund asset growth and to comply with the statutory liquidity ratio. To achieve this, the following liquidity management processes are in place:

- Projecting cash flows under normal and various stress scenarios, using the net mismatch gap between assets and liabilities to estimate the prospective net funding requirement

- Factoring potential drawdown on non-cancellable committed facilities into our normal and stress scenarios to cater for contingent liquidity risk

- Monitoring the liquidity ratio, loans to deposit ratios and maturity mismatch ratio against internal and/or regulatory requirements

- Ensuring a sound and diversified range of funding sources, through monitoring the structure, the stability and the core level of the deposit portfolio

- Projecting the liquidity ratio regularly for the short to medium term to permit early detection of liquidity issues and to ensure the ratio is within statutory requirements and internal triggers

- Projecting a high-level funding requirement and funding structure during the annual budget process to ensure sufficient funding and an appropriate funding mix

- Conducting liquidity risk assessment before launching a new product

- Maintaining high-quality liquid assets comprising cash and investment grade securities as a cushion against unexpected funding needs; standby facilities are also arranged to provide unexpected and material outflows

- Maintaining access to the interbank money market to activate facilities

- Maintaining a funding programme to tap debt funding on a regular basis

- Maintaining a contingency funding plan, which integrates with the results of the scenarios and assumptions used in the stress test, including setting early warning signals (including internal and market indicators), and describing actions to be taken in the event of a stress crisis, so as to minimise adverse long-term implications for business.

The Group funds its operations through a diversified funding source, primarily from the core retail and corporate customer deposits. At the same time, it also participates in wholesale funding through the issuance of certificates of deposit ("CDs") so as to secure a stable source of term funding. At 31 December 2013, a total of HK$13.3 billion equivalent (2012: HK$15.6 billion) was raised through several successful CD issuances. Deposit tenor mix and debt maturities are regularly monitored to ensure there is an appropriate funding maturity mix.

An appropriate level of liquidity ratio was always maintained to ensure that the Group could handle sudden drains in market liquidity due to adverse or unexpected economic events. In 2013, the Group's average liquidity ratio was 55.3% (2012: 59.4%). The Group has always maintained sufficient cash and liquid positions as well as a pool of high-quality assets as a liquidity cushion that can be liquidated in stress scenarios.

42 Financial risk management *(continued)*

(c) Liquidity risk management *(continued)*

(i) Analysis of assets and liabilities by remaining maturity

The following maturity profile is based on the remaining period at the end of the reporting period date to the contractual maturity date.

As the trading portfolios may be sold before maturity, or deposits from customers may mature without being withdrawn, the contractual maturity dates do not represent the expected dates of future cash flows.

The Group
2013

	Total HK$'000	Repayable on demand HK$'000	Within 1 month HK$'000	3 months or less but over 1 month HK$'000	1 year or less but over 3 months HK$'000	5 years or less but over 1 year HK$'000	Over 5 years HK$'000	Undated HK$'000
Assets								
Cash and balances with banks, central banks and other financial institutions	12,621,484	10,776,921	–	–	–	–	–	1,844,563
Placements with and advances to banks, central banks and other financial institutions	46,089,324	–	17,109,988	13,621,681	15,322,497	35,158	–	–
Trading assets	2,398,265	2,395,590	–	–	–	–	–	2,675
Securities designated at fair value through profit or loss	63,204	–	–	–	12,927	–	–	50,277
Loans and advances to customers and other accounts	132,531,544	3,301,471	12,742,223	17,018,866	36,643,787	36,514,072	20,392,862	5,918,263
Available-for-sale securities	21,661,781	–	2,335,891	4,253,526	5,119,604	9,174,797	702,201	75,762
Tax recoverable	6	–	–	–	6	–	–	–
Undated assets	942,298	–	–	–	–	–	–	942,298
Total assets	216,307,906	16,473,982	32,188,102	34,894,073	57,098,821	45,724,027	21,095,063	8,833,838
Liabilities								
Deposits and balances of banks and other financial institutions	7,522,382	1,259,888	4,772,373	1,490,121	–	–	–	–
Deposits from customers	154,658,966	42,066,739	48,034,181	39,743,724	21,102,404	3,711,918	–	–
Trading liabilities	1,568,640	1,568,640	–	–	–	–	–	–
Certificates of deposit issued	16,175,173	–	–	2,434,127	11,551,910	2,189,136	–	–
Debt securities issued	1,151,253	–	–	–	1,151,253	–	–	–
Current taxation	179,394	–	–	–	179,394	–	–	–
Other liabilities	9,206,405	–	–	–	–	–	–	9,206,405
Loan capital	8,657,552	–	–	–	–	2,277,706	6,379,846	–
Undated liabilities	12,124	–	–	–	–	–	–	12,124
Total liabilities	199,131,889	44,895,267	52,806,554	43,667,972	33,984,961	8,178,760	6,379,846	9,218,529
Asset-liability gap		(28,421,285)	(20,618,452)	(8,773,899)	23,113,860	37,545,267	14,715,217	

42 Financial risk management *(continued)*

(c) Liquidity risk management *(continued)*

(i) Analysis of assets and liabilities by remaining maturity (continued)

	The Group 2013							
	Total HK$'000	Repayable on demand HK$'000	Within 1 month HK$'000	3 months or less but over 1 month HK$'000	1 year or less but over 3 months HK$'000	5 years or less but over 1 year HK$'000	Over 5 years HK$'000	Undated HK$'000
Of which:								
Certificates of deposit held								
– included in available-for-sale securities	6,140,890	–	379,976	678,576	3,468,203	1,614,135	–	–
Debt securities								
– included in securities designated at fair value through profit or loss	63,204	–	–	–	12,927	–	–	50,277
– included in available-for-sale securities	11,231,492	–	280,245	1,036,983	1,651,401	7,560,662	702,201	–
	11,294,696	–	280,245	1,036,983	1,664,328	7,560,662	702,201	50,277
Certificates of deposit issued								
– included in non-trading debt securities issued	16,175,173	–	–	2,434,127	11,551,910	2,189,136	–	–

42 Financial risk management *(continued)*

(c) Liquidity risk management *(continued)*

(i) Analysis of assets and liabilities by remaining maturity (continued)

The Group 2012

	Total HK$'000	Repayable on demand HK$'000	Within 1 month HK$'000	3 months or less but over 1 month HK$'000	1 year or less but over 3 months HK$'000	5 years or less but over 1 year HK$'000	Over 5 years HK$'000	Undated HK$'000
Assets								
Cash and balances with banks, central banks and other financial institutions	5,290,053	4,307,942	–	–	–	–	–	982,111
Placements with and advances to banks, central banks and other financial institutions	43,501,215	–	24,982,655	14,600,334	3,880,439	37,787	–	–
Trading assets	1,849,344	1,846,682	–	–	–	–	–	2,662
Securities designated at fair value through profit or loss	91,500	–	–	30,950	25	12,642	–	47,883
Loans and advances to customers and other accounts	107,474,923	2,771,949	9,571,741	13,331,666	31,419,078	25,835,889	21,230,817	3,313,783
Available-for-sale securities	18,030,653	–	6,181,650	2,141,448	4,788,108	4,333,189	527,627	58,631
Tax recoverable	6,038	–	–	–	6,038	–	–	–
Undated assets	937,714	–	–	–	–	–	–	937,714
Total assets	177,181,440	8,926,573	40,736,046	30,104,398	40,093,688	30,219,507	21,758,444	5,342,784
Liabilities								
Deposits and balances of banks and other financial institutions	3,685,575	645,200	1,834,988	892,047	313,340	–	–	–
Deposits from customers	130,719,661	41,244,043	37,139,081	30,594,171	20,355,006	1,387,360	–	–
Trading liabilities	907,342	907,342	–	–	–	–	–	–
Certificates of deposit issued	14,297,569	–	610,312	3,883,239	7,084,547	2,719,471	–	–
Debt securities issued	1,119,747	–	–	–	–	1,119,747	–	–
Current taxation	62,133	–	–	–	62,133	–	–	–
Other liabilities	4,637,920	–	–	–	–	–	–	4,637,920
Loan capital	6,698,159	–	–	–	–	2,307,722	4,390,437	–
Undated liabilities	1,478	–	–	–	–	–	–	1,478
Total liabilities	162,129,584	42,796,585	39,584,381	35,369,457	27,815,026	7,534,300	4,390,437	4,639,398
Asset-liability gap		(33,870,012)	1,151,665	(5,265,059)	12,278,662	22,685,207	17,368,007	

42 Financial risk management *(continued)*

(c) Liquidity risk management *(continued)*

(i) Analysis of assets and liabilities by remaining maturity (continued)

	The Group 2012							
	Total HK$'000	Repayable on demand HK$'000	Within 1 month over HK$'000	3 months or less but over 1 month HK$'000	1 year or less but over 3 months HK$'000	5 years or less but over 1 year HK$'000	Over 5 years HK$'000	Undated HK$'000
Of which:								
Certificates of deposit held								
– included in securities designated at fair value through profit or loss	30,950	–	–	30,950	–	–	–	–
– included in available-for-sale securities	4,671,149	–	564,852	1,293,924	2,133,082	679,291	–	–
	4,702,099	–	564,852	1,324,874	2,133,082	679,291	–	–
Debt securities								
– included in securities designated at fair value through profit or loss	60,550	–	–	–	25	12,642	–	47,883
– included in available-for-sale securities	7,581,974	–	716,616	314,172	2,369,662	3,653,897	527,627	–
	7,642,524	–	716,616	314,172	2,369,687	3,666,539	527,627	47,883
Certificates of deposit issued								
– included in non-trading debt securities issued	14,297,569	–	610,312	3,883,239	7,084,547	2,719,471	–	–

42 Financial risk management *(continued)*

(c) Liquidity risk management *(continued)*

(i) Analysis of assets and liabilities by remaining maturity (continued)

The Bank
2013

	Total HK$'000	Repayable on demand HK$'000	Within 1 month HK$'000	3 months or less but over 1 month HK$'000	1 year or less but over 3 months HK$'000	5 years or less but over 1 year HK$'000	Over 5 years HK$'000	Undated HK$'000
Assets								
Cash and balances with banks, central banks and other financial institutions	12,596,762	12,530,636	–	–	–	–	–	66,126
Placements with and advances to banks, central banks and other financial institutions	41,078,733	–	14,903,988	12,040,655	14,134,090	–	–	–
Trading assets	2,361,092	2,358,417	–	–	–	–	–	2,675
Securities designated at fair value through profit or loss	63,204	–	–	–	12,927	–	–	50,277
Loans and advances to customers and other accounts	116,349,957	3,300,731	12,323,216	15,560,794	31,476,002	33,263,223	15,352,850	5,073,141
Available-for-sale securities	20,639,086	–	2,335,891	4,253,526	5,119,604	8,152,102	702,201	75,762
Amounts due from subsidiaries	9,069,712	827,605	250,178	5,747,224	702,916	1,442,196	–	99,593
Undated assets	2,158,247	–	–	–	–	–	–	2,158,247
Tota l assets	204,316,793	19,017,389	29,813,273	37,602,199	51,445,539	42,857,521	16,055,051	7,525,821
Liabilities								
Deposits and balances of banks and other financial institutions	7,239,589	1,259,888	4,489,580	1,490,121	–	–	–	–
Deposits from customers	145,204,489	40,917,242	47,224,100	37,924,491	18,561,562	577,094	–	–
Trading liabilities	1,540,175	1,540,175	–	–	–	–	–	–
Certificates of deposit issued	16,175,173	–	–	2,434,127	11,551,910	2,189,136	–	–
Debt securities issued	1,151,253	–	–	–	1,151,253	–	–	–
Current taxation	163,447	–	–	–	163,447	–	–	–
Other liabilities	8,180,087	–	–	–	–	–	–	8,180,087
Amounts due to subsidiaries	236,823	177,015	25,617	–	1,676	–	–	32,515
Loan capital	8,657,552	–	–	–	–	2,277,706	6,379,846	–
Undated liabilities	10,062	–	–	–	–	–	–	10,062
Total liabilities	188,558,650	43,894,320	51,739,297	41,848,739	31,429,848	5,043,936	6,379,846	8,222,664
Asset-liability gap		(24,876,931)	(21,926,024)	(4,246,540)	20,015,691	37,813,585	9,675,205	

42 Financial risk management *(continued)*

(c) Liquidity risk management *(continued)*

(i) Analysis of assets and liabilities by remaining maturity (continued)

	The Bank 2013							
	Total HK$'000	Repayable on demand HK$'000	Within 1 month HK$'000	3 months or less but over 1 month HK$'000	1 year or less but over 3 months HK$'000	5 years or less but over 1 year HK$'000	Over 5 years HK$'000	Undated HK$'000
Of which:								
Certificates of deposit held								
– included in available-for-sale securities	6,140,890	–	379,976	678,576	3,468,203	1,614,135	–	–
Debt securities								
– included in securities designated at fair value through profit or loss	63,204	–	–	–	12,927	–	–	50,277
– included in available-for-sale securities	10,208,797	–	280,245	1,036,983	1,651,401	6,537,967	702,201	–
	10,272,001	–	280,245	1,036,983	1,664,328	6,537,967	702,201	50,277
Certificates of deposit issued								
– included in non-trading debt securities issued	16,175,173	–	–	2,434,127	11,551,910	2,189,136	–	–

42 Financial risk management *(continued)*

(c) Liquidity risk management *(continued)*

(i) Analysis of assets and liabilities by remaining maturity (continued)

The Bank
2012

	Total HK$'000	Repayable on demand HK$'000	Within 1 month HK$'000	3 months or less but over 1 month HK$'000	1 year or less but over 3 months HK$'000	5 years or less but over 1 year HK$'000	Over 5 years HK$'000	Undated HK$'000
Assets								
Cash and balances with banks, central banks and other financial institutions	5,992,525	5,906,323	–	–	–	–	–	86,202
Placements with and advances to banks, central banks and other financial institutions	34,826,252	–	21,202,437	12,382,382	1,241,433	–	–	–
Trading assets	1,841,273	1,838,611	–	–	–	–	–	2,662
Securities designated at fair value through profit or loss	91,500	–	–	30,950	25	12,642	–	47,883
Loans and advances to customers and other accounts	97,098,220	2,771,376	9,348,101	12,851,314	30,040,424	22,994,055	16,241,061	2,851,889
Available-for-sale securities	17,143,921	–	6,181,650	2,141,448	4,626,245	3,608,321	527,627	58,630
Amounts due from subsidiaries	8,651,330	395,839	366,017	5,450,519	1,484,873	860,418	–	93,664
Undated assets	2,160,142	–	–	–	–	–	–	2,160,142
Total assets	167,805,163	10,912,149	37,098,205	32,856,613	37,393,000	27,475,436	16,768,688	5,301,072
Liabilities								
Deposits and balances of banks and other financial institutions	2,237,959	645,200	700,712	892,047	–	–	–	–
Deposits from customers	124,395,829	40,275,148	36,770,839	29,406,518	17,595,067	348,257	–	–
Trading liabilities	907,079	907,079	–	–	–	–	–	–
Certificates of deposit issued	14,297,569	–	610,312	3,883,239	7,084,547	2,719,471	–	–
Debt securities issued	1,119,747	–	–	–	–	1,119,747	–	–
Current taxation	46,022	–	–	–	46,022	–	–	–
Other liabilities	3,986,280	–	–	–	–	–	–	3,986,280
Amounts due to subsidiaries	226,743	153,939	38,616	–	1,673	–	–	32,515
Loan capital	6,698,159	–	–	–	–	2,307,722	4,390,437	–
Total liabilities	153,915,387	41,981,366	38,120,479	34,181,804	24,727,309	6,495,197	4,390,437	4,018,795
Asset-liability gap		(31,069,217)	(1,022,274)	(1,325,191)	12,665,691	20,980,239	12,378,251	

42 Financial risk management *(continued)*

(c) Liquidity risk management *(continued)*

(i) Analysis of assets and liabilities by remaining maturity (continued)

	The Bank 2012							
	Total HK$'000	Repayable on demand HK$'000	Within 1 month HK$'000	3 months or less but over 1 month HK$'000	1 year or less but over 3 months HK$'000	5 years or less but over 1 year HK$'000	Over 5 years HK$'000	Undated HK$'000
Of which:								
Certificates of deposit held								
– included in securities designated at fair value through profit or loss	30,950	–	–	30,950	–	–	–	–
– included in available-for-sale securities	4,671,149	–	564,852	1,293,924	2,133,082	679,291	–	–
	4,702,099	–	564,852	1,324,874	2,133,082	679,291	–	–
Debt securities								
– included in securities designated at fair value through profit or loss	60,550	–	–	–	25	12,642	–	47,883
– included in available-for-sale securities	6,695,242	–	716,615	314,172	2,207,798	2,929,030	527,627	–
	6,755,792	–	716,615	314,172	2,207,823	2,941,672	527,627	47,883
Certificates of deposit issued								
– included in non-trading debt securities issued	14,297,569	–	610,312	3,883,239	7,084,547	2,719,471	–	–

42 Financial risk management *(continued)*

(c) Liquidity risk management *(continued)*

(ii) Analysis of the residual contractual maturities of financial liabilities

The following maturity profile shows the undiscounted cash flows of the Group's or the Bank's financial liabilities on the basis of their earliest possible contractual maturity.

The Group

2013

	Gross cash flows HK$'000	Repayable on demand HK$'000	Within 1 month HK$'000	3 months or less but over 1 month HK$'000	1 year or less but over 3 months HK$'000	5 years or less but over 1 year HK$'000	Over 5 years HK$'000
Deposits and balances of banks and other financial institutions	**7,531,247**	**1,259,888**	**4,777,835**	**1,493,524**	**–**	**–**	**–**
Deposits from customers	**155,505,707**	**42,066,739**	**48,173,568**	**39,973,009**	**21,490,876**	**3,801,515**	**–**
Certificates of deposit issued	**16,470,729**	**–**	**11,198**	**2,485,408**	**11,742,420**	**2,231,703**	**–**
Debt securities issued	**1,194,144**	**–**	**–**	**11,454**	**1,182,690**	**–**	**–**
Loan capital	**11,389,761**	**–**	**–**	**45,068**	**451,171**	**4,220,943**	**6,672,579**
Derivative financial instruments	**2,512,443**	**–**	**38,593**	**230,189**	**313,749**	**1,657,285**	**272,627**
	194,604,031	**43,326,627**	**53,001,194**	**44,238,652**	**35,180,906**	**11,911,446**	**6,945,206**

2012

	Gross cash flows HK$'000	Repayable on demand HK$'000	Within 1 month HK$'000	3 months or less but over 1 month HK$'000	1 year or less but over 3 months HK$'000	5 years or less but over 1 year HK$'000	Over 5 years HK$'000
Deposits and balances of banks and other financial institutions	3,700,978	645,200	1,842,959	898,845	313,974	–	–
Deposits from customers	131,258,191	41,244,043	37,228,530	30,770,014	20,594,446	1,421,158	–
Certificates of deposit issued	14,646,521	–	631,224	3,965,268	7,265,901	2,784,128	–
Debt securities issued	1,204,034	–	–	11,372	52,562	1,140,100	–
Loan capital	8,650,210	–	–	45,056	311,514	3,751,735	4,541,905
Derivative financial instruments	1,542,839	–	41,689	187,110	237,815	850,738	225,487
	161,002,773	41,889,243	39,744,402	35,877,665	28,776,212	9,947,859	4,767,392

42 Financial risk management *(continued)*

(c) Liquidity risk management *(continued)*

(ii) Analysis of the residual contractual maturities of financial liabilities (continued)

The Bank

2013

	Gross cash flows HK$'000	Repayable on demand HK$'000	Within 1 month HK$'000	3 months or less but over 1 month HK$'000	1 year or less but over 3 months HK$'000	5 years or less but over 1 year HK$'000	Over 5 years HK$'000
Deposits and balances of banks and other financial institutions	**7,248,425**	**1,259,888**	**4,495,013**	**1,493,524**	**–**	**–**	**–**
Deposits from customers	**145,876,126**	**40,917,242**	**47,350,520**	**38,112,217**	**18,903,008**	**593,139**	**–**
Certificates of deposit issued	**16,470,729**	**–**	**11,198**	**2,485,408**	**11,742,420**	**2,231,703**	**–**
Debt securities issued	**1,194,144**	**–**	**–**	**11,454**	**1,182,690**	**–**	**–**
Loan capital	**11,389,761**	**–**	**–**	**45,068**	**451,171**	**4,220,943**	**6,672,579**
Derivative financial instruments	**2,512,443**	**–**	**38,593**	**230,189**	**313,749**	**1,657,285**	**272,627**
Amount due to subsidiaries	**204,309**	**177,015**	**25,617**	**–**	**1,677**	**–**	**–**
	184,895,937	**42,354,145**	**51,920,941**	**42,377,860**	**32,594,715**	**8,703,070**	**6,945,206**

2012

	Gross cash flows HK$'000	Repayable on demand HK$'000	Within 1 month HK$'000	3 months or less but over 1 month HK$'000	1 year or less but over 3 months HK$'000	5 years or less but over 1 year HK$'000	Over 5 years HK$'000
Deposits and balances of banks and other financial institutions	2,246,337	645,200	702,291	898,845	1	–	–
Deposits from customers	124,851,262	40,275,148	36,858,066	29,577,071	17,776,828	364,149	–
Certificates of deposit issued	14,646,521	–	631,224	3,965,268	7,265,901	2,784,128	–
Debt securities issued	1,204,034	–	–	11,372	52,562	1,140,100	–
Loan capital	8,650,210	–	–	45,056	311,514	3,751,735	4,541,905
Derivative financial instruments	1,542,839	–	41,689	187,110	237,815	850,738	225,487
Amount due to subsidiaries	194,229	153,938	38,616	–	1,675	–	–
	153,335,432	41,074,286	38,271,886	34,684,722	25,646,296	8,890,850	4,767,392

42 Financial risk management *(continued)*

(d) Operational risk management

Definition of operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It is present in virtually all the Group's transactions and activities. The objective of operational risk management ("ORM") is to ensure that operational risks are consistently and comprehensively identified, assessed, mitigated, monitored and reported.

Governance framework

The Operational Risk Governance Framework ("ORGF") encompasses every member within the Group. The ORM relevant matters are reported to the Chief Risk Officer and are under the oversight of the Board-delegated CRMC and the Operational Risk Management Committee ("ORMC"). The Group's ORM framework, plans and tools are approved by the ORMC, CEO and CRMC, and implementation is driven by the ORM department and senior management of the business and support units. The day-to-day operational risk management lies with our business and support units, and the Operational Control Officer ("OCO") of each unit assists the respective Head to manage operational risk and enhance operational quality.

Management of operational risk

The ORM department assists management in meeting their responsibility of understanding and managing operational risk, and ensuring the development and consistent application of operational risk policies, processes and procedures throughout the Group. The ORM department monitors the Group's overall operational risk exposures and ensures that all material risks are promptly and appropriately escalated to senior management. The Audit department examines and evaluates the adequacy and control effectiveness of the ORGF on an ongoing basis. Business and functional units are responsible for monitoring the relevant operational risk and tracking of Key Risk Indicators ("KRIs") under their expertise.

The Group manages its operational risk through the Bank's policies, guidelines and procedures as set out below:

- The Group ORM encompasses the Group's ORGF, which depicts the governance framework, roles and responsibilities, tools, and methodologies for the management of operational risk.

- The Incident Reporting Framework stipulates the risk classification, reporting requirements, loss posting and reconciliation, and roles and responsibilities of reporting operational risk incidents.

- The New Product Approval Process stipulates the new product definition, approval requirements, processes, and roles and responsibilities of the approval and reviewing parties; the necessary risk assessments before the launch of the new product; and the compulsory post-launch review requirements.

42 Financial risk management *(continued)*

(d) Operational risk management *(continued)*

Tools and methodologies

The Group measures and monitors operational risk through the ORM tools and systems as set out below:

- Operational Risk Self-Assessment ("ORSA") has been rolled out across the business and support units under the guidance of the ORM department. ORSA leaders are nominated by the management of each business and support unit to conduct self-assessments semi-annually and identify Key Risk Factors in their daily business and support functions. Each Risk Factor is assessed and quantified for financial impact, in terms of the estimated loss impact of each occurrence ("Dollar Impact") and estimated number of occurrences in a year ("Annual Frequency"). The ORSA tool is automated, based on Dollar Impact and Annual Frequency, to calculate the dollar value of total risk exposure in a year. In addition to the financial impact assessment, non-financial impacts of risk factors, including customer, regulatory and reputation impacts, and the likelihood of being a significant incident, are also assessed.

- KRIs are developed at two levels, namely Group level and Business Unit & Support Unit level, which form a fundamental part of the Bank's operational risk management framework.

  Group level KRIs are identified and established by the ORM department, approved by the ORMC and implemented across the Group.

  Business Unit & Support Unit level KRIs are developed by the respective units based on the ORSA results and will be established for the ongoing monitoring of the progress and tracking of completion of the mitigation plan. The KRIs are statistical tools that take various risk factors into consideration and serve to provide predictive and early warning signals for management's monitoring and action. Through regular monitoring of these KRIs, areas of potential operational control weaknesses can be identified at an early stage and promptly addressed. The KRI model covers 17 sub-KRIs under six major risk classes:

  - Process
    Risks originating from deficiencies in the Bank's processes, as a result of ineffective design and management, or errors in execution

  - External fraud
    Risks associated with wrongful acts by third parties to ensure unfair or unlawful gain

  - Internal fraud
    Risks originating from improper conduct, criminal acts and other unauthorised activities, with the intention of personal benefit

  - Human resources
    Risks associated with the management of Human Resources, including compliance with labour, health, safety and anti-discrimination regulations

  - Business practices
    Risks originating from the failure to meet customers' expectations due to malpractice in the sale of products and the provision of services

  - Ineffective technology
    Risks originating from ineffective systems and technology, whether due to the design or performance of hardware, software, the network or communications

42 Financial risk management *(continued)*

(d) Operational risk management *(continued)*

Tools and methodologies *(continued)*

Risks exposures are rated from "very low" to "very high" in accordance with the above KRI assessment criteria. Risks that are outside of these set materiality thresholds receive different levels of management attention. Significant cases will be analysed to identify the root cause and are reported to the ORMC, CRMC and up to the Board level.

– The Operational Risk Loss Database has been established through the implementation of the Incident Reporting System ("IRS"), which collects all operational risk cases with or without financial impact. Through the IRS, the ORM department ensures all operational risk incidents are properly investigated, with corrective and preventive actions promptly executed according to the planned timeline. The IRS data serves as a centralised database to produce regular reports for senior management, the ORMC and the CRMC's review on the significant impact and monitoring of the operational risk trend. Escalation protocol is in place to ensure that incidents with significant impact are reported to the respective internal units as well as promptly reported to the regulatory authorities.

– The Operational Risk Dashboard provides management with an overview of the key operational risk issues and the progress of the ORSA review and KRI results. This is submitted to the ORMC and CEO on a monthly basis and to the CRMC on a quarterly basis as part of the Group-wide Risk Status Update report. It captures the implementation status of the ORM initiatives, and depicts analysis on the trend of operational cases and operational losses, highlights incidents with a material impact on the Group, and lists incident details during the month.

The ORM department continued to cultivate a strong ORM culture in 2013. A web-based learning programme on operational risks is required for all new joiners and all staff must complete a compulsory annual refresher of ORGF by the end of 2013. The continual objectives are to raise risk awareness, and enrich employees' understanding of the ORGF, their roles and responsibilities, and accountability. This is further reinforced by strong, visible management support which encourages staff to embrace and promote operational excellence.

With the endorsement of the long-term ORM road map and tools obtained from the ORMC, Management Committee and CRMC, the Group will continuously fine-tune and enhance its operational risk management framework in line with industry developments, and will work closely with its strategic shareholder and partner.

The Group's long-term goal is to cultivate a proactive, responsible and accountable culture on ORM, encompassing identification, assessment, mitigation and reporting, and thus achieve operational excellence through continual robust operational risk management.

42 Financial risk management *(continued)*

(e) Capital management

The Group's primary objectives when managing capital are as follows:

- to comply with the capital requirements set by the banking regulators in the markets where the entities within the Group operate

- to maintain a strong capital base to support the development of its business

- to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders.

The HKMA sets and monitors capital requirements for the Group as a whole. An individual banking subsidiary is directly regulated by its local banking supervisor. In implementing current capital requirements, the HKMA requires that the Group maintains three prescribed risk-weighted capital ratios. The Group adopts the standardised approach of calculating market risk in its trading portfolios and risk weightings for credit risk, and the basic indicator approach for operational risk. Banking operations are categorised as either trading or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and the off-statement of financial position exposures.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might otherwise be possible with greater gearing, and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions. In order to comply with the risk-based supervisory framework of capital adequacy stipulated by the HKMA, the Group conducts ICAAP which assesses the capital add-on required for Pillar 2 risks and hence the minimum capital requirement. Moreover, as part of the capital management policy, capital planning is conducted annually to ensure capital adequacy is based on the strategic plan, future business growth and regulatory requirement, and includes the planning of the issuance of capital instruments, if required. Regular stress testing is performed to ensure that the impact of extreme but plausible scenarios on the risk profile and capital position is considered. Stress testing also provides an insight into the potential impact of significant adverse events and how these could be mitigated.

Consistent with industry practice, the Group monitors its capital structure on the basis of the capital adequacy ratio, and there have been no material changes in the Group's policy on the management of capital during the year.

The Banking (Capital) (Amendment) Rules 2012 came into effect on 1 January 2013, with the requirements being phased in over six years to achieve full implementation by 1 January 2019. These include:

- the imposition of three minimum risk-weighted capital ratios, namely Common Equity Tier 1 ("CET1") capital ratio; Tier 1 capital ratio, and total capital ratio, with the gradual phasing-in of the minimum capital requirements over three years commencing 1 January 2013

- the introduction of two capital buffers, namely the capital conservation buffer and countercyclical capital buffer, to be phased in sequentially from 1 January 2016 to 1 January 2019

- the introduction of a capital requirement for counterparty credit risk effective 1 January 2013

- capital instruments issued on or after 1 January 2013 must meet all of the Basel III criteria so as to qualify as regulatory capital. Capital instruments issued prior to this date that no longer qualify for inclusion in capital base will be phased out during the 10-year period commencing 1 January 2013.

42 Financial risk management *(continued)*

(e) Capital management *(continued)*

The capital adequacy ratios at 31 December 2013 are computed on the consolidated basis of the Group and certain subsidiaries as specified by the HKMA for its regulatory purposes, and are in accordance with the Banking (Capital) Rules of the Hong Kong Banking Ordinance.

The Group and its individually regulated operations have complied with all externally imposed capital requirements throughout the years ended 31 December 2013 and 2012, and are well above the minimum required ratios set by the HKMA.

(f) Legal risk management

The Group remains abreast of all legal and regulatory requirements applicable to its governance and operations, and continuously seeks to develop its people enhance its systems and processes to create awareness of new requirements and implement changes as necessary. Regular reviews are conducted with respect to the Group's policies and procedures, reflecting relevant legal and regulatory requirements. Policies and procedures promulgated through internal communications are often accompanied by relevant training. There is a strong process in place to ensure legal and regulatory risks are identified, monitored and mitigated. Any significant failings are reported by the Legal and Compliance functions to the Group's Audit Committee, the CRMC and senior management.

The Legal Department ("Legal") and Compliance Department ("Compliance") have been key partners in the business, providing legal and compliance advice and support to all parts of the Group as well as ensuring effective controls are in place. In 2013, Legal and Compliance were actively involved in new product launches and new business initiatives, strategically important transactions and commercial agreements, outsourcing arrangements as well as day-to-day matters arising from the Group's business. Legal and Compliance have also been heavily involved in monitoring and ensuring compliance with fast changing regulatory requirements in various areas impacting the Group. In 2014, Legal and Compliance will continue to advise and support the Group so that it can meet the legal and regulatory challenges that lay ahead.

(g) Strategic and reputational risk management

Strategic risk management refers to the Group's efforts to develop, uphold and implement strategic decisions related to its long-term growth and development. Reputational risk management refers to the Group's efforts to protect its brand name and business franchise from any potential damage arising from negative publicity about its business practices, conduct or financial condition.

The CRMC of the Group meets regularly to monitor and oversee the Group's strategic and reputational risks. Senior management places high priority on ensuring that the Group's business and operational strategies are appropriately defined and are executed professionally and promptly. Such strategies are reviewed regularly to enable the Group to respond efficiently to changes in its operating and regulatory environment. Business priorities are set on a bank-wide basis, as well as for individual business and functional units, which are clearly aligned to support the Group's strategies, and measurable targets are assigned to ensure executional excellence. Great care is also taken to protect the Group's reputation and to maximise its brand equity. This involves ongoing efforts to monitor and ensure high standards of customer satisfaction, operational efficiency, legal and regulatory compliance, public communication, issues management, etc.

43 Fair value measurement of financial instruments

(a) Financial instruments carried at fair value

(i) Fair value hierarchy

Fair value estimates are generally subjective in nature, and are made at a specific point in time based on the characteristics of the financial instruments and relevant market information. Fair value is determined according to the following fair value hierarchy:

		The Group Fair value measurements at 31 December 2013 using		
Recurring fair value measurements	**Fair value at 31 December (Total) HK$'000**	**Quoted prices in active market for identical assets (Level 1) HK$'000**	**Significant other observable input (Level 2) HK$'000**	**Significant unobservable input (Level 3) HK$'000**
Assets				
Trading assets				
– Investment funds	2,675	–	–	2,675
– Positive fair value of derivatives	2,395,590	14,736	2,380,854	–
	2,398,265	14,736	2,380,854	2,675
Securities designated at fair value through profit or loss				
– Debt securities	63,204	12,927	–	50,277
Available-for-sale securities				
– Certificates of deposit held	6,140,890	314,397	5,826,493	–
– Treasury bills (including Exchange Fund Bills)	4,213,637	4,213,637	–	–
– Debt securities	11,231,492	7,586,688	3,640,804	4,000
– Equity securities	75,762	52,115	–	23,647
	21,661,781	12,166,837	9,467,297	27,647
	24,123,250	12,194,500	11,848,151	80,599
Liabilities				
Trading liabilities				
– Negative fair value of derivatives	1,568,640	451	1,568,189	–

43 Fair value measurement of financial instruments *(continued)*

(a) Financial instruments carried at fair value *(continued)*

(i) Fair value hierarchy *(continued)*

		The Group Fair value measurements at 31 December 2012 using		
Recurring fair value measurements	Fair value at 31 December (Total) HK$'000	Quoted prices in active market for identical assets (Level 1) HK$'000	Significant other observable input (Level 2) HK$'000	Significant unobservable input (Level 3) HK$'000
Assets				
Trading assets				
– Investment funds	2,662	–	–	2,662
– Positive fair value of derivatives	1,846,682	16,622	1,830,060	–
	1,849,344	16,622	1,830,060	2,662
Securities designated at fair value through profit or loss				
– Certificates of deposit held	30,950	–	30,950	–
– Debt securities	60,550	12,667	–	47,883
	91,500	12,667	30,950	47,883
Available-for-sale securities				
– Certificates of deposit held	4,671,149	38,524	4,632,625	–
– Treasury bills (including Exchange Fund Bills)	5,718,900	5,718,900	–	–
– Debt securities	7,581,974	2,971,057	4,606,917	4,000
– Equity securities	58,630	35,010	–	23,620
	18,030,653	8,763,491	9,239,542	27,620
	19,971,497	8,792,780	11,100,552	78,165
Liabilities				
Trading liabilities				
– Negative fair value of derivatives	907,342	440	906,902	–

43 Fair value measurement of financial instruments *(continued)*

(a) Financial instruments carried at fair value *(continued)*

(i) Fair value hierarchy *(continued)*

Fair value estimates are generally subjective in nature, and are made at a specific point in time based on the characteristics of the financial instruments and relevant market information. Fair value is determined according to the following fair value hierarchy:

		The Bank Fair value measurements at 31 December 2013 using		
Recurring fair value measurements	**Fair value at 31 December (Total) HK$'000**	**Quoted prices in active market for identical assets (Level 1) HK$'000**	**Significant other observable input (Level 2) HK$'000**	**Significant unobservable input (Level 3) HK$'000**
Assets				
Trading assets				
– Investment funds	2,675	–	–	2,675
– Positive fair values of derivatives	2,358,417	14,736	2,343,681	–
	2,361,092	14,736	2,343,681	2,675
Securities designated at fair value through profit or loss				
– Debt securities	63,204	12,927	–	50,277
Available-for-sale securities				
– Certificates of deposit held	6,140,890	314,397	5,826,493	–
– Treasury bills (including Exchange Fund Bills)	4,213,637	4,213,637	–	–
– Debt securities	10,208,797	6,563,993	3,640,804	4,000
– Equity securities	75,762	52,115	–	23,647
	20,639,086	11,144,142	9,467,297	27,647
	23,063,382	11,171,805	11,810,978	80,599
Liabilities				
Trading liabilities				
– Negative fair value of derivatives	1,540,175	451	1,539,724	–

43 Fair value measurement of financial instruments *(continued)*

(a) Financial instruments carried at fair value *(continued)*

(i) Fair value hierarchy *(continued)*

		The Bank Fair value measurements at 31 December 2012 using		
Recurring fair value measurements	Fair value at 31 December (Total) HK$'000	Quoted prices in active market for identical assets (Level 1) HK$'000	Significant other observable input (Level 2) HK$'000	Significant unobservable input (Level 3) HK$'000
Assets				
Trading assets				
– Investment funds	2,662	–	–	2,662
– Positive fair values of derivatives	1,838,611	16,622	1,821,989	–
	1,841,273	16,622	1,821,989	2,662
Securities designated at fair value through profit or loss				
– Certificates of deposit held	30,950	–	30,950	–
– Debt securities	60,550	12,667	–	47,883
	91,500	12,667	30,950	47,883
Available-for-sale securities				
– Certificates of deposit held	4,671,149	38,524	4,632,625	–
– Treasury bills (including Exchange Fund Bills)	5,718,900	5,718,900	–	–
– Debt securities	6,695,242	2,084,325	4,606,917	4,000
– Equity securities	58,630	35,010	–	23,620
	17,143,921	7,876,759	9,239,542	27,620
	19,076,694	7,906,048	11,092,481	78,165
Liabilities				
Trading liabilities				
– Negative fair value of derivatives	907,079	440	906,639	–

For the years ended 31 December 2013 and 2012, there were no significant transfers of financial instruments between Level 1 and Level 2 of the fair value hierarchy.

43 Fair value measurement of financial instruments *(continued)*

(a) Financial instruments carried at fair value *(continued)*

(ii) Determination of fair value

The Group measures fair value using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1 – Quoted (unadjusted) market price in active markets for identical instruments.

Level 2 – Valuation techniques based on observable inputs, either directly or indirectly, where all significant inputs are observable from market data. This category includes financial instruments with quoted prices in active markets for similar instruments; or quoted prices in markets that are considered less than active for identical or similar instruments.

Level 3 – Valuation techniques using significant unobservable inputs where the valuation techniques include one or more significant inputs that are unobservable. This category includes financial instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect the differences between the instruments.

Fair value of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair value using valuation techniques. Valuation techniques include net present value, and discounted cash flow models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other parameters used in estimating discount rates, bond price and foreign currency exchange rates.

The most common valuation techniques applied by the Group to determine the fair value of financial instruments are from interest rates and currency swaps, which are observable market data with high reliability and do not require the significant involvement of management's judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple over-the-counter ("OTC") derivatives like interest rate swaps. However, the availability of observable market prices and inputs varies depending on the products and markets, and is prone to changes based on specific events and general conditions in the financial markets.

Certain financial instruments need to be employed with valuation techniques where one or more significant market inputs involved are not observable. Examples of these financial instruments are structured investments, OTC structured derivatives and certain securities for which there is no active market. For valuation models involving significant unobservable inputs, a high degree of management judgement or estimation is required to select the appropriate valuation model, determine the expected future cash flows on the financial instruments being valued, determine the probability of counterparty default and prepayments, and select the appropriate discount rates.

43 Fair value measurement of financial instruments *(continued)*

(a) Financial instruments carried at fair value *(continued)*

(iii) Information about Level 3 fair value measurements

	Valuation techniques	Significant unobservable inputs	Fair value measurement sensitivity to unobservable inputs
Investment funds	Broker quote	Not applicable	Not applicable
Debt securities	Discounted cash flow model	Forecasted cash flows and estimated risk-free rate	Significant increase in the estimated risk-free rate would result in a lower fair value
Equity securities	See note below	See note below	Not applicable

Note:
Equity securities under level 3 fair value measurements are generally classified as available-for-sale and are not traded in the active market. In the absence of an active market, the fair value is estimated on the basis of an analysis of the investee's financial position, results and other factors. Accordingly, it is not practical to quote significant unobservable inputs.

The following table shows a reconciliation from the opening to the closing balance for fair value measurements in Level 3 of the fair value hierarchy:

	The Group and the Bank				
Assets	**Trading assets**	**Securities designated at fair value through profit or loss**	**Available-for-sale securities**		**Total**
	Investment funds HK$'000	**Debt securities HK$'000**	**Debt securities HK$'000**	**Equity securities HK$'000**	**HK$'000**
At 1 January 2013	**2,662**	**47,883**	**4,000**	**23,620**	**78,165**
Purchases	**12**	–	–	–	**12**
Sales	**(217)**	–	–	–	**(217)**
Changes in fair value recognised in the income statement					
– Gains less losses dealing in foreign currencies	–	–	–	**27**	**27**
– Gains less losses from trading securities	**218**	–	–	–	**218**
– Net gain from financial instruments designated at fair value through profit or loss	–	**2,394**	–	–	**2,394**
At 31 December 2013	**2,675**	**50,277**	**4,000**	**23,647**	**80,599**
Total gains or losses for the year included in the income statement for assets held at the end of the reporting period recorded in:					
– Gains less losses from dealing in foreign currencies	–	–	–	**27**	**27**
– Gains less losses from trading securities	**218**	–	–	–	**218**
– Net gain from financial instruments designated at fair value through profit or loss	–	**2,394**	–	–	**2,394**

43 Fair value measurement of financial instruments *(continued)*

(a) Financial instruments carried at fair value *(continued)*

(iii) Information about Level 3 fair value measurements (continued)

The Group and the Bank					
Assets	Trading assets	Securities designated at fair value through profit or loss	Available-for-sale securities		Total
	Investment funds HK$'000	Debt securities HK$'000	Debt securities HK$'000	Equity securities HK$'000	HK$'000
At 1 January 2012	2,965	45,602	4,000	23,178	75,745
Purchases	27	–	–	438	465
Sales	(256)	–	–	–	(256)
Changes in fair value recognised in the income statement					
– Gains less losses dealing in foreign currencies	–	–	–	4	4
– Gains less losses from trading securities	(74)	–	–	–	(74)
– Net gain from financial instruments designated at fair value through profit or loss	–	2,281	–	–	2,281
At 31 December 2012	2,662	47,883	4,000	23,620	78,165
Total gains or losses for the year included in the income statement for assets held at the end of the reporting period recorded in:					
– Gains less losses from dealing in foreign currencies	–	–	–	4	4
– Gains less losses from trading securities	(74)	–	–	–	(74)
– Net gain from financial instruments designated at fair value through profit or loss	–	2,281	–	–	2,281

43 Fair value measurement of financial instruments *(continued)*

(a) Financial instruments carried at fair value *(continued)*

(iv) Effects of changes in significant unobservable assumptions to reasonable possible alternative assumptions

The fair value of Level 3 financial instruments is measured using valuation models that incorporate assumptions that are not based on observable market data. The following table shows the sensitivity of Level 3 fair value measurements due to the parallel movement of plus or minus 10% of change in fair value to reasonably possible alternative assumptions.

	The Group and the Bank 31 December 2013			
	Effect on income statement		**Effect on other comprehensive income**	
	Favourable HK$'000	**(Unfavourable) HK$'000**	**Favourable HK$'000**	**(Unfavourable) HK$'000**
Assets				
Trading assets				
– Investment funds	**268**	**(268)**	**–**	**–**
Securities designated at fair value through profit or loss				
– Debt securities	**5,028**	**(5,028)**	**–**	**–**
Available-for-sale securities				
– Debt securities	**–**	**–**	**400**	**(400)**
– Equity securities	**–**	**–**	**2,365**	**(2,365)**

	The Group and the Bank 31 December 2012			
	Effect on income statement		Effect on other comprehensive income	
	Favourable HK$'000	(Unfavourable) HK$'000	Favourable HK$'000	(Unfavourable) HK$'000
Assets				
Trading assets				
– Investment funds	266	(266)	–	–
Securities designated at fair value through profit or loss				
– Debt securities	4,788	(4,788)	–	–
Available-for-sale securities				
– Debt securities	–	–	400	(400)
– Equity securities	–	–	2,362	(2,362)

The Group and the Bank believe that their estimates of fair value for the above financial instruments are appropriate but the use of different methodologies or assumptions could lead to different measurements of fair value.

43 Fair value measurement of financial instruments *(continued)*

(b) Fair values of financial instruments carried at other than fair value

All financial instruments are stated at fair value or carried at amounts not materially different from their fair value at 31 December 2013 and 2012 unless otherwise stated.

(i) Financial assets

The Group's financial assets mainly include cash; placements with banks, central banks and other financial institutions; loans and advances to customers; investments; and financial derivative instruments.

The fair value of placements with banks, central banks and other financial institutions is mainly priced at market interest rates, and mature within one year. Accordingly, the carrying value approximate the fair value.

The fair value of loans and advances to customers, taking into account the relevant market interest rates and being mostly priced at floating rates close to the market interest rate which is mainly repriced within 3 months, equals their carrying amount.

Trading assets, securities designated at fair value through profit or loss and available-for-sale securities (except for unlisted available-for-sale debt/equity securities) are stated at fair value in the financial statements.

(ii) Financial liabilities

All financial liabilities are stated at fair value or carried at amounts not materially different from their fair value at 31 December 2013 and 2012, except as follows:

The Group and the Bank

	2013				
	Carrying amount HK$'000	**Fair value HK$'000**	**Level 1 HK$'000**	**Level 2 HK$'000**	**Level 3 HK$'000**
Financial liabilities					
Certificates of deposit issued					
– Non-trading	**16,175,173**	**16,193,461**	**–**	**16,193,461**	**–**
Debt securities issued	**1,151,253**	**1,160,906**	**644,634**	**516,272**	**–**
Loan capital	**8,657,552**	**8,878,150**	**8,878,150**	**–**	**–**
	25,983,978	**26,232,517**	**9,522,784**	**16,709,733**	**–**

	2012				
	Carrying amount HK$'000	Fair value HK$'000	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000
Financial liabilities					
Certificates of deposit issued					
– Non-trading	14,297,569	14,332,946	–	14,332,946	–
Debt securities issued	1,119,747	1,125,856	1,125,856	–	–
Loan capital	6,698,159	6,889,076	6,889,076	–	–
	22,115,475	22,347,878	8,014,932	14,332,946	–

44 Derivatives

The use of derivatives for proprietary trading and sales to customers as risk management products is an integral part of the Group's business activities. These instruments are also used to manage the Group's own exposure to market risk as part of its asset and liability management process. The principal derivatives instruments used by the Group are interest and foreign exchange rate-related contracts, which are primarily OTC derivatives. The Group also participates in exchange-traded derivatives. Most of the Group's derivatives positions have been entered into to meet customer demand and to hedge these and other trading positions. For accounting purposes, derivatives are classified as either held for trading or held for hedging.

(a) Notional amounts of derivatives

Derivatives refer to financial contracts whose value depends on the value of one or more underlying assets or indices. The notional amounts of these investments indicate the volume of outstanding transactions and do not represent amounts at risk.

The following is a summary of the notional amounts of each significant type of derivative entered into by the Group and the Bank:

	The Group							
	2013				2012			
	Held for hedging HK$'000	Managed in conjunction with financial instruments designated at fair value through profit or loss HK$'000	Others (including held for trading) HK$'000	Total HK$'000	Held for hedging HK$'000	Managed in conjunction with financial instruments designated at fair value through profit or loss HK$'000	Others (including held for trading) HK$'000	Total HK$'000
Currency derivatives								
Forwards	–	–	113,489,808	113,489,808	–	–	69,874,282	69,874,282
Swaps	–	–	133,263,896	133,263,896	–	29,649	85,607,355	85,637,004
Options purchased	–	–	47,659,426	47,659,426	–	–	42,056,895	42,056,895
Options written	–	–	47,040,492	47,040,492	–	–	41,109,922	41,109,922
Interest rate derivatives								
Swaps	10,200,952	–	64,109,402	74,310,354	7,955,214	–	43,766,068	51,721,282
Options purchased	–	–	–	–	–	–	264,973	264,973
Options written	–	–	–	–	–	–	264,973	264,973
	10,200,952	–	405,563,024	415,763,976	7,955,214	29,649	282,944,468	290,929,331

44 Derivatives *(continued)*

(a) Notional amounts of derivatives *(continued)*

	The Bank							
	2013				2012			
	Held for hedging HK$'000	Managed in conjunction with financial instruments designated at fair value through profit or loss HK$'000	Others (including held for trading) HK$'000	Total HK$'000	Held for hedging HK$'000	Managed in conjunction with financial instruments designated at fair value through profit or loss HK$'000	Others (including held for trading) HK$'000	Total HK$'000
Currency derivatives								
Forwards	–	–	111,256,403	111,256,403	–	–	69,874,282	69,874,282
Swaps	–	–	132,734,061	132,734,061	–	29,649	84,580,776	84,610,425
Options purchased	–	–	47,659,426	47,659,426	–	–	42,056,895	42,056,895
Options written	–	–	47,040,492	47,040,492	–	–	41,109,922	41,109,922
Interest rate derivatives								
Swaps	10,200,952	–	64,035,329	74,236,281	7,955,214	–	43,760,499	51,715,713
Options purchased	–	–	–	–	–	–	264,973	264,973
Options written	–	–	–	–	–	–	264,973	264,973
	10,200,952	–	402,725,711	412,926,663	7,955,214	29,649	281,912,320	289,897,183

Trading includes the Group's and the Bank's proprietary positions in financial instruments, positions which arise from the execution of trade orders from customers and market making, and positions taken in order to hedge other elements of the trading book.

(b) Fair value and credit risk-weighted amounts of derivatives

	The Group					
	2013			2012		
	Fair value assets HK$'000	Fair value liabilities HK$'000	Credit risk-weighted amount HK$'000	Fair value assets HK$'000	Fair value liabilities HK$'000	Credit risk-weighted amount HK$'000
Interest rate derivatives	309,391	143,713	337,855	666,441	170,011	437,801
Currency derivatives	2,086,199	1,424,927	5,717,249	1,180,241	737,331	4,145,645
	2,395,590	1,568,640	6,055,104	1,846,682	907,342	4,583,446
	(note 20)	(note 29)		(note 20)	(note 29)	

	The Bank					
	2013			2012		
	Fair value assets HK$'000	Fair value liabilities HK$'000	Credit risk-weighted amount HK$'000	Fair value assets HK$'000	Fair value liabilities HK$'000	Credit risk-weighted amount HK$'000
Interest rate derivatives	305,647	144,049	324,046	665,836	170,011	437,163
Currency derivatives	2,052,770	1,396,126	5,663,814	1,172,775	737,068	4,141,362
	2,358,417	1,540,175	5,987,860	1,838,611	907,079	4,578,525
	(note 20)	(note 29)		(note 20)	(note 29)	

44 Derivatives *(continued)*

(b) Fair value and credit risk-weighted amounts of derivatives *(continued)*

The credit risk-weighted amount is the amount which has been calculated in accordance with the Banking (Capital) Rules on capital adequacy and depends on the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 150% (2012: 0% to 150%) for contingent liabilities and commitments, and from 0% to 150% (2012: 0% to 150%) for exchange rate, interest rate and other derivatives contracts.

The Group did not enter into any bilateral netting arrangements during the year and accordingly, these amounts are shown on a gross basis.

(c) Fair value of derivatives designated as hedging instruments

The following is a summary of the fair value of derivatives held for hedging purposes by product type entered into by the Group and the Bank:

	The Group and the Bank			
	2013		2012	
	Fair value assets HK$'000	**Fair value liabilities HK$'000**	Fair value assets HK$'000	Fair value liabilities HK$'000
Interest rate contracts	**267,383**	**74,983**	579,841	3,945

Fair value hedges principally consist of interest rate swaps that are used to protect against changes in the fair value of certain fixed rate assets or liabilities due to movements in the market interest rates.

(d) Remaining life of derivatives

The following tables provide an analysis of the notional amounts of derivatives of the Group and the Bank by relevant maturity grouping, based on the remaining periods to settlement at the end of the reporting period:

The Group

	2013 Notional amounts with remaining life of				2012 Notional amounts with remaining life of			
	Total HK$'000	**1 year or less HK$'000**	**Over 1 year to 5 years HK$'000**	**Over 5 years HK$'000**	Total HK$'000	1 year or less HK$'000	Over 1 year to 5 years HK$'000	Over 5 years HK$'000
Interest rate derivatives	**74,310,354**	**35,555,991**	**32,551,370**	**6,202,993**	52,251,228	19,862,949	28,512,520	3,875,759
Currency derivatives	**341,453,622**	**227,156,402**	**114,297,220**	**–**	238,678,103	152,534,209	86,143,894	–
	415,763,976	**262,712,393**	**146,848,590**	**6,202,993**	290,929,331	172,397,158	114,656,414	3,875,759

The Bank

	2013 Notional amounts with remaining life of				2012 Notional amounts with remaining life of			
	Total HK$'000	**1 year or less HK$'000**	**Over 1 year to 5 years HK$'000**	**Over 5 years HK$'000**	Total HK$'000	1 year or less HK$'000	Over 1 year to 5 years HK$'000	Over 5 years HK$'000
Interest rate derivatives	**74,236,281**	**35,487,882**	**32,545,406**	**6,202,993**	52,245,659	19,857,790	28,512,110	3,875,759
Currency derivatives	**338,690,382**	**224,697,015**	**113,993,367**	**–**	237,651,524	151,507,630	86,143,894	–
	412,926,663	**260,184,897**	**146,538,773**	**6,202,993**	289,897,183	171,365,420	114,656,004	3,875,759

45 Contingent assets, liabilities and commitments

(a) Contingent liabilities and commitments to extend credit

The following is a summary of the contractual amounts of each significant class of contingent liabilities and commitments:

	The Group		The Bank	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Direct credit substitutes	**12,032,661**	4,998,356	**7,739,228**	1,920,542
Transaction-related contingencies	**1,007,433**	1,517,432	**1,007,433**	1,517,432
Trade-related contingencies	**3,822,937**	2,953,560	**3,811,221**	2,946,648
Other commitments:				
– which are unconditionally cancellable or automatically cancellable due to deterioration in the creditworthiness of the borrower	**68,522,761**	47,584,418	**67,950,363**	47,120,808
– with an original maturity of not more than 1 year	**1,458,250**	396,763	**1,458,250**	396,763
– with an original maturity of more than 1 year	**1,014,658**	2,106,752	**1,013,581**	2,069,571
	87,858,700	59,557,281	**82,980,076**	55,971,764
Credit risk-weighted amounts	**5,840,792**	4,315,605	**4,851,437**	3,806,266

Contingent liabilities and commitments are credit-related instruments which include forward deposits placed, letters of credit, guarantees and commitments to extend credit. The risk involved is essentially the same as the credit risk involved in extending loan facilities to customers. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the client default. As the facilities may expire without being drawn upon, the contract amounts do not represent expected future cash flows.

The risk weights used in the computation of credit risk-weighted amounts range from 0% to 150% (2012: 0% to 150%).

(b) Capital commitments

Capital commitments for the purchase of properties and equipment outstanding at 31 December 2013 not provided for in the financial statements are as follows:

	The Group		The Bank	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Authorised and contracted for	**25,303**	37,502	**23,727**	35,736
Authorised but not contracted for	**295**	22	**–**	–
	25,598	37,524	**23,727**	35,736

45 Contingent assets, liabilities and commitments *(continued)*

(c) Lease commitments

At 31 December 2013, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group		The Bank	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Property leases expiring:				
Within 1 year	**239,909**	214,676	**225,397**	199,761
After 1 year but within 5 years	**705,692**	671,182	**700,036**	651,807
After 5 years	**338,024**	417,604	**338,024**	417,604
	1,283,625	1,303,462	**1,263,457**	1,269,172
Equipment leases expiring:				
Within 1 year	**2,969**	1,257	**1,341**	1,257
After 1 year but within 5 years	**2,678**	3,228	**2,176**	3,228
	5,647	4,485	**3,517**	4,485

The Group and the Bank lease a number of properties and items of equipment under operating leases. The leases typically run for an initial period of one to nine years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

(d) Contingent liability in respect of legal claim

The Group and its subsidiaries are not involved in any legal action that would be significant to the financial position of the Group at 31 December 2013 and 2012.

46 Trust activities

The Group commonly acts as a trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements as they are not assets of the Group.

47 Immediate parent and ultimate controlling party

At 31 December 2013, the Directors considered the immediate parent of the Group to be CITIC International Financial Holdings Limited, which is incorporated in Hong Kong, and the ultimate controlling party of the Group to be CITIC Group Corporation, which is incorporated in mainland China.

48 Accounting estimates and judgements

The preparation of financial statements requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities; the disclosures of contingent assets and liabilities at the date of these financial statements; and the reported amounts of revenues and expenses for the years presented. Changes in assumptions may have a significant impact on the financial statements in the periods when the assumptions are changed. The application of assumptions and estimates means that any selection of different assumptions would cause the Group's reporting to differ. The Group believes that the assumptions that have been made are appropriate and that the financial statements therefore present the financial position and results fairly, in all material respects.

Management held a discussion with the Audit Committee about the development, selection and disclosure of the Group's significant accounting policies and estimates, and the application of these policies and estimates.

Key sources of estimation uncertainty

Notes 26(c) and 43 contain information about the assumptions and their risk factors relating to the valuation of investment property and the fair value of financial instruments respectively. Other key sources of estimation uncertainty are as follows:

(i) *Impairment losses*

Loans and advances

Loan portfolios are reviewed periodically to assess whether impairment losses exist. The Group makes judgements as to whether there is any objective evidence that a loan portfolio is impaired, i.e. whether there is a decrease in estimated future cash flows. Objective evidence for impairment is described in the accounting policy note 2(l). If management has determined, based on their judgement, that objective evidence of impairment exists, expected future cash flows are estimated based on historical loss experience for assets with credit risk characteristics similar to those of the Group. Historical loss experience is adjusted on the basis of the current observable data. Management regularly reviews the methodology and assumptions used in estimating future cash flows to reduce any difference between loss estimates and actual loss experience.

Available-for-sale securities

The Group determines that available-for-sale equity securities are impaired when there has been a significant or prolonged decline in the fair value below cost. The determination of when a decline in fair value below cost is not recoverable within a reasonable time period is judgement-based by nature, so profit and loss could be affected by differences in this judgement.

(ii) *Fair value of financial instruments*

Fair value estimates are generally subjective in nature, and are made at a specific point in time based on the characteristics of the financial instruments and relevant market information. Where available, quoted market prices are used. If a quoted price is not available on a recognised stock exchange, is not from a broker or dealer for non-exchange traded financial instruments or from a readily available latest trading price, the fair value is estimated using the present value or other valuation techniques using current market parameters. The fair value of structured investment vehicles is based on their net asset value provided by investment managers, having taken into consideration other risk factors.

All valuation models are validated before they are used as a basis for financial reporting. Wherever possible, the Group compares valuations derived from models with quoted prices of similar financial instruments, and with actual values when realised, in order to further validate and calibrate the models.

These techniques involve uncertainties and are materially affected by the assumptions used and judgements made regarding the risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experience and other factors. Changes in assumptions could materially affect these estimates and the resulting fair values. Derived fair value estimates cannot necessarily be substantiated by comparison to independent markets and, in many cases, could be realised in an immediate sale of the instruments.

49 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2013

Up to the date of issue of the financial statements, the HKICPA had issued a few amendments and a new standard which are not yet effective for the year ended 31 December 2013 and which have not been adopted in these financial statements.

	Effective for accounting periods beginning on or after
– Amendments to HKAS 32, Offsetting financial assets and financial liabilities	1 January 2014
– Amendments to HKAS 39, Novation of derivatives and continuation of hedge accounting	1 January 2014
– HKFRS 9, Financial instruments	Unspecified

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements except for HKFRS 9, Financial Instruments ("HKFRS 9").

HKFRS 9 was issued in November 2009 and establishes new principles for the classification and measurement of financial assets. In November 2010, the HKICPA issued additions to HKFRS 9 dealing with financial liabilities. Together, these changes represent the first phase in the HKICPA's planned replacement of HKAS 39 "Financial Instruments: Recognition and Measurement". Since the final requirements for classification and measurement are uncertain, it remains impracticable to quantify the effect of the HKFRS 9 as at the date of the publication of these financial statements.

The second phase in the HKFRS 9 project to replace HKAS 39 will address the impairment of financial assets. It is proposed to replace the "incurred loss" approach to the impairment of financial assets carried at amortised cost in HKAS 39 with an "expected credit loss" approach, and require that the "expected credit loss" approach be applied to other categories of financial instrument, including loan commitments and financial guarantees. The final requirements for impairment of financial assets are expected to be published in 2014.

The third phase of the project addresses general hedge accounting. Macro hedging is not included in the HKFRS 9 project and will be considered separately. In December 2013, the HKICPA issued amendments to HKFRS 9 in respect of the general hedge accounting requirements, transition and effective date. The revised hedge accounting requirements are applied prospectively and the Group is currently assessing the impact they may have on the financial statements.

These amendments in all phases of HKFRS 9 (except for changes to the presentation of gains and losses for certain liabilities measured at fair value) must be applied from the same effective date. Given the uncertainties with regard to the final HKFRS 9 requirements for classification and measurement and impairment, the Group remains unable to provide a date by which it will apply HKFRS 9 as a whole and quantify the overall effect of HKFRS 9 as at the date of the publication of these financial statements.

50 Approval of financial statements

The financial statements were approved and authorised for issue by the Board of Directors on 26 March 2014.

(A) Capital adequacy

(i) Capital base – At 31 December 2013

Capital adequacy ratios ("CARs") are complied with in accordance with the Banking (Capital) Rules issued by the HKMA. The CARs as at 31 December 2013 are complied with in accordance with the Banking (Capital) (Amendment) Rules 2012 effective from 1 January 2013 for the implementation of the Basel III capital requirement. Accordingly, the capital disclosures for December 2013 under Basel III are not directly comparable with the disclosures for December 2012 prepared under the Basel II basis, as referred to the note (A)(iv). Certain comparative figures have not been provided where the current year is the first year of disclosure.

In accordance with the Banking (Capital) Rules, the CARs are computed on a consolidated basis covering the Bank and certain of its subsidiaries as required by the HKMA for its regulatory purposes, and the Bank has adopted the "standardised approach" for calculating the risk-weighted amount for credit risk and market risk and the "basic indicator approach" for calculating operational risk.

	2013 HK$'000
Common Equity Tier 1 ("CET1") capital: instruments and reserves	
Directly issued qualifying CET1 capital instruments plus any related share premium	**7,566,271**
Retained earnings	**1,767,448**
Disclosed reserves	**8,007,823**
CET1 capital before regulatory deductions	**17,341,542**
CET1 capital: regulatory deductions	
Deferred tax assets net of deferred tax liabilities	**39,347**
Cumulative fair value gains arising from the revaluation of land and buildings	**105,440**
Regulatory reserve for general banking risks	**1,816,253**
Debt valuation adjustments in respect of derivative contracts	**1,141**
Excess AT1 deductions	**–**
Total regulatory deductions to CET1 capital	**1,962,181**
CET1 capital	**15,379,361**
Additional Tier 1 ("AT1") capital	
Total AT1 capital	**–**
Tier 1 capital	**15,379,361**
Tier 2 capital: instruments and provisions	
Qualifying Tier 2 capital instruments plus any related share premium	**7,893,661**
Reserve attributable to fair value gains on revaluation of holdings of land and buildings	**47,448**
Collective impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	**1,752,118**
Tier 2 capital base before deductions	**9,693,227**
Tier 2 capital: regulatory deductions	
Total regulatory deductions to Tier 2 capital	**–**
Total capital (Total capital = Tier 1 + Tier 2)	**25,072,588**

(A) Capital adequacy *(continued)*

	2013 HK$'000
(ii) Risk-weighted amount	
– Credit risk	**141,390,871**
– Market risk	**3,413,838**
– Operational risk	**7,425,588**
	152,230,297
(iii) Capital adequacy ratios	
– CET1 capital ratio	**10.1%**
– Tier 1 capital ratio	**10.1%**
– Total capital ratio	**16.5%**

(iv) Capital base after deductions – At 31 December 2012

The capital base after deductions used in the calculation of capital adequacy ratios and reported to the HKMA for 31 December 2012 is analysed as follows:

	2012 HK$'000
Core capital	
Paid-up ordinary share capital	7,283,341
Share premium	282,930
Reserves	4,852,273
Profit and loss account	1,658,782
Less: Net deferred tax assets	(27,283)
Total core capital before deductions	14,050,043
Less: Deductions from core capital	(5,412)
Total core capital after deductions	14,044,631
Supplementary capital	
Reserves attributable to fair value gains on revaluation of land and buildings	2,543
Reserves attributable to fair value gains on revaluation of holdings of available-for-sale equities and debt securities	26,774
Unrealised fair value gains arising from holdings of equities and debt securities designated at fair value through profit or loss	1,237
Regulatory reserve for general banking risks	1,213,909
Collectively assessed impairment allowances	280,985
Term subordinated debt	6,179,232
Total supplementary capital before deductions	7,704,680
Total eligible supplementary capital before deductions	7,704,680
Less: Deductions from supplementary capital items	(5,413)
Total supplementary capital after deductions	7,699,267
Total capital base after deductions	21,743,898
Total deductions from the core capital and supplementary capital	10,825
Risk-weighted amount	
– credit risk	110,380,460
– market risk	2,647,488
– operational risk	6,337,300
	119,365,248
Core capital ratio	11.8%
Capital adequacy ratio	18.2%

(A) Capital adequacy *(continued)*

(v) Capital instruments

The following is a summary of the Group's CET1 and Tier 2 capital instruments.

	2013 HK$'000
CET 1 capital instruments issued by the Bank	
Ordinary shares:	
7,283,341,176 issued and fully paid ordinary shares of HK$1 each	**7,283,341**
Tier 2 capital instruments	
Issued by the Bank:	
– Subordinated note due 2020 (nominal value: US$500 million)	**4,098,142**
– Subordinated note due 2022 (nominal value: US$300 million)	**2,277,706**
– Subordinated note due 2024 (nominal value: US$300 million)	**2,281,704**
	8,657,552

(vi) Additional information

To comply with the Banking (Disclosure) Rules ("BDR"), the Group has established "Regulatory Disclosure" section on its corporate website, www.cncbinternational.com, and included all the information relating to the disclosure of regulatory capital instruments and the reconciliation to the Group's published financial statements. The Regulatory Disclosure section will include the following information:

- A description of the main features and the full terms and conditions of the Group's capital instruments.

- A detailed breakdown of the Group's CET1 capital, AT1 capital, T2 capital and regulatory deductions, using the standard template as specified by the HKMA.

- A full reconciliation between the Group's accounting and regulatory balance sheet, using the standard template as specified by the HKMA.

(A) Capital adequacy *(continued)*

(vii) Basis of consolidation

Unless otherwise stated, all financial information contained in the annual financial report is prepared according to the consolidation basis for accounting purposes. The main difference between the consolidation basis for accounting and regulatory purposes is that the former includes the Bank and all its subsidiaries whereas the latter includes the Bank and only some of the Group's subsidiaries, which are discussed as follows:

The HKMA has granted approval under section 28(2)(a) of the Banking (Capital) Rules for the Bank to calculate its CAR on a solo consolidated basis instead of on a solo basis in respect of the following subsidiary:

		At 31 December 2013	
Names of subsidiary	**Principal activities**	**Total assets HK$'000**	**Total equity HK$'000**
Viewcon Hong Kong Limited	– Mortgage financing	**23,420**	**23,362**

On the other hand, the Bank is required under section 3C(1) of the Banking (Capital) Rules to calculate its total capital on a consolidated basis in respect of the following subsidiaries:

		At 31 December 2013	
Names of subsidiaries	**Principal activities**	**Total assets HK$'000**	**Total equity HK$'000**
Carford International Limited	– Property holding	**52,891**	**30,249**
CITIC Bank International (China) Limited	– Banking	**18,170,715**	**1,634,564**
CITIC Insurance Brokers Limited	– Insurance broker	**97,021**	**82,334**
CKWB-SN Limited	– Issue of structured notes and investments	**–**	**–**
CKWH-UT2 Limited	– Issue of subordinated notes	**–**	**–**
HKCB Finance Limited	– Consumer financing	**6,086,086**	**757,324**
Ka Wah International Merchant Finance Limited	– Inactive	**39,631**	**39,551**
The Ka Wah Bank (Trustee) Limited	– Trustee services	**5,009**	**3,416**
Viewcon Hong Kong Limited	– Mortgage financing	**23,420**	**23,362**

Subsidiaries not included in consolidation for regulatory purposes are nominee services companies that are authorised and supervised by a regulator and are subject to supervisory arrangements regarding the maintenance of adequate capital to support business activities comparable to those prescribed for authorised institutions under the Banking (Capital) Rules and the Banking Ordinance. The following subsidiaries are deducted from the Bank's capital base under Part 3 of the Banking (Capital) Rules:

		At 31 December 2013	
Names of subsidiaries	**Principal activities**	**Total assets HK$'000**	**Total equity HK$'000**
The Hongkong Chinese Bank (Nominees) Limited	– Nominee services	**4**	**4**
The Ka Wah Bank (Nominees) Limited	– Nominee services	**2,062**	**–**
Security Nominees Limited	– Nominee services	**–**	**–**

(A) Capital adequacy *(continued)*

(vii) Basis of consolidation *(continued)*

At 31 December 2013, no subsidiaries were included within both the accounting scope of consolidation and the regulatory scope of consolidation but for which the method of consolidation differs.

There are also no subsidiaries which are included within the regulatory scope of consolidation but not included within the accounting scope of consolidation.

(B) Liquidity ratio

	The Group 2013	2012
Average liquidity ratio for the year ended 31 December *	**55.34%**	59.35%

* The average liquidity ratio for the year is the simple average of each calendar month's average liquidity ratio, which is computed on the consolidated basis covering the Bank and certain of its subsidiaries as required by the HKMA for its regulatory purposes, and is in accordance with the Fourth Schedule to the Hong Kong Banking Ordinance.

(C) Further analysis on loans and advances to customers

Loans and advances to customers analysed by the coverage of collateral, overdue amount and the impairment allowance is as follows. The economic sector analysis is based on the categories and definitions used by the HKMA.

	The Group 2013		2012	
	Gross loans and advances to customers HK$'000	**% of gross loans and advances to customers covered by collateral**	Gross loans and advances to customers HK$'000	% of gross loans and advances to customers covered by collateral
Industrial, commercial and financial				
– Property development	**15,227**	**100**	10,762	100
– Property investment	**14,074,440**	**100**	14,165,266	100
– Financial concerns	**4,073,785**	**33**	1,785,418	27
– Stockbrokers	**255,937**	**40**	31,000	100
– Wholesale and retail trade	**13,762,091**	**91**	7,984,910	80
– Manufacturing	**5,843,972**	**57**	3,401,071	48
– Transport and transport equipment	**2,252,707**	**46**	2,604,952	60
– Recreational activities	**271,979**	**78**	189,213	64
– Information technology	**882,728**	**5**	1,336	74
– Others	**2,272,510**	**57**	2,208,005	61
Individuals				
– Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**17,790**	**100**	20,100	100
– Loans for the purchase of other residential properties	**10,254,515**	**100**	9,671,193	100
– Credit card advances	**318,683**	**–**	288,991	–
– Others	**5,853,436**	**87**	6,132,235	91
Gross loans and advances for use in Hong Kong	**60,149,800**	**82**	48,494,452	85
Trade finance	**15,489,383**	**20**	13,930,092	21
Gross loans and advances for use outside Hong Kong	**51,377,658**	**34**	42,667,288	40
Gross loans and advances to customers	**127,016,841**	**55**	105,091,832	58

(C) Further analysis on loans and advances to customers *(continued)*

The analysis of impaired loans and advances to customers of the individual loan usage category, which accounted for 10% or more of the gross loans and advances to customers, is as follows:

	The Group 2013				
	Overdue loans and advances to customers HK$'000	**Individual impairment allowances HK$'000**	**Collective impairment allowances HK$'000**	**Impaired loans and advances to customers HK$'000**	**Impairment charged to/ (written back) on income statement during the year HK$'000**
Property investment	**1,375**	**–**	**84**	**1,375**	**(1,022)**
Wholesale and retail trade	**4,353**	**4,354**	**47,797**	**4,353**	**67,189**
Trade finance	**197,296**	**127,773**	**43,924**	**197,296**	**3,962**
Gross loans and advances for use outside Hong Kong	**97,271**	**25,224**	**156,887**	**138,180**	**(3,796)**
	300,295	**157,351**	**248,692**	**341,204**	**66,333**

	The Group 2012				
	Overdue loans and advances to customers HK$'000	Individual impairment allowances HK$'000	Collective impairment allowances HK$'000	Impaired loans and advances to customers HK$'000	Impairment written back on income statement during the year HK$'000
Property investment	–	–	105	–	(227)
Loans for the purchase of other residential properties	–	–	27	4,818	(120)
Trade finance	81,607	75,163	40,515	83,966	(1,882)
Gross loans and advances for use outside Hong Kong	255,062	178,191	162,859	298,694	(18,684)
	336,669	253,354	203,506	387,478	(20,913)

(C) Further analysis on loans and advances to customers *(continued)*

By geographical areas

The Group 2013

	Loans and advances to customers HK$'000	Overdue loans and advances to customers HK$'000	Impaired loans and advances to customers HK$'000	Individual impairment allowances HK$'000	Collective impairment allowances HK$'000
Hong Kong	**65,078,764**	**216,992**	**256,066**	**102,230**	**129,448**
Mainland China	**44,105,532**	**103,357**	**87,403**	**31,917**	**84,595**
United States	**1,213,184**	**3,032**	**26,524**	**–**	**1,476**
Singapore	**7,377,259**	**–**	**–**	**–**	**58,104**
Others	**9,242,102**	**36,472**	**36,472**	**26,773**	**41,432**
	127,016,841	**359,853**	**406,465**	**160,920**	**315,055**

The Group 2012

	Loans and advances to customers HK$'000	Overdue loans and advances to customers HK$'000	Impaired loans and advances to customers HK$'000	Individual impairment allowances HK$'000	Collective impairment allowances HK$'000
Hong Kong	58,723,477	133,556	143,762	57,223	127,109
Mainland China	33,425,756	84,051	84,051	45,381	64,320
United States	1,302,979	632	44,264	11,023	3,562
Singapore	4,537,227	–	–	–	43,663
Others	7,102,393	203,842	203,843	151,729	42,331
	105,091,832	422,081	475,920	265,356	280,985

The above geographical analysis is classified by the location of the counterparties after taking into account the transfer of risk. For a claim guaranteed by a party situated in a country different from the counterparty, risk will be transferred to the country of the guarantor.

Overdue loans and advances are loans that have been overdue for more than three months.

Impaired loans and advances are individually assessed loans which exhibit objective evidence of impairment on an individual basis.

(D) Overdue assets

Overdue loans and advances to customers

	The Group			
	2013		2012	
	HK$'000	**% of total loans and advances to customers**	HK$'000	% of total loans and advances to customers
The gross amount of loans and advances has been overdue for periods of:				
– 6 months or less but over 3 months	**52,155**	**0.04**	5,431	0.01
– 1 year or less but over 6 months	**117,966**	**0.09**	75,572	0.07
– over 1 year	**189,732**	**0.15**	341,078	0.32
	359,853	**0.28**	422,081	0.40
Secured overdue loans and advances	**156,932**		210,309	
Unsecured overdue loans and advances	**202,921**		211,772	
	359,853		422,081	
Market value of collateral held against the secured overdue loans and advances	**244,069**		285,939	
Individual impairment allowances made	**160,920**		250,429	

Loans and advances with specific repayment dates are classified as overdue when the principal or interest is overdue and remains unpaid at the year end. Loans repayable on demand are classified as overdue either when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the demand notice, and/or when the loans have remained continuously outside the approved limit advised to the borrower for more than the overdue period in question.

Eligible collateral, which is held in respect of the overdue loans and advances, is 'Eligible Physical Collateral' which mainly comprises real estate properties. The eligible collateral should generally satisfy the following:

(a) The market value of the asset is readily determinable or can be reasonably established and verified.

(b) The asset is marketable and there exists a readily available secondary market for disposal of the asset.

(c) The Bank's right to repossess the asset is legally enforceable and without impediment.

(d) The Bank is able to secure control over the asset if necessary.

There were no advances to banks and other financial institutions which were overdue for over three months at 31 December 2013 and 2012.

(E) Rescheduled loans

	The Group			
	2013		2012	
	HK$'000	**% of total loans and advances to customers**	HK$'000	% of total loans and advances to customers
Rescheduled loans	**728,855**	**0.57**	687,320	0.65

Rescheduled loans are those advances which have been restructured or renegotiated because of a deterioration in the financial position of the borrower, or the inability of the borrower to meet the original repayment schedule and for which the revised repayment terms are non-commercial to the Group. Rescheduled loans to customers are stated net of any advances that have subsequently become overdue for over three months and are reported as overdue advances in note (D).

There were no advances to banks and other financial institutions which were rescheduled at 31 December 2013 and 2012.

(F) Repossessed assets

	The Group	
	2013	2012
	HK$'000	HK$'000
Included in loans and advances to customers and other accounts	**5,648**	–

The amount represents the estimated market value of the repossessed assets at 31 December 2013.

(G) Cross-border claims

Cross-border claims are on-statement of financial position exposures of counterparties based on the location of the counterparties after taking into account the transfer of risk. For a claim guaranteed by a party situated in a country different from the counterparty, risk will be transferred to the country of the guarantor. For a claim on the branch of a bank or other financial institution, the risk will be transferred to the country where its head office is situated. Claims on individual countries or areas, after risk transfer, amounting to 10% or more of the aggregate cross-border claims, are shown as follows:

	The Group 2013			
	Banks and other financial institutions HK$'000	**Public sector entities HK$'000**	**Others HK$'000**	**Total HK$'000**
Asia Pacific excluding Hong Kong	**53,435,320**	**267,743**	**42,926,522**	**96,629,585**
of which mainland China	**49,224,819**	**102,346**	**34,078,518**	**83,405,683**

	The Group 2012			
	Banks and other financial institutions HK$'000	Public sector entities HK$'000	Others HK$'000	Total HK$'000
Asia Pacific excluding Hong Kong	47,847,382	476,213	29,916,029	78,239,624
of which mainland China	39,337,063	352,943	24,007,607	63,697,613

(H) Non-bank Mainland Exposures

Non-bank Mainland exposures are the mainland China exposures to non-bank counterparties. The categories follow the non-bank Mainland exposures submitted by the Bank to the HKMA pursuant to section 63 of the Hong Kong Banking Ordinance.

	The Group 2013			
	On-statement of financial position exposure HK$'000	**Off-statement of financial position exposure HK$'000**	**Total HK$'000**	**Individual impairment allowances HK$'000**
Mainland entities	**22,466,004**	**10,456,603**	**32,922,607**	**82,847**
Companies and individuals outside Mainland where the credit is granted for use in Mainland	**16,318,519**	**3,450,896**	**19,769,415**	**62**
Other counterparties the exposures to whom are considered to be non-bank Mainland exposures	**37,372,279**	**8,468,840**	**45,841,119**	**72,300**
	76,156,802	**22,376,339**	**98,533,141**	**155,209**

	The Group 2012 (Restated) (Note)			
	On-statement of financial position exposure HK$'000	Off-statement of financial position exposure HK$'000	Total HK$'000	Individual impairment allowances HK$'000
Mainland entities	14,960,934	4,801,392	19,762,326	105,873
Companies and individuals outside Mainland where the credit is granted for use in Mainland	12,467,602	2,151,146	14,618,748	15
Other counterparties the exposures to whom are considered to be non-bank Mainland exposures	28,037,173	7,708,899	35,746,072	28,090
	55,465,709	14,661,437	70,127,146	133,978

Note: Certain comparative figures at the year ended 31 December 2012 have been restated in order to conform with both current year's presentation and new definitions of non-bank Mainland exposures.

(I) Additional disclosures on credit risk management

(i) Capital requirement

The capital requirements of the Group on each class of exposures calculated under the standardised (credit risk) approach at the end of each reporting period can be analysed as follows:

	The Group 2013 HK$'000	2012 HK$'000
Classes of exposure:		
Sovereign	**29,872**	23,146
Public sector entity	**2,994**	6,795
Bank	**3,021,889**	2,444,904
Securities firm	**17,202**	1,240
Corporate	**5,892,221**	4,357,096
Collective investment scheme	**214**	213
Cash items	**62,130**	44,189
Regulatory retail	**313,144**	442,263
Residential mortgage loans	**511,454**	443,766
Other exposures which are not past due	**238,758**	244,293
Past due	**106,814**	101,602
Total capital requirements for on-balance sheet exposures	**10,196,692**	8,109,507
Direct credit substitutes	**305,929**	156,967
Transaction-related contingencies	**38,591**	57,331
Trade-related contingencies	**116,314**	71,985
Other commitments	**63,218**	86,073
Exchange rate and gold contracts	**457,316**	331,652
Interest rate contracts	**27,028**	35,024
Securities financing transactions	**8,466**	–
Standardised credit valuation adjustment method	**132,687**	–
Total capital requirements for off-balance sheet exposures	**1,149,549**	739,032
Total capital requirements for credit risk	**11,346,241**	8,848,539

(ii) Capital charge

The capital charge for operational risk of the Group calculated in accordance with the basic indicator approach at the end of the reporting period is:

	The Group 2013 HK$'000	2012 HK$'000
Capital charge for operational risk	**594,047**	506,984

(I) Additional disclosures on credit risk management *(continued)*

(iii) Credit risk exposure

Credit ratings such as from Standard & Poor's Ratings Services and Moody's Investors Service are used for all classes of credit exposures mentioned below. The Group follows the process prescribed in Part 4 of the Banking (Capital) Rules to map the ratings to the exposures booked in the Group's banking book.

An analysis of the credit risk of the Group by class of exposures at the end of the reporting period is as follows:

	The Group 2013							
	Total Exposures HK$'000	Exposures after recognised credit risk mitigation Rated HK$'000	Exposures after recognised credit risk mitigation Unrated HK$'000	Risk-weighted amounts Rated HK$'000	Risk-weighted amounts Unrated HK$'000	Total risk– weighted amounts HK$'000	Total exposure covered by recognised collateral HK$'000	Total exposure covered by recognised guarantees or recognised credit derivative contracts HK$'000
On-balance sheet								
Sovereign	10,503,712	10,790,943	–	373,405	–	373,405	–	287,230
Public sector entity	107,823	187,135	–	37,427	–	37,427	–	99,278
Bank	69,850,348	80,200,622	7,973,863	35,532,805	2,240,811	37,773,616	–	13,458,990
Securities firm	783,267	155,645	274,401	77,822	137,201	215,023	103,009	–
Corporate	97,145,262	4,396,129	69,711,500	3,941,266	69,711,519	73,652,785	1,249,804	–
Collective investment scheme	2,675	–	2,675	–	2,675	2,675	–	–
Cash items	290,291	–	5,372,940	–	–	–	2,200,313	–
Regulatory retail	5,446,257	–	5,219,060	–	3,914,295	3,914,295	176,249	–
Residential mortgage loans	17,967,032	–	17,938,664	–	6,393,179	6,393,179	–	–
Other exposures which are not past due exposures	3,111,398	–	2,984,488	–	2,984,496	2,984,496	18,035	–
Past due exposures	930,836	–	930,836	–	1,335,175	1,335,175	62,250	3,246
Off-balance sheet								
Off-balance sheet exposures other than OTC derivative transactions or credit derivative contracts	92,210,530	4,153,266	88,057,264	1,770,663	4,779,983	6,550,646	8,088,546	1,935,239
OTC derivative transactions	337,194,645	226,753,064	110,441,581	2,338,457	3,715,853	6,054,310	9,508,659	–
Securities Financing Transactions	2,096,019	–	2,096,019	–	105,828	105,828	1,884,363	–
Exposures deducted from capital base	–							

(I) Additional disclosures on credit risk management *(continued)*

(iii) Credit risk exposure *(continued)*

	The Group 2012							
	Total Exposures HK$'000	Exposures after recognised credit risk mitigation Rated HK$'000	Exposures after recognised credit risk mitigation Unrated HK$'000	Risk-weighted amounts Rated HK$'000	Risk-weighted amounts Unrated HK$'000	Total risk– weighted amounts HK$'000	Total exposure covered by recognised collateral HK$'000	Total exposure covered by recognised guarantees or recognised credit derivative contracts HK$'000
On-balance sheet								
Sovereign	9,723,437	10,356,521	–	289,321	–	289,321	–	633,284
Public sector entity	415,754	424,702	–	84,940	–	84,940	–	21,076
Bank	64,831,846	73,289,782	3,907,429	28,713,481	1,847,822	30,561,303	–	8,423,723
Securities firm	31,008	–	31,008	–	15,504	15,504	–	–
Corporate	70,947,605	2,348,168	52,231,260	2,232,860	52,230,842	54,463,702	1,510,962	–
Collective investment scheme	2,662	–	2,662	–	2,662	2,662	–	–
Cash items	219,460	–	4,049,188	–	552,365	552,365	3,495,662	–
Regulatory retail	7,636,792	–	7,371,056	–	5,528,293	5,528,293	115,134	–
Residential mortgage loans	15,694,478	–	15,658,273	–	5,547,079	5,547,079	–	–
Other exposures which are not past due exposures	3,220,671	–	3,053,664	–	3,053,664	3,053,664	25,301	–
Past due exposures	878,879	–	878,879	–	1,270,019	1,270,019	71,925	8,225
Off-balance sheet								
Off-balance sheet exposures other than OTC derivative transactions or credit derivative contracts	61,414,898	1,040,480	60,374,418	339,314	4,315,131	4,654,445	3,176,074	274,337
OTC derivative transactions	240,303,163	151,226,493	89,076,670	1,451,584	3,131,862	4,583,446	3,182,801	–
Exposures deducted from capital base	10,825							

The amount of credit exposure risk weighted at 1250% is HK$Nil (2012: HK$Nil).

(I) Additional disclosures on credit risk management *(continued)*

(iv) Counterparty credit risk exposures

The following tables summarise the Group's main default risk exposures arising from OTC derivative transactions, which are calculated using the current exposure method:

(1) Below is an analysis of the counterparty credit risk exposures.

	The Group	
	2013	2012
	OTC derivative transactions	OTC derivative transactions
	HK$'000	HK$'000
Gross total positive fair value which is not securities financing transactions	**2,303,067**	1,822,163
Recognised collateral held:		
– Other than debt securities	**12,447**	37,277
Default risk exposures net of recognised collateral held	**9,339,148**	6,577,251
Risk-weighted amounts	**6,054,310**	4,583,446

(2) Below is an analysis of the major classes of exposures by counterparty type.

	The Group	
	2013	2012
	OTC derivative transactions	OTC derivative transactions
	HK$'000	HK$'000
Notional amounts:		
– Banks	**222,592,233**	159,203,596
– Corporates	**109,018,251**	75,998,046
– Others	**5,584,161**	5,101,521
	337,194,645	240,303,163
Default risk exposures:		
– Banks	**5,383,088**	3,360,746
– Corporates	**3,940,916**	3,179,229
– Others	**15,144**	37,276
	9,339,148	6,577,251
Risk-weighted amounts:		
– Banks	**2,403,850**	1,508,113
– Corporates	**3,647,764**	3,075,333
– Others	**2,696**	–
	6,054,310	4,583,446

(I) Additional disclosures on credit risk management *(continued)*

(v) Credit risk mitigation

The Group mitigates credit risk by means of taking collateral and entering into offsetting or netting agreements with borrowers and counterparties, as the case may be, should such clauses and agreements be legally established and enforceable.

Common types of tangible collateral acceptable to the Group include land, real estate, equipment & machinery, equity shares, bonds and other marketable securities. In determining the loan advancing level, respective haircuts will be applied on the current market value of the collateral. The Group also accepts intangible collateral such as government guarantees, bank guarantees, corporate guarantees and personal guarantees.

(vi) Market risk

The Group uses the standardised approach for the calculation of market risk.

	The Group	
	2013	2012
	Capital charge	Capital charge
	HK$'000	HK$'000
Interest rate exposures (including options)	**188,971**	135,517
Foreign exchange exposures (including gold and options)	**84,136**	76,282
	273,107	211,799

(vii) Asset securitisation

The Group uses the standardised (securitisation) approach to calculate the credit risk for securitisation exposures. It is an investing institution for all classes of exposures below.

Standard & Poor's Ratings Services and Moody's Investors Service are the external credit assessment institutions that the Group has used in relation to the securitisation exposures of the 'Others'.

	2013 Exposures deducted from its		**2012 Exposures deducted from its**	
Securitisation exposures	**CET1 Capital HK$'000**	**AT1 Capital HK$'000**	Core Capital HK$'000	Supplementary Capital HK$'000
Instalment loans	**–**	**–**	6	6

(J) Corporate governance

The Group is committed to high standards of corporate governance and has complied, in all material respects, throughout the year with the guideline on 'Corporate Governance of Locally Incorporated Authorised Institutions' and 'Guideline on a Sound Remuneration System' issued by the HKMA. The Board of Directors of the Bank has established a number of committees including the Audit Committee, Executive Personnel Committee, Nomination Committee, Remuneration Committee and Credit & Risk Management Committee. Their composition and functions are explained in detail in 'Corporate governance and other information'.