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中信银行(国际)
CHINA CITIC BANK INTERNATIONAL

CHINA CITIC BANK INTERNATIONAL LIMITED 中信銀行（國際）有限公司

(Incorporated with limited liability in Hong Kong)

U.S.$300,000,000

7.25 per cent. Undated Non-Cumulative Subordinated Additional Tier 1 Capital Securities

issued under the

U.S.$2,000,000,000 Medium Term Note Programme

This Supplement (the "**Supplement**") to the Offering Circular dated 16 October 2013 (the "**Offering Circular**") is prepared in connection with the U.S.$2,000,000,000 Medium Term Note Programme (the "**Programme**") established by China CITIC Bank International Limited 中信銀行（國際）有限公司 (the "**Issuer**" or the "**Bank**"). The U.S.$300,000,000 7.25 per cent. Undated Non-Cumulative Subordinated Additional Tier 1 Capital Securities (the "**Capital Securities**") will be issued by the Issuer under the Programme. Terms defined in the Offering Circular have the same meaning when used in this Supplement. This Supplement is supplemental to, forms part of and should be read in conjunction with, the Offering Circular and any other supplements to the Offering Circular issued by the Issuer.

Application for approval in-principle has been made for the listing of the Capital Securities on the The Stock Exchange of Hong Kong Limited (the "**SEHK**") by way of debt issues to professional investors (as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong) only and it is expected that dealing in, and listing of, the Capital Securities on the SEHK will commence on or about 23 April 2014.

Hong Kong Exchanges and Clearing Limited and the SEHK take no responsibility for the contents of the Offering Circular and this Supplement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of the Offering Circular and this Supplement.

The Offering Circular and this Supplement include particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") for the purpose of giving information with regard to the Issuer. The Issuer accepts full responsibility for the accuracy of the information contained in the Offering Circular and this Supplement and confirms, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

The Capital Securities will be issued in registered form and will be represented by a global note in registered form without interest coupons registered in the name of a nominee of, and deposited with a common depositary for, Euroclear Bank SA/NV and Clearstream Banking, société anonyme.

The Capital Securities are expected to be assigned a rating of "Ba3" by Moody's Investors Service Hong Kong Limited ("Moody's"). The rating does not constitute a recommendation to buy, sell or hold the Capital Securities and may be subject to suspension, reduction or withdrawal at any time by Moody's.

The Capital Securities have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act") and, subject to certain exceptions, may not be offered or sold within the United States. The Capital Securities are being offered only outside the United States in reliance on Regulation S under the Securities Act.

As described in this Supplemental Offering Circular, the terms of the Capital Securities provide that subject to the Conditions, the Capital Securities confer a right to receive Distributions on the principal amount (subject to adjustments following the occurrence of a Non-Viability Event (as defined herein) in accordance with the Conditions) from, and including, the Issue Date at the applicable Distribution Rate (as defined herein), payable semi-annually in arrear on 22 April and 22 October in each year. Distributions (as defined herein) will not be cumulative and Distributions which are not paid in accordance with the Conditions will not accumulate or compound and Securityholders will have no right to receive such Distributions at any time, even if subsequent Distributions are paid in the future, or be entitled to any claim in respect thereof against the Issuer.

The terms of the Capital Securities also provide for circumstances under which the Issuer will not be obliged to pay, and will not pay, any Distribution on the applicable Distribution Payment Date (as defined herein), in whole or in part, as applicable. The Issuer shall have no obligation to pay a Distribution on any Distribution Payment Date if such non-payment is in accordance with the Conditions and any failure to pay such Distribution shall not constitute an Event of Default (as defined herein). Distributions are non-cumulative and any Distribution which is cancelled shall therefore not be payable at any time thereafter whether in a Winding-Up (as defined herein) or otherwise.

The Capital Securities are perpetual and have no maturity date. Securityholders have no ability to require the Issuer to redeem their Capital Securities whereas the Issuer can redeem the Capital Securities in certain circumstances as described in the Conditions. However, the Issuer is under no obligation to redeem the Capital Securities at any time. The ability of the Issuer to redeem Capital Securities is subject to the Issuer (a) obtaining the prior written consent of the Monetary Authority (as defined herein) (if then required) to the redemption, and (b) satisfying any conditions that the Monetary Authority may impose at that time.

If a Non-Viability Event occurs and is continuing, the Issuer shall, upon the provision of a Non-Viability Event Notice (as defined herein), irrevocably (without the need for the consent of the Securityholders of the Capital Securities) reduce the then principal amount of, and cancel any accrued but unpaid Distribution in respect of, each Capital Security (in each case in whole or in part) by an amount equal to the Non-Viability Event Write-off Amount (as defined herein) per Capital Security. Once the principal amount of, and any accrued but unpaid distribution under, the Capital Securities has been Written-off, the relevant amount(s) Written-off will not be restored in any circumstances including where the relevant Non-Viability Event ceases to continue. No Securityholder may exercise, claim or plead any right to any amount that has been Written-off, and each Securityholder shall, by virtue of his holding of any Capital Securities, be deemed to have waived all such rights to such amount that has been Written-off. Securityholders could risk losing up to the full principal amount of the Capital Securities, as well as the cancellation of any accrued (and unpaid) Distributions, without receiving any compensation for such loss or cancellation.

Joint Global Coordinators and Joint Bookrunners

Citigroup | HSBC | The Royal Bank of Scotland

Joint Bookrunners

ANZ | BBVA | CLSA (a CITIC Securities Co.)

Co-Manager

BNP PARIBAS

The date of this Supplement is 10 April 2014.

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SUMMARY FINANCIAL AND OTHER INFORMATION

The following tables set forth the summary consolidated financial and other information of the Bank as at and for the periods indicated. The summary consolidated financial information as at and for the years ended 31 December 2012 and 2013 set forth below is derived from the Bank's audited consolidated financial statements, and should be read in conjunction with the audited consolidated financial statements of the Bank and the notes thereto included elsewhere in this Supplement. Certain items in the consolidated financial statements of the Bank as at and for the years ended 31 December 2012 and 2013 have been aggregated for the purpose of presentation of the summary financial information in the tables below.

The Bank's audited consolidated financial statements as at and for the year ended 31 December 2012 and 2013 were prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**"). The accounting policies of the Bank have been summarised in note 2 to the Bank's audited consolidated financial statements for the year ended 31 December 2013.

For convenience only and unless otherwise noted, all translations from HK$ into US$ in this Supplement were made at the rate of HK$7.80 to US$1.00. No representation is made that the HK dollar amounts referred to in this Supplement could have been or could be converted into US dollars at any particular rate or at all.

SUMMARY INCOME STATEMENT DATA

	Year ended 31 December 2012 and 2013		
	2012	**2013**	**2013**
	HK$	*HK$*	*US$*
		(in millions)	
Interest income	4,847.4	5,664.0	726.1
Interest expense	(2,508.6)	(2,333.1)	(299.1)
Net interest income	2,338.8	3,330.9	427.0
Non-interest income	1,376.7	1,416.3	181.6
Operating expenses	(1,808.3)	(2,089.0)	(267.8)
Operating profit before impairment	1,907.2	2,658.2	340.8
Impairment losses	(91.2)	(119.9)	(15.4)
	1,816.0	2,538.3	325.4
Non-operating income	50.0	16.1	2.1
Profit before taxation	1,866.0	2,554.4	327.5
Income tax	(309.4)	(418.9)	(53.7)
Profit for the year	1,556.6	2,135.5	273.8
Earnings per share (HK$)	0.21	0.29	0.04

SUMMARY STATEMENT OF FINANCIAL POSITION DATA

	As at 31 December 2012 and 2013		
	2012	**2013**	**2013**
	HK$	*HK$*	*US$*
		(in millions)	
Assets			
Cash and balances with banks, central banks and other financial institutions	5,290.1	12,621.5	1,618.1
Placements with and advances to banks, central banks and other financial institutions	43,501.2	46,089.3	5,908.9
Trading assets	1,849.3	2,398.3	307.5
Securities designated at fair value through profit or loss	91.5	63.2	8.1
Loans and advances to customers and other accounts	107,474.9	132,531.5	16,991.2
Available-for-sale securities	18,030.7	21,661.8	2,777.1
Property and equipment			
— Investment property	238.3	180.1	23.1
— Other property and equipment	670.6	719.6	92.3
Tax recoverable	6.0	-	-
Deferred tax assets	28.8	42.6	5.5
Total Assets	177,181.4	216,307.9	27,731.8
Equity and Liabilities			
Deposits and balances of banks and other financial institutions	3,685.6	7,522.4	964.4
Deposits from customers	130,719.7	154,659.0	19,828.1
Trading liabilities	907.3	1,568.6	201.1
Certificates of deposit issued	14,297.6	16,175.2	2,073.7
Debt securities issued	1,119.7	1,151.2	147.6
Current taxation	62.1	179.4	23.0
Deferred tax liabilities	1.5	12.1	1.6
Other liabilities	4,637.9	9,206.4	1,180.3
Loan capital	6,698.2	8,657.6	1,109.9
Total Liabilities	162,129.6	199,131.9	25,529.7
Equity			
Share capital	7,283.3	7,283.3	933.8

	As at 31 December 2012 and 2013		
	2012	**2013**	**2013**
	HK$	*HK$*	*US$*
		(in millions)	
Reserves	7,768.5	9,892.7	1,268.3
Total equity attributable to equity shareholders of the Bank	15,051.8	17,176.0	2,202.1
Total Equity and Liabilities	177,181.4	216,307.9	27,731.8

	At 31 December 2012	**At 31 December 2013**
OTHER INFORMATION		
Common Equity Tier 1 ("CET1") capital ratio(1)	N.A.	10.1%
Tier 1 capital ratio(1)	11.8%	10.1%
Total capital ratio(1)	18.2%	16.5%
Average liquidity ratio(2)	59.4%	55.3%
Loans to deposits	72.5%	74.4%
Loans to total assets	59.3%	58.7%
Collective assessment coverage(3)	0.3%	0.2%
Cost to income	48.7%	44.0%
Return on average total assets	0.9%	1.1%
Return on average shareholders' equity	10.8%	13.2%

Notes:

(1) As at 31 December 2013 and 31 December 2012, the capital adequacy ratio was computed on a consolidated basis covering the Bank and certain of its subsidiaries as required by the Hong Kong Monetary Authority (the "**HKMA**") for its regulatory purposes, and was in accordance with Banking (Capital) Rules.

(2) The average liquidity ratio is computed on a 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 Banking Ordinance.

(3) The ratios represented collectively assessed impairment allowance divided by gross loans and advances.

TIER I AND TIER II CAPITAL BASE — As at 31 December 2012

	As at 31 December 2012	
	HK$	*US$*
	(in millions)	
Core Capital		
Paid-up ordinary share capital	7,283.3	933.8
Share premium	282.9	36.3
Reserves	4,852.3	622.1
Profit and loss account	1,658.8	212.7
Less: Net deferred tax assets	(27.3)	(3.5)
Less: Deduction from core capital	(5.4)	(0.7)
Total core capital after deductions	**14,044.6**	**1,800.7**
Eligible supplementary capital		
Reserves attributable to fair value gains on revaluation of land and building	2.6	0.3
Reserves attributable to fair value gains on revaluation of holdings of available-for-sale-equities and debt securities	26.8	3.4
Unrealised fair value gains arising from holdings of equities and debt securities designated at fair value through profit and loss	1.2	0.2
Regulatory reserve for general banking risks	1,213.9	155.6
Collectively assessed impairment allowances	281.0	36.0
Term subordinated debt	6,179.2	792.2
Less: Deductions from supplementary capital items	(5.4)	(0.7)
Total supplementary capital after deductions	**7,699.3**	**987.0**
Total capital base after deductions	**21,743.9**	**2,787.7**
Total deductions from the core capital and supplementary capital	**(10.8)**	**(1.4)**

TIER I AND TIER II CAPITAL BASE — As at 31 December 2013

Capital adequacy ratios ("**CARs**") are complied with by the Bank 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 capital requirements under the new Basel Capital Accord of the Bank for International Settlements (known as Basel III). 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 CARs, as referred to in note (A)(iv) of the 2013 Annual Results published by the Bank on 27 March 2014. 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.

	As at 31 December 2013	
	HK$	*US$*
	(in millions)	
CET1 capital: instruments and reserves		
Directly issued qualifying CET1 capital instruments plus any related share premium	7,566.3	970.0
Retained earnings	1,767.4	226.6
Disclosed reserves	8,007.8	1,026.6
CET1 capital before regulatory deductions	17,341.5	2,223.2
CET1 capital: regulatory deductions		
Deferred tax assets net of deferred tax liabilities	39.3	5.0
Cumulative fair value gains arising from the revaluation of land and buildings (own use and investment properties)	105.4	13.5
Regulatory reserve for general banking risks	1,816.3	232.9
Debt valuation adjustments in respect of derivative contracts	1.1	0.1
Excess AT1 deductions	—	—
Total regulatory deductions to CET1 capital	1,962.1	251.5
CET1 capital	15,379.4	1,971.7
Additional Tier 1 ("AT1") capital	—	—
Total AT1 capital	—	—
Tier 1 capital	15,379.4	1,971.7

	As at 31 December 2013	
	HK$	*US$*
	(in millions)	
Tier 2 capital: instruments and provisions		
Qualifying Tier 2 capital instruments plus any related share premium	7,893.7	1,012.0
Reserve attributable to fair value gains on revaluation of holdings of land and buildings	47.4	6.1
Collective impairment allowances and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	1,752.1	224.6
Tier 2 capital base before deductions	9,693.2	1,242.7
Tier 2 capital: regulatory deductions		
50% of the total deduction amount applied to Tier 2 capital under transitional arrangements	—	—
Total regulatory deductions to Tier 2 capital	—	—
Tier 2 capital	9,693.2	1,242.7
Total capital#	25,072.6	3,214.4

#*Total Capital equals to the sum of Tier 1 capital and Tier 2 capital.*

SUMMARY OF THE OFFERING

The following summary does not purport to be complete and should be read in conjunction with Conditions. Words and expressions defined in the Conditions shall have the same meanings in this summary.

Issuer	China CITIC Bank International Limited 中信銀行（國際）有限公司
Description	U.S.$300,000,000 7.25 Per Cent. Undated Non-Cumulative Subordinated Additional Tier 1 Capital Securities.
Joint Global Coordinators and Joint Bookrunners[1]	Citigroup Global Markets Limited The Hongkong and Shanghai Banking Corporation Limited The Royal Bank of Scotland plc
Joint Bookrunners[1]	Australia and New Zealand Banking Group Limited 澳新銀行集團有限公司 Banco Bilbao Vizcaya Argentaria, S.A. CITIC Securities Corporate Finance (HK) Limited 中信証券融資(香港)有限公司
Co-Manager	BNP Paribas, Hong Kong Branch
Issue Date	22 April 2014
Status of the Capital Securities	The Capital Securities constitute direct, unsecured and subordinated obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The rights and claims of the Securityholders are subordinated in the manner described below. Subject to the insolvency laws of Hong Kong and other applicable laws, in the event of a Winding-Up of the Issuer (other than pursuant to a Permitted Reorganisation), the rights of the Securityholders to payment of principal and Distributions on the Capital Securities and any other obligations in respect of the Capital Securities will rank (x) subordinate and junior in right of payment to, and of all claims of, (i) all unsubordinated creditors of the Issuer (including its depositors), (ii) creditors in respect of Tier 2 Capital Securities of the Issuer, and (iii) all other Subordinated Creditors of the Issuer whose claims are stated to rank senior to the Capital Securities or rank senior to the Capital Securities by operation of law or contract; (y) pari passu in right of payment to and of all claims of Parity Obligations; and (z) senior in right of payment to and of all claims of Junior Obligations in the manner provided in the Trust Deed. "**Parity Obligation**" means any instrument or other obligation

[1] The Issuer has entered into a subscription agreement with the Joint Global Coordinators and the Joint Bookrunners dated 10 April 2014 (the "Subscription Agreement") pursuant to which, and subject to certain conditions contained in the Subscription Agreement, the Issuer agreed to sell to the Joint Global Coordinators and the Joint Bookrunners, and the Joint Global Coordinators and the Joint Bookrunners severally and not jointly agreed to subscribe or procure subscribers for, the aggregate principal amount of the Capital Securities.

issued, entered into, or guaranteed by the Issuer that constitutes or qualifies as Additional Tier 1 Capital (or its equivalent) under applicable Capital Regulations or that ranks or is expressed to rank *pari passu* with the Capital Securities by operation of law or contract.

"**Junior Obligation**" means the Shares, and any other class of the Issuer's share capital and any instrument or other obligation (including without limitation any preference share) issued or guaranteed by the Issuer that ranks or is expressed to rank junior to the Capital Securities by operation of law or contract.

"**Permitted Reorganisation**" means a solvent reconstruction, amalgamation, reorganisation, merger or consolidation whereby all or substantially all the business, undertaking or assets of the Issuer are transferred to a successor entity which assumes all the obligations of the Issuer under the Capital Securities.

"**Subordinated Creditors**" means all creditors the indebtedness of which is subordinated, in the event of the Winding-Up of the Issuer, in right of payment to the claims of depositors and other unsubordinated creditors of the Issuer other than those whose claims rank or is expressed to rank by operation of law or contract *pari passu* with, or junior to, the claims of the Securityholders of the Capital Securities. For this purpose indebtedness shall include all liabilities, whether actual or contingent.

"**Tier 2 Capital Securities**" means instruments categorised as Tier 2 capital pursuant to the Capital Regulations that ranks or is expressed to rank senior to the Capital Securities by operation of law or contract.

"**Winding-Up**" means a final and effective order or resolution for the bankruptcy, winding up, liquidation, receivership, or similar proceedings in respect of the Issuer.

No Set-off

Subject to applicable law, no Securityholder may exercise, claim or plead any right of set-off, counter-claim or retention in respect of any amount owed to it by the Issuer arising under or in connection with the Capital Securities and each Securityholder shall, by virtue of being the Securityholder of any Capital Security be deemed to have waived all such rights of such set-off, counter-claim or retention.

Form and Denomination

The Capital Securities will be issued in registered form in the denomination of U.S.$200,000 each and integral multiples of U.S.$1,000 in excess thereof.

Distributions

Subject to Condition 6B, the Capital Securities confer a right to receive Distributions on the principal amount (subject to adjustments following the occurrence of a Non-Viability Event in accordance with Condition 6C) from, and including, the Issue Date at the applicable Distribution Rate, payable semi-annually in arrear on 22 April and 22 October in each year.

Non-cumulative Distributions	Distributions will not be cumulative and Distributions which are not paid in accordance with Conditions will not accumulate or compound and Securityholders will have no right to receive such Distributions at any time, even if subsequent Distributions are paid in the future, or be entitled to any claim in respect thereof against the Issuer.
Distribution Rate	The Distribution Rate applicable to the Capital Securities shall be: (i) in respect of the period from, and including, the Issue Date to, but excluding, 22 April 2019 (the "**First Call Date**"), 7.25 per cent. per annum; (ii) in respect of the period from, and including, the First Call Date and each Distribution Reset Date thereafter to, but excluding, the immediately following Distribution Reset Date, the Reset Distribution Rate. "**Reset Distribution Rate**" means, in relation to a Reset Interest Period, a fixed rate per annum (expressed as a percentage) equal to the aggregate of (a) the then-prevailing U.S. Treasury Rate (as determined as set out below) and (b) the Spread.
Optional Distribution Cancellation Event	Unless a Distribution has already been cancelled in full pursuant to a Mandatory Distribution Cancellation Event, prior to any Distribution Payment Date the Issuer may, at its sole discretion, elect to cancel any payment of Distribution, in whole or in part, by giving a notice to the Trustee signed by two Directors of the Issuer, as further described in "*Terms and Conditions of the Capital Securities – Distribution Restrictions – Optional Distribution Cancellation Event*".
Mandatory Distribution Cancellation Event	Notwithstanding that a Distribution Cancellation Notice has not been given, the Issuer will not be obliged to pay, and will not pay, any Distribution on the applicable Distribution Payment Date, in whole or in part, as applicable, upon a Mandatory Distribution Cancellation Event, as further described in "*Terms and Conditions of Capital Securities – Distribution Restrictions – Mandatory Distribution Cancellation Event*".
No Obligation to Pay	The Issuer shall have no obligation to pay a Distribution on any Distribution Payment Date if such non-payment is in accordance with Condition 6B and any failure to pay such Distribution shall not constitute an Event of Default. Distributions are non-cumulative and any Distribution which is cancelled shall therefore not be payable at any time thereafter whether in a Winding-Up or otherwise.
No Claim by Securityholders for Distributions:	No Securityholder shall have any claim in respect of any Distribution or part thereof cancelled and/or not due or payable as described under "*Terms and Conditions of the Capital*

Securities – Distribution Restrictions – Optional Distribution Cancellation Event", "*Terms and Conditions of the Capital Securities – Distribution Restrictions – Mandatory Distribution Cancellation Event*" and "*Terms and Conditions of the Capital Securities – Distribution – Non-Cumulative Distribution*". Accordingly, such Distribution shall not accumulate for the benefit of Securityholders or entitle the Securityholders to any claim in respect thereof against the Issuer.

Distributable Reserves

Any Distribution may only be paid out of Distributable Reserves.

"**Distributable Reserves**" means the amounts for the time being available to the Issuer for distribution as a distribution in compliance with section 297 of the Companies Ordinance (Cap. 622) of Hong Kong, as amended or modified from time to time, as at the Issuer's latest audited balance sheet, and subject to the Monetary Authority's then current capital conservation requirements as applicable to the Issuer on the relevant Distribution Payment Date (the **Available Amount**); provided that if the Issuer reasonably determines that the Available Amount as at any Distribution Determination Date is lower than the Available Amount as at the date of the Issuer's latest audited balance sheet and is insufficient to pay the Distributions and any payments on Parity Obligations on the relevant Distribution Payment Date, then on certification by two Directors and the Auditors of such revised amount, the Distributable Reserves shall for the purposes of Distribution mean the Available Amount as set forth in such certificate.

"**Monetary Authority**" means the Monetary Authority appointed under section 5A of the Exchange Fund Ordinance (Cap 66 of the Laws of Hong Kong) or any successor thereto or such other authority having primary bank supervisory authority with respect to the Issuer.

As at the date hereof, pursuant to section 297(1) of the Companies Ordinance (Cap.622), the Issuer may only make a distribution out of profits available for distribution. For the purposes of section 297 of the Companies Ordinance (Cap.622), the Issuer's profits available for distribution are its accumulated, realised profits, so far as not previously utilised by distribution or capitalisation, less its accumulated, realised losses, so far as not previously written off in a reduction or reorganization of capital.

Dividend Stopper

If, on any Distribution Payment Date, payment of Distribution scheduled to be paid is not made in full by reason of Condition 6B, the Issuer shall not:

(i) declare or pay in cash any distribution or dividend or make any other payment in cash on, and will procure that no distribution or dividend in cash or other payment in cash is made on, any Shares; or

(ii) purchase, cancel or otherwise acquire any Shares or permit any of its subsidiaries to do so,

in each case, unless or until the earlier of: (A) the Distribution scheduled to be paid on any subsequent Distribution Payment Date has been paid in full to Securityholders or a designated third party trust account for the benefit of the Securityholders, or (B) the redemption or purchase and cancellation of the Capital Securities in full, or reduction of the principal amount of the Capital Securities to zero, or (C) the Issuer is permitted to do so by an Extraordinary Resolution.

"**Shares**" means the ordinary share capital of the Issuer.

See "*Terms and Conditions of the Capital Securities – Dividend Stopper*" for further information.

Non-Viability Loss Absorption

If a Non-Viability Event occurs and is continuing, the Issuer shall, upon the provision of a Non-Viability Event Notice, irrevocably (without the need for the consent of the Securityholders of the Capital Securities) reduce the then principal amount of, and cancel any accrued but unpaid Distribution in respect of, each Capital Security (in each case in whole or in part) by an amount equal to the Non-Viability Event Write-off Amount per Capital Security (such reduction and cancellation, and the reduction and cancellation of any other Subordinated Capital Securities so reduced and cancelled upon the occurrence of a Non-Viability Event, where applicable, being referred to herein as the "**Write-off**", and "**Written-off**" shall be construed accordingly).

"**Non-Viability Event**" means the earlier of:

(a) the Monetary Authority notifying the Issuer in writing that the Monetary Authority is of the opinion that a Write-off or conversion is necessary, without which the Issuer would become non-viable; and

(b) the Monetary Authority notifying the Issuer in writing that a decision has been made by the government body, a government officer or other relevant regulatory body with the authority to make such a decision, that a public sector injection of capital or equivalent support is necessary, without which the Issuer would become non-viable.

"**Non-Viability Event Notice**" means the notice which shall be given by the Issuer not more than two Hong Kong Business Days after the occurrence of a Non-Viability Event, to the Securityholders of the Capital Securities, the Trustee and the Paying Agents, in accordance with the Conditions and which shall state in reasonable detail the nature of the relevant Non Viability Event and the Non-Viability Event Write-off Amount

	per Capital Security and each other Subordinated Capital Security. "**Non-Viability Event Write-off Amount**" means the amount of interest and/or principal to be Written-off as the Monetary Authority may direct or, in the absence of such a direction, as the Issuer shall (in consultation with the Monetary Authority) determine to be necessary to satisfy the Monetary Authority that the Non-Viability Event will cease to continue. For the avoidance of doubt, (i) the full amount of the Capital Securities will be Written-off in full in the event that the amount Written-off is not sufficient for the Non-Viability Event to cease to continue and (ii) in the case of an event falling with paragraph (b) of the definition of Non-Viability Event, the Write-off will be effected in full before any public sector injection of capital or equivalent support. Further, the Non-Viability Event Write-off Amount in respect of each Capital Security will be calculated based on a percentage of the principal amount of that Capital Security.
Consequence of Non-Viability Loss Absorption	Once the principal amount of, and any accrued but unpaid Distribution under, the Capital Securities has been Written-off, the relevant amount(s) Written-off will not be restored in any circumstances including where the relevant Non-Viability Event ceases to continue. No Securityholder may exercise, claim or plead any right to any amount that has been Written-off, and each Securityholder shall, by virtue of his holding of any Capital Securities, be deemed to have waived all such rights to such amount that has been Written-off.
Maturity Date	The Capital Securities are perpetual securities in respect of which there is no fixed redemption date. The Capital Securities may not be redeemed at the option of the Issuer other than in accordance with Condition 8.
Redemption at the Option of the Issuer	The Issuer may redeem all, but not some only, of the Capital Securities then outstanding on the First Call Date or any Distribution Payment Date thereafter, at their outstanding principal amount together (if appropriate) with Distributions accrued to (but excluding) the date of redemption, as further described in "*Terms and Conditions of the Capital Securities – Redemption and Purchase – Redemption at the option of the Issuer ("Issuer Call")*".
Redemption for Taxation Reasons	Subject to Condition 8.12A, the Capital Securities may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice if the Issuer satisfies the Trustee immediately before the giving of such notice that a Withholding Tax Event has occurred. Capital Securities so redeemed will be redeemed at their outstanding principal amount together (if appropriate) with

Distributions accrued to (but excluding) the date of redemption, subject to adjustment following the occurrence of a Non-Viability Event in accordance with Condition 6C.

See "*Terms and Conditions of the Capital Securities – Redemption and Purchase – Redemption for tax reason*" for further information.

Redemption for Tax Deduction

Subject to Condition 8.12A, the Capital Securities may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice if the Issuer satisfies the Trustee immediately before the giving of such notice that in respect of the Distribution payable on the Capital Securities, the Issuer is no longer, or will no longer be, entitled to claim a deduction in respect of computing its taxation liabilities in Hong Kong or any political subdivision or any authority thereof or therein as a result of any change in, or amendment to, the laws or regulations of Hong Kong or any political subdivision or any authority thereof or therein or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective subsequent to any official ruling issued after the Issue Date.

Capital Securities so redeemed will be redeemed at their outstanding principal amount together (if appropriate) with Distributions accrued to (but excluding) the date of redemption, subject to adjustment following the occurrence of a Non-Viability Event in accordance with Condition 6C.

See "*Terms and Conditions of the Capital Securities – Redemption and Purchase – Redemption for tax deduction reasons*" for further information.

Redemption for Regulatory Reasons

Subject to Condition 8.12A, the Capital Securities may be redeemed at the option of the Issuer in whole, but not in part, at any time on giving not less than 30 nor more than 60 days' notice following the occurrence of a Capital Event.

A "**Capital Event**" occurs if the Issuer satisfies the Trustee immediately before the giving of the notice of redemption referred in Condition 8.3A that (a) the Capital Securities, after having qualified as such, will no longer qualify (in whole or in part) as Additional Tier 1 Capital (or equivalent) of the Issuer and/or (b) the Capital Securities cease to be included in the calculation of the Issuer's capital adequacy ratio, as a result of changes or amendments in (or any change in the application or official interpretation of) the relevant provisions of the Banking Ordinance (Cap.155) of Hong Kong, Banking (Capital) Rules (Cap. 155L), Banking (Capital) (Amendment) Rules 2012, or any successor legislation, or any statutory guidelines issued by the Monetary Authority.

Capital Securities so redeemed will be redeemed at their outstanding principal amount together (if appropriate) with

	Distributions accrued to (but excluding) the date of redemption, subject to adjustment following the occurrence of a Non-Viability Event in accordance with Condition 6C. See "*Terms and Conditions of the Capital Securities – Redemption and Purchase – Redemption of the Capital Securities for regulatory reasons*" for further information.
Conditions for Redemption and Purchase in respect of the Capital Securities	The Issuer shall not redeem any of the Capital Securities (other than pursuant to Condition 11.2A) and the Issuer or any of its Subsidiaries shall not purchase any of the Capital Securities unless the prior written consent of the Monetary Authority thereto shall have been obtained, as further described in "*Terms and Conditions of the Capital Securities – Redemption and Purchase – Conditions for Redemption and Purchase in respect of the Capital Securities*".
Taxation	All payments of principal and Distribution in respect of the Capital Securities by or on behalf of the Issuer shall be made without withholding or deduction for, or on account of, any withholding taxes imposed by Hong Kong, subject as provided in Condition 9. In the event that any such deduction is made, the Issuer will, save in certain limited circumstances provided in Condition 9, be required to pay additional amounts to cover the amounts so deducted.
Governing Law	The Trust Deed, the Capital Securities, and any non-contractual obligations arising out of or in connection with the Trust Deed, the Capital Securities are governed by, and shall be construed in accordance with, English law, except that the subordination provisions set out in Condition 3.3(a) and Clause 7.2 of the Trust Deed shall be governed by and construed in accordance with the laws of Hong Kong.
Rating	The Capital Securities are expected to be assigned a rating of "Ba3" by Moody's. The rating does not constitute a recommendation to buy, sell or hold the Capital Securities and may be subject to suspension, reduction or withdrawal at any time by Moody's.
Clearing Systems	Euroclear Bank SA/NV and Clearstream Banking, société anonyme
Use of proceeds	The net proceeds will be applied by the Issuer for its funding and general corporate purposes.
Listing	Application for approval in-principle has been made for the listing of the Capital Securities on the SEHK by way of debt issues to professional investors.
Capital Treatment of the Capital Securities	It is intended that the Capital Securities will qualify in full as Additional Tier I capital of the Issuer.

INVESTMENT CONSIDERATIONS

Prospective investors should carefully take into account the following considerations, in addition to the other information contained in this Supplement and the Offering Circular, before investing in the Capital Securities. Attention is drawn particularly to the information under the section "Investment Considerations" in pages 67 to 85 (inclusive) of the Offering Circular, which must be read in conjunction with the additional considerations set out below. The occurrence of one or more events described below and in the section "Investment Considerations" of the Offering Circular could have an adverse effect on the Group's business, financial condition or results of operations, and could affect the Bank's ability to make payments of principal, premium and/or interest (if any) under the Capital Securities.

Considerations relating to the Group

The considerations below shall replace the considerations with the same headings as set out in pages 67-74 of the Offering Circular.

The Group is subject to significant competition in the Hong Kong and PRC banking industries

The Group focuses principally on the Hong Kong market for individual and corporate customers. The Group is subject to significant competition from many other Hong Kong incorporated and foreign banks and financial institutions, including competitors which have significantly more financial and other capital resources, higher market share, and stronger brand recognition than the Group. The banking and financial services industry in Hong Kong is a mature market and according to statistics published by the HKMA, as at the date of this Supplement, supported 21 Hong Kong incorporated licensed banks and 136 banks incorporated outside Hong Kong competing for a customer population of approximately 7 million people. Therefore, many of the international and local banks and niche players operating in Hong Kong compete for substantially the same customers as the Group. There is a limited market, especially for retail banking products such as investment and insurance products, home mortgage loans, credit cards, personal loans and transport lending businesses. The strength of competition in the past few years has had an adverse impact on the pricing of certain products.

In recent years, competition among banks in Hong Kong for investment and insurance products, home mortgage loans, credit cards, personal loans and transport lending business has become very aggressive. There can be no assurance that increased competition will not have a material adverse effect on the Group's business, financial condition or results of operations.

Since 2000, many banks in Hong Kong, including the Bank, have lowered interest rates charged on new-home mortgage loans not guaranteed by the Hong Kong government. Despite a slight increase in such interest rates in 2008, competition in the mortgage loans market remains intense. In 2011, with interest rates at an extremely low level, a significant portion of new-home mortgage loans charged by banks in Hong Kong was HIBOR based. As at 31 December 2013, the standard rate the Bank charged on its new-home mortgage loans was 2.70 per cent. below the prime lending rate or 170 basis points above HIBOR. Competition among banks in Hong Kong for home mortgage loans could result in further reductions in mortgage interest rates. Such reductions could have an adverse effect on the Group's business, financial condition or results of operations.

As a result of the intensified competition among banks, the Bank has experienced downward pressure on its profit margins in recent years. To counter the effects of increased competition, the Bank has actively pursued a strategy of diversifying its income sources by focusing on increasing its fee-based income, introducing innovative products and, at the same time, improving the cost efficiency of its operations. However, there can be no assurance that the Bank will be able to compete successfully in the mature Hong Kong banking market and sustain its profitability in future.

Following the PRC's accession to the World Trade Organisation ("**WTO**"), a number of foreign banks have received authorisation from the PRC government to provide RMB-denominated banking and financial services ("**RMB services**") to PRC domestic enterprises and to individuals from five years after its accession. The Closer Economic Partnership Agreement with the PRC ("**CEPA**"), which allows Hong Kong banks to operate in the PRC, has also increased competition in the Mainland China market. Since April 2007, the PRC government has begun granting approvals for locally incorporated banking licences for a number of foreign banks which allow them to compete with PRC domestic banks on equal footing, thereby effectively removing regulatory restrictions on the geographical presence, customer base and operating licences of foreign banks. Accordingly, the Group is likely to face competition in the Mainland China market from both existing local Chinese banks and foreign banks entering the Mainland China market. There can be no assurance that the Group will maintain its current position or continue to develop its business successfully in Mainland China if, as expected, competition in the banking sector in Mainland China intensifies as a result of these latest changes in the regulatory environment in the PRC.

The introduction of CEPA has also enabled Mainland China banks to relocate certain operations, for example, the handling of international securities and bonds, as well as foreign exchange trading centres, to Hong Kong. Under CEPA, Mainland China banks are encouraged to expand their business through mergers and acquisitions ("**M&A**"). The entry of Mainland China banks into the Hong Kong market via M&A is likely to result in increased competition in the banking sector and there can be no assurance that the Group's business will not be affected by the increased competition.

The Group's business is vulnerable to volatility in interest rates

Changes in market interest rates affect the interest received on the Group's interest-earning assets and the interest paid on the Group's interest-bearing liabilities. The differences in timing and level of changes in interest rates can result in an increase in interest expense relative to its interest income, which may lead to a reduction in its net interest income. Interest rates in Hong Kong are sensitive to factors over which the Group has no control, including, among others:

- interest rates in the US;
- liquidity of the domestic inter-bank market and the international capital markets;
- domestic and international economic and political conditions; and
- competition for loan demand.

In the event that interest rates move against the Bank's position, it may adversely affect the Group's business, financial condition or results of operations. The interest rate environment has remained low in recent years and, as a result, the Bank's net interest margin also remained at a low level. For the years ended 31 December 2012 and 2013, the Bank's net interest margin was 1.4 per cent. and 1.8 per cent., respectively. There can be no assurance that interest rates will rise or not fall or become volatile or that changes in interest rates will not be frequent. Interest rates are sensitive to many factors over which the Group has no control, including domestic and international economic and political conditions having an impact on local and international interest rates.

In addition, the Group is subject to interest rate risk as a result of mismatches in the pricing and duration of its assets and liabilities. A significant part of the Group's funding requirements is met through short-term or floating rate funding sources, primarily in the form of deposits, including customer deposits, inter-bank deposits and certificates of deposit, which tend to be at floating rates and are regularly repriced. In contrast, some of the Group's assets either receive a fixed rate of interest or if they receive a floating rate of interest, they may not be repriced as frequently as the Group's deposits. The Group closely monitors the risks associated with changes in interest rates that may arise from maturity gaps, basis risks among different interest rate benchmarks, yield curve movements, interest rate repricing risks and risks from embedded options (if any), and mitigates such risks through the use of interest rate derivatives, mainly interest rate swaps, to hedge both assets and liabilities as available-for-sale securities and non-trading liabilities. Sensitivity analyses on the Bank's interest rate exposures are also conducted on a quarterly basis. However, in a volatile interest rate environment there can be no assurance that the Group's net interest margin will not be impacted and the Group's net interest income reduced.

The activities of Treasury and Markets Group ("**TMG**") also involve taking interest rate and credit spread risk. As the funding of treasury investments is generally of shorter duration than the assets that are held, which primarily consist of both fixed rate and floating rate investments, TMG may employ hedging strategies as appropriate to protect its portfolio. However, there can be no assurance that the investment income of TMG would not suffer from a rising interest rate environment or widening credit spread situation. Furthermore, there can be no assurance that the Bank will be able to generate positive net interest income in the future, and it is likely that in a continuing rising interest rate environment, the Bank's gains from disposals of securities may be lower, or that TMG may even incur losses.

The Group has significant exposure to the Hong Kong property market

The Group has significant exposure to the Hong Kong property market. As at 31 December 2013, home mortgage loans in Hong Kong (excluding loans under the Home Ownership Scheme and the Private Sector Participation Scheme and loans under a mortgage refinancing scheme launched by the Bank in 2002) accounted for 8.1 per cent. of the Group's total loans to customers while loans for property investment accounted for 11.1 per cent. of the Group's total loans to customers. The Hong Kong property market is highly cyclical and property prices in general have been volatile. During the period from 1997 to the first half of 2003, property prices and transaction volumes in the Hong Kong property market experienced significant declines although both have risen significantly since the end of 2003. In addition, while the Hong Kong property market showed improvement during the period from 2004 to the first half of 2008, property prices in Hong Kong declined in the second half of 2008 and early 2009, before increasing significantly since the second half of 2009. In view of the increasing risk of a property price bubble, the HKSAR Government has in recent years introduced various cooling measures to the Hong Kong property market. These measures have resulted in a certain decline in property prices, and will remain in place until a more substantial fall in prices is observed. The property prices will be further affected by a number of other factors, including interest rate movements, capital outflows in relation to the tapering of quantitative easing in the US, demand/supply balance in the local market, growth prospects of the Hong Kong economy, and economic and property market developments in Mainland China over which the Group has no control. Any further decreases in property valuations could adversely affect the Group's business and financial conditions and/or results of operations.

The Group has significant PRC exposure

A significant proportion of the Group's loans are advanced to PRC entities, which are identified by those borrowers that are domiciled in the PRC, or guaranteed by entities domiciled in the PRC and thus have their risks transferred to PRC country risk. Such PRC-related loans accounted for 34.7 per cent. of the Group's total loans to customers as at 31 December 2013. For the year ended 31 December 2013, 22.5 per cent. of the ten largest non-performing loans were PRC-related loans. See "Selected Statistical and Other Information Relating to the Group — Asset quality — Top ten non-performing loans". There can be no assurance that the Group's continued exposure to the PRC or its continual development in the PRC will not have a negative impact on the Group's earnings or an adverse effect on the Group's business, financial condition or results of operations. See "Business — Strategy".

The Group has significant committed exposure to a relatively few number of borrowers

As at 31 December 2013, the Group's 20 largest borrowers (including groups of individuals and companies) accounted for approximately HK$28,997.2 million (US$3,717.6 million) or 18.5 per cent. of the Group's committed exposure. As at 31 December 2013, the Group's five largest borrowers (including groups of individuals and companies) accounted for approximately HK$10,717.8 million (US$1,374.1 million) or 6.8 per cent. of the Group's committed exposure, with the largest borrower accounting for HK$2,791.3 million (US$357.9 million) or 1.8 per cent. of the Group's committed exposure. The non-performance of loans held by one or more of these customers could have a material adverse effect on the Group's business, financial condition or results of operations.

The Group's funding is primarily short-term, and if depositors do not roll over their deposits upon maturity, the Group's liquidity could be adversely affected

The Group's funding requirements are primarily met through short-term funding sources, primarily in the form of customer deposits, inter-bank deposits, certificates of deposit and shareholders' funds. As at 31 December 2013, 84.0 per cent. of the Group's customer deposits had a remaining maturity of three months or less. Historically, a substantial portion of such customer deposits have been rolled over upon maturity. However, no assurance can be given that this pattern will continue. If a substantial number of depositors fail to roll over deposited funds upon maturity, the Group's liquidity position would be adversely affected and it may need to seek alternative sources of short-term or long-term funding to finance its operations, which may be more expensive than the current level of deposits.

In October 2008, to minimise the impact of the financial crisis on the banks in Hong Kong and to restore depositor confidence, the Hong Kong government announced the use of the Hong Kong government's Exchange Fund to guarantee repayment of all customer deposits held with authorised institutions in Hong Kong subject to the rules laid down in the Deposit Protection Scheme (the "**Deposit Protection Scheme**") established under the Deposit Protection Scheme Ordinance (Cap. 581) of Hong Kong (the "**Deposit Protection Scheme Ordinance**"). The guarantee expired on 31 December 2010. On 1 January 2011, the Deposit Protection Scheme (Amendment) Ordinance 2010 (the "Amendment Ordinance") came into effect upon expiration of the guarantee. Among other things, the Amendment Ordinance increases the Deposit Protection Scheme limit established under the Deposit Protection Scheme Ordinance from HK$100,000 to HK$500,000. However, there can be no assurance that the level of customer deposits of the Group will not be adversely affected by the expiration of the guarantee, the future withdrawal of or any other changes to the Deposit Protection Scheme.

The HKMA acts as the lender of last resort to all authorised institutions in Hong Kong to provide support for liquidity needs in the banking system generally as well as to specific institutions. In this regard, certain portions of the Bank's interest-earning assets are acceptable to the HKMA for such emergency funding support. However, there can be no assurance that the HKMA will take measures to assist banks in Hong Kong in the future or that it would elect to provide liquidity support assistance in the future to the Bank in the event of a liquidity crisis.

If the Bank is unable to control the level of impaired loans in its loan portfolio, its financial condition and results of operations will be materially and adversely affected

The Bank's results of operations may be negatively impacted by its impaired loans if asset deterioration in general does not stabilise. Under the Hong Kong Financial Reporting Standards, the accounting principles that are applicable to the Bank, loans are impaired if there is objective evidence that the Bank will not be able to collect all amounts due according to the original contractual terms of the loans. As at 31 December 2013, the total amount of the Bank's impaired loans was HK$406.5 million (US$52.1 million). The Bank's allowances for impairment losses on loans and advances amounted to HK$476.0 million (US$61.0 million) as at 31 December 2013, representing 117.1 per cent. of its total impaired loans as at the same date.

Risks arising from changes in credit quality and the recoverability of loans and amounts due from counterparties are inherent in a wide range of businesses of the Bank and there can be no assurance that the Bank will be able to control effectively the level of impaired loans in its loan portfolio and the credit quality of its borrowers and counterparties. In particular, the amount of the Bank's reported impaired loans, the ratio of its impaired loans to its loans and advances to customers may increase and the recoverability and value of the assets of the Bank may reduce in the future as a result of deterioration in the quality of its loan portfolio. Such deterioration may occur for a variety of reasons, including factors which are beyond the Bank's control, such as a slowdown in economic growth and other adverse macroeconomic conditions in Hong Kong and Greater China, which may cause operational, financial and liquidity problems for its borrowers and hence materially and adversely affect their ability to service their outstanding debts. Furthermore, a portion of the Bank's allowances for impairment losses are estimated based on historical patterns of losses of its loan portfolio. As historical patterns may differ from the Bank's future experience, its current allowances for impairment losses on loans and advances may not be adequate to cover any further increase in the amount of impaired loans or any future deterioration in the overall credit quality of the Bank's loan portfolio. As a result, the Bank may be required to increase its provision for impaired loans, which may in turn reduce its profit and adversely affect its financial condition and results of operations. Moreover, there is no precise method for predicting loan losses, and there can be no assurance that the Bank's allowance for impairment losses on loans and advances is or will be sufficient to cover actual losses. If the Bank is unable to manage the above risks and control the level of its impaired loans, its financial condition and results of operations will be materially and adversely affected.

Fluctuations in foreign exchange rates could have an adverse effect on the Group's business, financial condition or results of operations

The Group undertakes various foreign exchange transactions in proprietary trading as well as in providing hedging solutions to its corporate and retail customers. Foreign exchange positions of the Bank are subject to exposure limits approved by the Asset & Liability Committee ("**ALCO**") and the Credit and Risk Management Committee ("**CRMC**"). The Bank's Market Risk & Liquidity Modeling function conducts regular and independent assessments (including stress testing and scenario analysis) and monitors the Bank's foreign currency risk exposure against corresponding limits including positions limits and sensitivity limits However a significant change in foreign exchange rates might result in foreign exchange related losses in the Group, which in turn could have an adverse effect on the Group's business, financial condition or results of operations.

CITIC is the ultimate controlling shareholder of the Bank

The Bank is a wholly-owned subsidiary of CITIC International Financial Holdings Limited ("**CIFH**") which is 70.32 per cent. owned by China CITIC Bank Corporation Limited ("**CNCB**") and 29.68 per cent. owned by Banco Bilbao Vizcaya Argentaria, S.A. ("**BBVA**"). In turn, CNCB is ultimately 66.95 per cent. owned by CITIC Group Corporation ("**CITIC**"). Previously listed on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**"), CIFH was privatised in November 2008 as the first step of CITIC's overall strategy to restructure and align its commercial banking businesses in Hong Kong and Mainland China and to facilitate and maximise synergies from the tripartite cooperation between the Bank, CNCB and BBVA (Restructuring Strategy). See "*Principal Shareholders — CITIC International Financial Holdings Limited*".

The intention of the privatisation was for the Bank to become CITIC's exclusive vehicle to develop commercial banking business in Hong Kong and serve as an international commercial banking platform for new business expansion for CITIC in Asia.

On 8 May 2009, CNCB announced that it has entered into a Share Purchase Agreement with CITIC and Gloryshare Investments Limited ("**GIL**"), pursuant to which it has agreed to acquire a 70.32 per cent. interest in CIFH for a cash consideration of approximately HK$13.6 billion (US$1.7 billion) ("**CIFH Acquisition**"). The CIFH Acquisition is part of CITIC's Restructuring Strategy and was completed on 23 October 2009. See "*Principal Shareholders — CITIC Group*".

With its controlling shareholding, CITIC and CNCB, ultimately determines the strategy, management and operations of the Bank. CITIC and CNCB are able to determine the Bank's corporate policies, appoint its Directors and officers, and vote to pursue corporate actions requiring shareholders' approval. As at the date of this Supplement, three Directors of the Bank, including the Chairman and the Chief Executive Officer of the Bank are directors of CNCB. See "Management". Although to date the Bank has been managed independently, there can be no assurance that the Bank will maintain its independence in the event of a conflict of interests with CITIC and CNCB.

The Bank's future strategy is to focus on the development of cross-border capabilities and services to offer "one-stop-shop" solutions in conjunction with CNCB to serve the China-related in-bound and/or out-bound business needs of its customers, both in the PRC and in Asia. The Bank intends to maintain its current operations in the PRC through its wholly-owned subsidiary, CITIC Bank International (China) Limited ("**CBI China**"), and hence, the business of the Bank may, in future, overlap with the businesses of CITIC and/or CNCB. See "Description of the Issuer — Wholesale & Cross-border Banking Group". There can be no assurance that conflicts of interests will not arise between the Bank and CNCB and/or other CITIC companies. Under these conditions, there can be no assurance that the Bank can continue to develop its business in the PRC successfully.

The Group may be affected by a discontinuation of or amendment to the link of the Hong Kong dollar to the US dollar or revaluation of the Hong Kong dollar

Under the Linked Exchange Rate System established in 1983, HK dollar banknotes are fully backed by US dollars at a rate of HK$7.80 to US$1 (the "**Linked Rate**") and depending on the flow of funds into and out of the HK dollar market, the HKMA also operates convertibility undertakings on both the strong side and the weak side of the Linked Rate within the convertibility zone between HK$7.75 and HK$7.85 to US$1. In the event that this policy were to be changed or there were to be a revaluation of the Hong Kong dollar, it could adversely affect the Hong Kong economy and, as a result, the Group's business, financial condition or results of operations. There can be no assurance that the Hong Kong dollar will continue to be linked to the US dollar. As at 31 December 2013, the Group had US dollar denominated assets of approximately HK$79,645.8 million (US$10,211.0 million) and US dollar denominated liabilities of approximately HK$46,860.3 million (US$6,007.7 million), representing approximately 36.8 per cent. and approximately 23.5 per cent. of the Group's total assets and liabilities, respectively, at the same date. A significant change in the exchange rate between the US dollar and the Hong Kong dollar may have an adverse effect on the Group's business, liquidity, financial position and capital.

The Issuer may face pressure on its capital and liquidity positions due to changes in regulatory capital requirements in Hong Kong, including the full implementation of reforms under Basel III.

The Issuer is subject to capital adequacy guidelines adopted by the HKMA for a Hong Kong authorised institution, which provide for an increasing minimum ratio of total capital to risk-adjusted assets expressed as a percentage, as further described below. Failure by the Issuer to maintain its ratios may result in administrative actions or sanctions against it which may impact the Issuer's ability to fulfil its obligations under the Capital Securities.

On 16 December 2010, the Basel Committee on Banking Supervision (the "**Basel Committee**") issued its guidance on the new Basel Capital Accord of the Bank for International Settlements ("**Basel III**"). The Basel

III framework sets out stricter capital standards for banks and introduced global liquidity standards. The initial stage of these proposed Basel III reforms has been implemented by the government of Hong Kong since the beginning of 2013, and the full implementation of the reforms are expected to be completed by 2019.

Following the standards under Basel III as implemented in Hong Kong, banks are required to maintain the following increasing minimum CAR requirements in relation to risk-weighted assets:

(a) a common equity Tier 1 ("**CET1**") CAR of at least 3.5 per cent. from 1 January 2013 to 31 December 2013, 4 per cent. from 1 January 2014 to 31 December 2014 and 4.5 per cent. from 1 January 2015 onwards;

(b) a Tier 1 CAR of at least 4.5 per cent. from 1 January 2013 to 31 December 2013, 5.5 per cent. from 1 January 2014 to 31 December 2014 and 6 per cent. from 1 January 2015 onwards; and

(c) a total CAR of at least 8 per cent. from 1 January 2013 onwards.

In addition, capital buffers, namely the capital conservation buffers and countercyclical capital buffer, are expected to be phased in sequentially from 1 January 2016 to 1 January 2019. Under Basel III, the capital conservation buffer requires a bank to hold additional CET1 capital equal to 2.5 per cent. of its risk-weighted assets if it is to avoid having restrictions placed on its ability to make distributions such as dividend payments, or share buybacks or discretionary staff bonus payments. The countercyclical buffer, which is also composed of CET1 capital, can vary between 0 per cent. and 2.5 per cent. of a bank's risk weighted-assets, and is envisaged to be activated in times of excess credit growth with systemic implications. It is currently unclear the precise level of buffer that will be implemented in Hong Kong.

The approach and implementation of other aspects of the Basel III requirements in Hong Kong have not been finalised, and there is still uncertainty as to how the HKMA will adopt the Basel Committee's standards for implementation of other aspects of Basel III in Hong Kong. Furthermore, the Basel Committee may amend the published package of reforms, including the Liquidity Coverage Ratio published by the Basel Committee on 7 January 2013 that revised the previous formulation published in December 2010.

As at 31 December 2013, the Issuer was in compliance with the regulatory capital requirements in Hong Kong. If the regulatory capital requirements, liquidity requirements or ratios applied to the Issuer continue to increase in the future, the Issuer's return on capital and profitability could be materially and adversely affected, which may in turn affect the ability of the Issuer to pay Distributions under the Capital Securities. In addition, any failure by the Issuer to satisfy such increased regulatory capital ratios or liquidity requirements within the applicable timeline could result in administrative actions or sanctions or significant reputational harm, which in turn may have a material adverse effect on the Issuer's business, financial condition and results of operations.

Considerations relating to the Capital Securities

The Capital Securities may not be a suitable investment for all investors.

Each potential investor in the Capital Securities must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(a) have sufficient knowledge and experience to make a meaningful evaluation of the Capital Securities, the merits and risks of investing in the Capital Securities and the information contained or incorporated by reference in the Offering Circular or any applicable supplement;

(b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Capital Securities and the impact such investment will have on its overall investment portfolio;

(c) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Capital Securities, including where the currency for principal or interest payments is different from the potential investor's currency;

(d) understand thoroughly the terms of the Capital Securities and be familiar with the behaviour of any relevant financial markets; and

(e) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic and other factors that may affect its investment and its ability to bear the applicable risks.

The Capital Securities are complex financial instruments. The treatment of the Capital Securities, including in respect of tax, remains unclear. For example, as at the date of this Supplement, there is no tax ruling from the relevant tax authorities in Hong Kong determining that Distributions are tax deductible. If, following a tax ruling determining that Distributions are tax deductible, and subsequently Distributions become no longer tax deductible as a result of any change in laws or regulations in Hong Kong, a Tax Deduction Event (as defined in the Terms and Conditions of the Capital Securities) may be triggered. Depending on how this and any other uncertainties are resolved, there could be a potential impact on the Capital Securities that may result in the Issuer having the option to exercise a call in respect of the Capital Securities. A potential investor should not invest in the Capital Securities unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Capital Securities will perform under changing conditions, including the effects of inflation, the resulting effects on the value of the Capital Securities and the impact this investment will have on the potential investor's overall investment portfolio.

The Capital Securities are perpetual securities and investors have no right to require redemption.

The Capital Securities are perpetual and have no maturity date. Securityholders have no ability to require the Issuer to redeem their Capital Securities whereas the Issuer can redeem the Capital Securities in certain circumstances as described in the Conditions. However, the Issuer is under no obligation to redeem the Capital Securities at any time. The ability of the Issuer to redeem Capital Securities is subject to the Issuer (a) obtaining the prior written consent of the Monetary Authority (if then required) to the redemption, and (b) satisfying any conditions that the Monetary Authority may impose at that time.

This means that Securityholders have no ability to cash in their investment, except if the Issuer exercises its right to redeem the Capital Securities or by selling their Capital Securities. However, there can be no guarantee that the Issuer will be able to meet the conditions for redemption of Capital Securities. Securityholders who wish to sell their Capital Securities may be unable to do so at a price at or above the amount they have paid for them, or at all, if insufficient liquidity exists in the market for the Capital Securities.

In addition, upon the occurrence of a Withholding Tax Event, a Tax Deduction Event or a Capital Event, the Capital Securities may be redeemed at the relevant redemption amount, as more particularly described in the Conditions. Also, if any Non-Viability Event occurs, as more fully described in "– *The Capital Securities may be subject to Non-Viability Loss Absorption provisions*", Securityholders may lose up to the full principal amount of the Capital Securities.

There can be no assurance that Securityholders will be able to reinvest the amount received upon redemption at a rate that will provide the same rate of return as their investment in the Capital Securities.

The Issuer's obligations under the Capital Securities are subordinated.

The Issuer's obligations under the Capital Securities constitute direct, unsecured and subordinated obligations of the Issuer which rank *pari passu* with Parity Obligations. Subject, *inter alia*, as discussed under "– *The Capital Securities may be subject to Non-Viability Loss Absorption provisions*", to the insolvency laws of

Hong Kong and other applicable laws, in the event of a Winding-Up of the Issuer (other than pursuant to a Permitted Reorganisation (as defined in Condition 3.3(a)), the rights of the Securityholders to payment of principal and Distributions on the Capital Securities and any other obligations in respect of the Capital Securities are expressly subordinated and subject in right of payment to the prior payment in full of all claims of such senior creditors as set out in Condition 3.3 and will rank senior to all Junior Obligations. In the event of a shortfall of funds on a Winding-Up, there is a risk that an investor in the Capital Securities will lose all or part of its investment and will not receive a full return of the principal amount or any unpaid amounts due under the Capital Securities. The Capital Securities also do not limit the Issuer's ability or the ability of any entity in the Group to incur additional indebtedness, including indebtedness that ranks senior in priority of payment to the Capital Securities.

The Capital Securities may be subject to Non-Viability Loss Absorption provisions.

Under the Conditions, a Non-Viability Event occurs when the Monetary Authority notifies the Issuer in writing that the Monetary Authority is of the opinion that a Write-off or conversion is necessary, without which the Issuer would become non-viable; or that a decision has been made by the government body, a government officer or other relevant regulatory body with the authority to make such a decision, that a public sector injection of capital or equivalent support is necessary, without which the Issuer would become non-viable.

If a Non-Viability Event occurs and is continuing, the Issuer shall, upon the provision of a Non-Viability Event Notice (which shall be given by the Issuer not more than two Hong Kong Business Days after the occurrence of the Non-Viability Event), irrevocably reduce the then principal amount of, and cancel any accrued but unpaid Distribution in respect of, each Capital Security (in each case in whole or in part). See "Terms and Conditions of the Capital Securities – Distribution – Non-Viability Loss Absorption". The notification of a Non-Viability Event is at the discretion of the Monetary Authority and beyond the control of the Issuer. The circumstances in which such discretion is exercised are not limited and may include concerns about the Issuer's capital, funding and/or liquidity levels.

Securityholders should note that any amount that is written down upon the occurrence of a Non-Viability Event in accordance with the Conditions is permanent and will not be restored under any circumstances, even if the relevant Non-Viability Event has ceased. In addition, a Non-Viability Event may occur on more than one occasion and each Capital Security may be written down on more than one occasion. As the Distribution Rate is calculated on the basis of the principal amount as adjusted following the occurrence of a Non-Viability Event, in the event that such principal amount is permanently reduced by the relevant Write-off, Securityholders will receive less Distributions on their Capital Securities. In addition, upon the occurrence of a Non-Viability Event, Securityholders could risk losing up to the full principal amount of the Capital Securities, as well as the cancellation of any accrued (and unpaid) Distributions, without receiving any compensation for such loss or cancellation.

The application of a non-viability loss absorption feature similar to Condition 6C has not been tested in Hong Kong and some degree of uncertainty may exist in its application.

Payments of Distribution are discretionary and Distributions are non-cumulative.

Payment of Distributions on any Distribution Payment Date is at the sole discretion of the Issuer. Subject to the Conditions, the Issuer may elect to or, in certain cases, be required to cancel any Distribution on any Distribution Payment Date. The Issuer may make such election for any reason. In addition, the Issuer will not be obliged to pay, and will not pay, any Distribution upon the occurrence of a Mandatory Distribution Cancellation Event or an Optional Distribution Cancellation Event. Cancelled Distributions will not be reinstated and will not constitute an event of default.

In addition, Distributions would only be paid out of such amounts for the time being available to the Issuer for distribution in compliance with section 297 of the Companies Ordinance (Cap. 622) of Hong Kong as at the Issuer's latest audited balance sheet, and subject to certain capital conservation requirements as applicable to the Issuer. As at the date of this Supplement, pursuant to section 297(1) of the Companies Ordinance (Cap.622), the Issuer may only make a distribution out of profits available for distribution. For the purposes of section 297 of the Companies Ordinance (Cap.622), the Issuer's profits available for distribution are its accumulated, realised profits, so far as not previously utilised by distribution or capitalisation, less its accumulated, realised losses, so far as not previously written off in a reduction or reorganisation of capital.

Any Distributions which are not paid on the applicable Distribution Payment Date following a Mandatory Distribution Cancellation Event, an Optional Distribution Cancellation Event or a Write-off shall not accumulate or be payable at any time thereafter, whether or not funds are or subsequently become available. Securityholders will have no right thereto whether in a bankruptcy or dissolution as a result of the insolvency of the Issuer or otherwise. Therefore, any Distributions not paid following a Mandatory Distribution Cancellation Event, an Optional Distribution Cancellation Event or a Write-off will be lost and the Issuer will have no obligation to make payment of such Distributions or to pay interest thereon.

If Distributions are not paid for whatever reason, the Capital Securities may trade at a lower price. If a Securityholder sells his Capital Securities during such a period, he may not receive the same return on investment as a Securityholder who continues to hold his Capital Securities until Distributions are resumed.

There are limited remedies for non-payment under the Capital Securities.

Any scheduled Distribution will not be due if the Issuer elects not to pay that Distribution pursuant to the Conditions. Notwithstanding any of the provisions relating to non-payment defaults, the right to institute winding-up proceedings is limited to circumstances where payment of principal or any Distributions on any of the Capital Securities has become due and such failure continues for a period of 14 days in the case of Distributions or seven business days in the case of principal; or where an order is made or an effective resolution passed for the Winding-Up or dissolution of the Issuer. The only remedy against the Issuer available to any Securityholders for recovery of amounts in respect of the Capital Securities following the occurrence of a payment default after any sum becomes due in respect of the Capital Securities will be instituting winding-up proceedings and/or proving and/or claiming in winding-up in respect of any of the Issuer's payment obligations arising from the Capital Securities. In such a winding-up, the claims of the Securityholder will be subordinated and subject in right of payment to the prior payment in full of all claims of such senior creditors as set out in Condition 3.3.

The Issuer may raise other capital which affects the price of the Capital Securities.

The Issuer may raise additional capital through the issue of other securities or other means. There is no restriction, contractual or otherwise, on the amount of securities or other liabilities which the Issuer may issue or incur and which rank senior to, or *pari passu* with, the Capital Securities, and there is no restriction on the Issuer issuing securities with or without Non-Viability Loss Absorption provisions (whether or not such provisions are similar to those of the Capital Securities). The issue of any such securities or the incurrence of any such other liabilities may reduce the amount (if any) recoverable by Securityholders on a dissolution or winding-up and/or may increase the likelihood of a cancellation of Distributions under the Capital Securities. The issue of any such securities or the incurrence of any such other liabilities might also have an adverse impact on the trading price of the Capital Securities and/or the ability of Securityholders to sell their Capital Securities.

Proposed establishment of a resolution regime in Hong Kong may override the contractual terms of the Capital Securities.

In early 2014, the government of Hong Kong launched the initial stage of a public consultation on establishing a "resolution regime" for authorised institutions and other financial institutions in Hong Kong. The proposed resolution regime seeks to provide the relevant resolution authorities with administrative powers to bring about timely and orderly resolution in order to stabilise and secure continuity for a failing authorised institution in Hong Kong. In particular, it has been envisaged that subject to certain safeguards, the relevant resolution authority would be provided with powers to affect contractual and property rights as well as payments (including in respect of any priority of payment) that creditors would receive in resolution. Although no conclusion has been reached for the consultation as at the date of this Supplement, the resolution regime, if established, may include such powers that can adversely affect and override the contractual provisions of the Capital Securities, including those provisions relating to ranking and status in the event of a Winding Up.

TERMS AND CONDITIONS OF THE CAPITAL SECURITIES

The following is the text of the Terms and Conditions of the Capital Securities (subject to completion and modification and excluding italicised text) will be endorsed on each of the Capital Securities in definition form. The numbering and title of the following Terms and Conditions of the Capital Securities follow the numbering of the Terms and Conditions of the Notes as set out in the Offering Circular dated 16 October 2013.

The U.S.$300,000,000 7.25 per cent. undated non-cumulative subordinated additional Tier 1 capital securities (the **Capital Securities**, which expression shall in these Terms and Conditions (**Conditions**), unless the context otherwise requires, include any further securities issued pursuant to Condition 19 and forming a single series with the Capital Securities) of China CITIC Bank International Limited 中信銀行（國際）有限公司 (the **Issuer**) are constituted by a Trust Deed (such Trust Deed as modified and/or supplemented and/or restated from time to time, the **Trust Deed**) dated 30 November 2007 made between the Issuer and Citibank, N.A., London Branch (the **Trustee**, which expression shall include any successor as Trustee).

The Capital Securities have the benefit of an Agency Agreement (such Agency Agreement as amended and/or supplemented and/or restated from time to time, the **Agency Agreement**) dated 30 November 2007 and made between the Issuer, the Trustee, Citibank, N.A., London Branch as issuing and principal paying agent and agent bank (the **Principal Paying Agent**, which expression shall include any successor principal paying agent) and the other paying agents named therein (together with the Principal Paying Agent, the **Paying Agents**, which expression shall include any additional or successor paying agents) and Citigroup Global Markets Deutschland AG as registrar (the **Registrar**, which expression shall include any successor registrar) and a transfer agent and the other transfer agents named therein (together with the Registrar, the **Transfer Agents**, which expression shall include any additional or successor transfer agents).

For the purposes of the Trust Deed, the Agency Agreement and the Global Certificate, these Capital Securities are “Undated Subordinated Notes”.

Any reference to **Securityholders** or **holders** in relation to any Capital Securities shall mean the persons in whose name the Capital Securities are registered and shall, in relation to any Capital Securities represented by a Global Note, be construed as provided below.

The Trustee acts for the benefit of the Securityholders in accordance with the provisions of the Trust Deed.

Copies of the Trust Deed and the Agency Agreement are available for inspection during normal business hours at the registered office for the time being of the Trustee being at 14th Floor, Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, United Kingdom and at the specified office of each of the Paying Agents. Copies of the Pricing Supplement are obtainable during normal business hours at the specified office of each of the Paying Agents. The Securityholders are deemed to have notice of, and are entitled to the benefit of, and are bound by, all the provisions of the Trust Deed, the Agency Agreement and the Pricing Supplement which are applicable to them. The statements in the Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed.

Words and expressions defined in the Trust Deed and the Agency Agreement shall have the same meanings where used in the Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of inconsistency between the Trust Deed or the Agency Agreement and the Conditions, the Conditions will prevail. The terms and conditions of the Notes as set out in the Offering Circular dated 16 October 2013 shall be deemed to be replaced by these Conditions for the purposes of the Capital Securities.

1. FORM, DENOMINATION AND TITLE

Condition 1 of the Terms and Conditions of the Notes as set out in the Offering Circular is deemed to be deleted in its entirety and replaced with the following:

1.1 Form and Denomination

The Capital Securities are issued in registered form in the denomination of U.S.$200,000 each and integral multiples of U.S.$1,000 in excess thereof (referred to as the **principal amount** of a Capital Security). The principal amount of a Capital Security is subject to adjustment following the occurrence of a Non-Viability Event (as defined in Condition 6C) in accordance with Condition 6C and references in the Conditions to the **principal amount** of a Capital Security shall mean the principal amount of a Capital Security as so adjusted. A certificate (each a **Certificate**) will be issued to each Securityholder in respect of its registered holding of Capital Securities. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register of Securityholders which the Issuer will procure to be kept by the Registrar and at the office of the Issuer.

The Capital Securities are not issuable in bearer form.

1.2 Title

Title to the Capital Securities passes only by registration in the register of Securityholders. The Securityholder of any Capital Security will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the Securityholder.

2. TRANSFERS OF REGISTERED NOTES

2.1 Transfers of interests in Registered Global Notes

Condition 2.1 of the Terms and Conditions of the Notes as set out in the Offering Circular is deemed to be deleted in its entirety and replaced with the following:

Transfers of beneficial interests in Capital Securities represented by a global note in registered form (**Registered Global Notes**) will be effected by Euroclear or Clearstream, Luxembourg, as the case may be, and, in turn, by other participants and, if appropriate, indirect participants in such clearing system acting on behalf of beneficial transferors and transferees of such interests. A beneficial interest in a Registered Global Note will, subject to compliance with all applicable legal and regulatory restrictions, be transferable for definitive Capital Securities in registered form (**Definitive Registered Notes**) or for a beneficial interest in another Registered Global Note only in the denomination set out in Condition 1.1 and only in accordance with the rules and operating procedures for the time being of Euroclear or Clearstream, Luxembourg and in accordance with the terms and conditions specified in the Trust Deed and the Agency Agreement. Transfers of a Registered Global Note registered in the name of a nominee for Euroclear or Clearstream, Luxembourg shall be limited to transfers of such Registered Global Note, in whole but not in part, to another nominee of Euroclear or Clearstream, Luxembourg or to a successor if Euroclear or Clearstream, Luxembourg or such successor's nominee.

2.2 Transfers of Definitive Registered Notes

Condition 2.2 of the Terms and Conditions of the Notes as set out in the Offering Circular is deemed to be deleted in its entirety and replaced with the following:

Subject as provided in Condition 2.5 below, upon the terms and subject to the conditions set forth in the Trust Deed and the Agency Agreement, a Definitive Registered Note may be transferred in whole or in part (in the denomination set out in Condition 1.1). In order to effect any such transfer (i) the holder or holders must (A) surrender the Definitive Registered Note for registration of the transfer of the Definitive Registered Note (or the relevant part of the Definitive Registered Note) at the specified office of the Registrar or any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorised in writing and (B) complete and deposit such other certifications as may be required by the Registrar or, as the case may be, the relevant Transfer Agent and (ii) the Registrar or, as the case may be, the relevant Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the person making the request. Any such transfer will be subject to such reasonable regulations as the Issuer, the Trustee and the Registrar may from time to time prescribe (the initial such regulations being set out in Schedule 3 to the Agency Agreement). Subject as provided above, the Registrar or, as the case may be, the relevant Transfer Agent will, within three business days (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar or, as the case may be, the relevant Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), authenticate and deliver, or procure the authentication and delivery of, at its specified office to the transferee or (at the risk of the transferee) send by uninsured mail, to such address as the transferee may request, a new Definitive Registered Note in definitive form of a like aggregate nominal amount to the Definitive Registered Note (or the relevant part of the Definitive Registered Note) transferred. In the case of the transfer of part only of a Definitive Registered Note, a new Definitive Registered Note in respect of the balance of the Definitive Registered Note not transferred will be authenticated and delivered or (at the risk of the transferor) sent to the transferor.

2.3 Registration of transfer upon partial redemption

Condition 2.3 of the Terms and Conditions of the Notes as set out in the Offering Circular does not apply to the Capital Securities.

2.4 Cost of Registration

Condition 2.4 of the Terms and Conditions of the Notes as set out in the Offering Circular is deemed to be deleted in its entirety and replaced with the following:

Securityholders will not be required to bear the costs and expenses of effecting any registration of transfer as provided above, except for any costs or expenses of delivery other than by regular uninsured mail and except that the Issuer may require the payment of a sum sufficient to cover any stamp duty, tax or other governmental charge that may be imposed in relation to the registration.

2.5 Closed Periods

Condition 2.5 of the Terms and Conditions of the Notes as set out in the Offering Circular is deemed to be deleted in its entirety and replaced with the following:

No Securityholder may require the transfer of a Capital Security to be registered (i) during the period of 15 days prior to (and including) the due date of any payment of principal or Distributions in respect of the Capital Securities or (ii) during the period commencing on the date of the Non-Viability Event Notice (as defined in Condition 6C below) and ending on (and including) the close of business in Hong Kong on the effective date of the related Write-off.

2.6 Exchanges and transfers of Definitive Registered Notes generally

Holders of Definitive Registered Notes may exchange such Notes for interests in a Registered Global Note of the same type at any time.

3. STATUS OF THE NOTES

3.1 Status Of Senior Notes

Condition 3.1 of the Terms and Conditions of the Notes as set out in the Offering Circular does not apply to the Capital Securities.

3.2 Status of the Subordinated Notes

Condition 3.2 of the Terms and Conditions of the Notes as set out in the Offering Circular does not apply to the Capital Securities.

The following Condition 3.3 shall be inserted after Condition 3.2:

3.3 Status of the Capital Securities

(a) **Provision relating to the Capital Securities**

The Capital Securities constitute direct, unsecured and subordinated obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The rights and claims of the Securityholders are subordinated in the manner described below.

Subject to the insolvency laws of Hong Kong and other applicable laws, in the event of a Winding-Up (as defined below) of the Issuer (other than pursuant to a Permitted Reorganisation (as defined below)), the rights of the Securityholders to payment of principal and Distributions on the Capital Securities and any other obligations in respect of the Capital Securities will rank (x) subordinate and junior in right of payment to, and of all claims of, (i) all unsubordinated creditors of the Issuer (including its depositors), (ii) creditors in respect of Tier 2 Capital Securities of the Issuer, and (iii) all other Subordinated Creditors of the Issuer whose claims are stated to rank senior to the Capital Securities or rank senior to the Capital Securities by operation of law or contract; (y) *pari passu* in right of payment to and of all claims of Parity Obligations; and (z) senior in right of payment to and of all claims of Junior Obligations in the manner provided in the Trust Deed.

In the event of a Winding-Up that requires the Securityholders or the Trustee to provide evidence of their claim to principal or Distribution under the Capital Securities, such claims of the Securityholders will only be satisfied after all senior ranking obligations of the Issuer have been satisfied in whole. No amount may be claimed in respect of any Distribution that has been cancelled pursuant to a Mandatory Distribution Cancellation Event or an Optional Distribution Cancellation Event.

For the purposes of these Conditions:

Capital Regulations means capital regulations applicable to the regulatory capital of Authorised Institutions in Hong Kong as published by the Monetary Authority.

Junior Obligation means the Shares, and any other class of the Issuer's share capital and any instrument or other obligation (including without limitation any preference share) issued or guaranteed by the Issuer that ranks or is expressed to rank junior to the Capital Securities by operation of law or contract.

Monetary Authority means the Monetary Authority appointed under section 5A of the Exchange Fund Ordinance (Cap 66 of the Laws of Hong Kong) or any successor thereto or such other authority having primary bank supervisory authority with respect to the Issuer.

Parity Obligation means any instrument or other obligation issued, entered into, or guaranteed by the Issuer that constitutes or qualifies as Additional Tier 1 Capital (or its equivalent) under applicable Capital Regulations or that ranks or is expressed to rank *pari passu* with the Capital Securities by operation of law or contract.

Permitted Reorganisation means a solvent reconstruction, amalgamation, reorganisation, merger or consolidation whereby all or substantially all the business, undertaking or assets of the Issuer are transferred to a successor entity which assumes all the obligations of the Issuer under the Capital Securities.

Shares means the ordinary share capital of the Issuer.

Subordinated Creditors means all creditors the indebtedness of which is subordinated, in the event of the Winding-Up of the Issuer, in right of payment to the claims of depositors and other unsubordinated creditors of the Issuer other than those whose claims rank or is expressed to rank by operation of law or contract pari passu with, or junior to, the claims of the Securityholders of the Capital Securities. For this purpose indebtedness shall include all liabilities, whether actual or contingent.

Tier 2 Capital Securities means instruments categorised as Tier 2 capital pursuant to the Capital Regulations that rank or are expressed to rank senior to the Capital Securities by operation of law or contract.

Winding-Up means a final and effective order or resolution for the bankruptcy, winding up, liquidation, receivership, or similar proceedings in respect of the Issuer.

(b) **Set-off**

Subject to applicable law, no Securityholder may exercise, claim or plead any right of set-off, counter-claim or retention in respect of any amount owed to it by the Issuer arising under or in connection with the Capital Securities and each Securityholder shall, by virtue of being the Securityholder of any Capital Security be deemed to have waived all such rights of such set-off, counter-claim or retention.

In the event that any Securityholder nevertheless receives (whether by set-off or otherwise) directly in a Winding-Up Proceeding in respect of the Issuer any payment by, or distribution of assets of, the Issuer of any kind or character, whether in cash, property or securities, in respect of any amount owing to it by the Issuer arising under or in connection with the Capital Securities, other than in accordance with this Condition 3.3, such Securityholder shall, subject to applicable law, immediately pay an amount equal to the amount of such payment or discharge to the liquidator for the time being in the winding up of the Issuer for distribution and each Securityholder, by virtue of becoming a Securityholder or any Capital Security, shall be deemed to have so agreed and undertaken with and to the Issuer and all depositors and other unsubordinated creditors of the Issuer for good consideration.

4. NEGATIVE PLEDGE (SENIOR NOTES ONLY)

Condition 4 of the Terms and Conditions of the Notes as set out in the Offering Circular does not apply to the Capital Securities.

5. REDENOMINATION

Condition 5 of the Terms and Conditions of the Notes as set out in the Offering Circular does not apply to the Capital Securities.

6. INTEREST

Condition 6 of the Terms and Conditions of the Notes as set out in the Offering Circular does not apply to the Capital Securities.

The following Conditions 6A, 6B and 6C shall be inserted after Condition 6:

6A DISTRIBUTION

(a) Non-Cumulative Distribution

Subject to Condition 6B below, the Capital Securities confer a right to receive distributions (each a **Distribution**) on the principal amount (subject to adjustments following the occurrence of a Non-Viability Event in accordance with Condition 6C) from, and including, the Issue Date at the applicable Distribution Rate, payable semi-annually in arrear on 22 April and 22 October in each year (each a **Distribution Payment Date**).

Distributions will not be cumulative and Distributions which are not paid in accordance with these Conditions will not accumulate or compound and Securityholders will have no right to receive such Distributions at any time, even if subsequent Distributions are paid in the future, or be entitled to any claim in respect thereof against the Issuer. Unless otherwise provided in these Conditions, each Capital Security will cease to confer the right to receive any Distribution from the due date for redemption unless, upon surrender of the Certificate representing such Capital Security, payment of principal is improperly withheld or refused. In such event Distribution shall continue to accrue at such rate (both before and after judgment) until whichever is the earlier of (a) the date on which all amounts due in respect of such Capital Security have been paid; and (b) five days after the date on which the full amount of moneys payable in respect of such Capital Security has been received by the Principal Paying Agent and notice to that effect has been given to the Securityholders in accordance with Condition 15.

No Securityholder shall have any claim in respect of any Distribution or part thereof cancelled and/or not due or payable pursuant to Condition 6A and Condition 6B below. Accordingly, such Distribution shall not accumulate for the benefit of the Securityholders or entitle the Securityholders to any claim in respect thereof against the Issuer.

(b) Distribution Rate

The rate of distribution (the **Distribution Rate**) applicable to the Capital Securities shall be:

(i) in respect of the period from, and including, the Issue Date to, but excluding, 22 April 2019 (the **First Call Date**), 7.25 per cent. per annum;

(ii) in respect of the period from, and including, the First Call Date and each Distribution Reset Date thereafter to, but excluding, the immediately following Distribution Reset Date, the Reset Distribution Rate.

For the purposes of these Conditions:

Calculation Agent means the Principal Paying Agent and shall include any successor as calculation agent.

Calculation Business Day means any day, excluding a Saturday and a Sunday, on which banks are open for general business (including dealings in foreign currencies) in New York City and Hong Kong.

Calculation Date means, in relation to a Reset Interest Period, the Calculation Business Day preceding the Distribution Reset Date on which such Reset Interest Period commences.

Comparable Treasury Issue means the U.S. Treasury security selected by the Calculation Agent as having a maturity of five years that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities with a maturity of five years.

Comparable Treasury Price means, with respect to any Calculation Date, the average of three Reference Treasury Dealer Quotations for such Calculation Date.

Distribution Determination Date means the day falling two business days prior to a Distribution Payment Date.

Distributable Reserves means the amounts for the time being available to the Issuer for distribution as a distribution in compliance with section 297 of the Companies Ordinance (Cap. 622) of Hong Kong, as amended or modified from time to time, as at the Issuer's latest audited balance sheet, and subject to the Monetary Authority's then current capital conservation requirements as applicable to the Issuer on the relevant Distribution Payment Date (the **Available Amount**); provided that if the Issuer reasonably determines that the Available Amount as at any Distribution Determination Date is lower than the Available Amount as at the date of the Issuer's latest audited balance sheet and is insufficient to pay the Distributions and any payments on Parity Obligations on the relevant Distribution Payment Date, then on certification by two Directors and the Auditors of such revised amount, the Distributable Reserves shall for the purposes of Distribution mean the Available Amount as set forth in such certificate.

As at the date hereof, pursuant to section 297(1) of the Companies Ordinance (Cap.622), the Issuer may only make a distribution out of profits available for distribution. For the purposes of section 297 of the Companies Ordinance (Cap.622), the Issuer's profits available for distribution are its accumulated, realised profits, so far as not previously utilised by distribution or capitalisation, less its accumulated, realised losses, so far as not previously written off in a reduction or reorganization of capital.

Distribution Reset Date means the First Call Date and each anniversary falling five years thereafter.

Reference Treasury Dealer means each of the three nationally recognised investment banking firms selected by the Calculation Agent that are primary U.S. Government securities dealers.

Reference Treasury Dealer Quotations means with respect to each Reference Treasury Dealer and any Calculation Date, the average, as determined by the Calculation Agent, of the bid and asked prices for the Comparable Treasury Issue, expressed in each case as a percentage of its principal amount, quoted in writing to the Calculation Agent by such Reference Treasury Dealer at 10.00 p.m. New York City time, on such Calculation Date.

Reset Distribution Rate means, in relation to a Reset Interest Period, a fixed rate per annum (expressed as a percentage) equal to the aggregate of (a) the then-prevailing U.S. Treasury Rate (as determined as set out below) and (b) the Spread.

Reset Interest Period means the period from, and including, a Distribution Reset Date to, but excluding, the immediately following Distribution Reset Date.

Spread means 5.627 per cent. per annum.

U.S. Treasury Rate means the rate in percentage per annum notified by the Calculation Agent to the Issuer and the Securityholders equal to the yield on U.S. Treasury securities having a maturity of five years as is displayed on Bloomberg page **PX1** (or any successor page or service displaying yields on U.S. Treasury securities as agreed between the Issuer and the Calculation Agent) at 6 p.m. (New York time) on the Calculation Date. If such page (or any successor page or service) does not display the relevant yield at 6 p.m. (New York time) on the Calculation Date, **U.S. Treasury Rate** shall mean the rate in percentage per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, calculated using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for the Calculation Date. The U.S. Treasury Rate will be calculated on the relevant Calculation Date.

(c) *Calculation of Distribution and Relevant Reset Distribution Rate*

The Calculation Agent will calculate the amount of Distribution in respect of any period by applying the applicable Distribution Rate to the Calculation Amount. If Distribution is required to be paid in respect of a Capital Security on any date other than the Distribution Payment Date, it shall be calculated by applying the applicable Distribution Rate to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest cent (half a cent being rounded upwards) and multiplying such rounded figure by a fraction equal to the principal amount of such Capital Security divided by the Calculation Amount, where **Calculation Amount** means U.S.$1,000, subject to adjustment following occurrence of a Non-Viability Event, and **Day Count Fraction** means, in respect of any period, the number of days in the relevant period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months).

The Calculation Agent will, on the Calculation Date prior to each Distribution Reset Date, calculate the applicable Reset Distribution Rate payable in respect of each Capital Security. The Calculation Agent will cause the Distribution and applicable Reset Distribution Rate determined by it to be promptly notified to the Principal Paying Agent. Notice thereof shall also promptly be given by the Calculation Agent to the Issuer, the Trustee and the Registrar.

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 6A by the Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Principal Paying Agent and the Securityholders and (subject as aforesaid) no liability to any such person will attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

(d) *Publication of Relevant Reset Distribution Rate*

The Issuer shall cause notice of the then applicable Reset Distribution Rate to be notified to the Securityholders as soon as practicable in accordance with Condition 15 after determination thereof.

(e) *Determination or Calculation by Successor Calculation Agent*

If the Calculation Agent does not at any time for any reason so determine the applicable Reset Distribution Rate, the Issuer shall as soon as practicable appoint a reputable financial institution of good standing as a successor calculation agent to do so and such determination or calculation shall be deemed to have been made by the Calculation Agent. In doing so, the successor calculation agent shall apply the foregoing provisions of this Condition 6A, with any necessary consequential amendments, to the extent that, in the opinion of the successor calculation agent, it can do so and, in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances.

6B Distribution Restrictions

(a) *Optional Distribution Cancellation Event*

Unless a Distribution has already been cancelled in full pursuant to a Mandatory Distribution Cancellation Event, prior to any Distribution Payment Date the Issuer may, at its sole discretion, elect to cancel any payment of Distribution, in whole or in part, by giving a notice to the Trustee signed by two Directors of the Issuer, which shall be conclusive and binding on the Securityholders (such notice, a **Distribution Cancellation Notice**) of such election to the Securityholders in accordance with Condition 15, the Trustee and the Agents at least 10 business days prior to the relevant Distribution Payment Date. The Issuer shall have no obligation to pay any Distribution on any Distribution Payment Date if it validly elects not to do so in accordance with this Condition 6B and any failure to pay such Distribution shall not constitute an Event of Default. Distributions are non-cumulative and any Distribution that is cancelled shall therefore not be payable at any time thereafter, whether in a Winding-Up or otherwise.

(b) *Mandatory Distribution Cancellation Event*

Notwithstanding that a Distribution Cancellation Notice has not been given, the Issuer will not be obliged to pay, and will not pay, any Distribution on the applicable Distribution Payment Date, in whole or in part, as applicable, if and to the extent that:

(i) the Distribution scheduled to be paid together with any dividends, distributions or other payments scheduled to be paid or made during the Issuer’s then current fiscal year on any Parity Obligations or any instruments which effectively rank *pari passu* with any Parity Obligations shall exceed Distributable Reserves as at such Distribution Determination Date; or

(ii) the Monetary Authority so directs the Issuer to cancel such Distribution (in whole or in part) or applicable Hong Kong banking regulations or other requirements of the Monetary Authority prevent the payment in full of dividends or other distributions when due on Parity Obligations (a **Mandatory Distribution Cancellation Event**).

The Issuer shall have no obligation to pay a Distribution on any Distribution Payment Date if such non-payment is in accordance with this Condition 6B(b) and any failure to pay such Distribution shall not constitute an Event of Default. Distributions are non-cumulative and any Distribution which is cancelled shall therefore not be payable at any time thereafter whether in a Winding-Up or otherwise.

(c) *Distributable Reserves*

Any Distribution may only be paid out of Distributable Reserves.

(d) *Dividend Stopper*

If, on any Distribution Payment Date, payment of Distribution scheduled to be paid is not made in full by reason of this Condition 6B, the Issuer shall not:

(i) declare or pay in cash any distribution or dividend or make any other payment in cash on, and will procure that no distribution or dividend in cash or other payment in cash is made on, any Shares; or

(ii) purchase, cancel or otherwise acquire any Shares or permit any of its subsidiaries to do so,

in each case, unless or until the earlier of: (A) the Distribution scheduled to be paid on any subsequent Distribution Payment Date (which, for the avoidance of doubt, shall exclude any Distribution that has been cancelled in accordance with these Conditions prior to such subsequent Distribution Payment Date) has been paid in full (I) to Securityholders or (II) irrevocably to a designated third party trust account for the benefit of the Securityholders pending payment by the trustee thereof to the Securityholders on such subsequent Distribution Payment Date, or (B) the redemption or purchase and cancellation of the Capital Securities in full, or reduction of the principal amount of the Capital Securities to zero, or (C) the Issuer is permitted to do so by an Extraordinary Resolution.

(e) *No default*

Notwithstanding any other provision in these Conditions, the cancellation or non-payment of any Distribution in accordance with this Condition 6B shall not constitute a default for any purpose (including, without limitation, pursuant to Condition 11.2A) on the part of the Issuer.

6C Non-Viability Loss Absorption

If a Non-Viability Event occurs and is continuing, the Issuer shall, upon the provision of a Non-Viability Event Notice, irrevocably (without the need for the consent of the Securityholders of the Capital Securities) reduce the then principal amount of, and cancel any accrued but unpaid Distribution in respect of, each Capital Security (in each case in whole or in part)by an amount equal to the Non-Viability Event Write-off Amount per Capital Security (such reduction and cancellation, and the reduction and cancellation of any other Subordinated Capital Securities so reduced and cancelled upon the occurrence of a Non-Viability Event, where applicable, being referred to herein as the **Write-off**, and **Written-off** shall be construed accordingly).

Concurrently with the giving of the notice of a Non-Viability Event, the Issuer shall procure unless otherwise directed by the Monetary Authority, that a similar notice be given in respect of other loss absorbing regulatory capital instruments in accordance with their terms.

For the avoidance of doubt, any Write-off pursuant to this provision will not constitute an Event of Default under the Capital Securities.

Any Series of Capital Securities may be subject to one or more Write-offs in part (as the case may be), except where such Series of Capital Securities has been Written-off in its entirety. Any references in the Conditions to principal in respect of the Capital Securities shall thereafter refer to the principal amount of the Capital Securities reduced by any applicable Write-off(s).

Once the principal amount of, and any accrued but unpaid Distribution under, the Capital Securities has been Written-off, the relevant amount(s) Written-off will not be restored in any circumstances including where the relevant Non-Viability Event ceases to continue. No Securityholder may exercise, claim or plead any right to any amount that has been Written-off, and each Securityholder shall, by virtue of his holding of any Capital Securities, be deemed to have waived all such rights to such amount that has been Written-off.

For the purposes of this Condition 6C:

Non-Viability Event means the earlier of:

(a) the Monetary Authority notifying the Issuer in writing that the Monetary Authority is of the opinion that a Write-off or conversion is necessary, without which the Issuer would become non-viable; and

(b) the Monetary Authority notifying the Issuer in writing that a decision has been made by the government body, a government officer or other relevant regulatory body with the authority to make such a decision, that a public sector injection of capital or equivalent support is necessary, without which the Issuer would become non-viable.

Non-Viability Event Notice means the notice which shall be given by the Issuer not more than two Hong Kong Business Days after the occurrence of a Non-Viability Event, to the Securityholders of the Capital Securities, the Trustee and the Paying Agents, in accordance with the Conditions and which shall state in reasonable detail the nature of the relevant Non Viability Event and the Non-Viability Event Write-off Amount per Capital Security and each other Subordinated Capital Security.

Non-Viability Event Write-off Amount means the amount of interest and/or principal to be Written-off as the Monetary Authority may direct or, in the absence of such a direction, as the Issuer shall (in consultation with the Monetary Authority) determine to be necessary to satisfy the Monetary Authority that the Non-Viability Event will cease to continue. For the avoidance of doubt, (i) the full amount of the Capital Securities will be Written-off in full in the event that the amount Written-off is not sufficient for the Non-Viability Event to cease to continue and (ii) in the case of an event falling within paragraph (b) of the definition of Non-Viability Event, the Write-off will be effected in full before any public sector injection of capital or equivalent support. Further, the Non-Viability Event Write-off Amount in respect of each Capital Security will be calculated based on a percentage of the principal amount of that Capital Security.

7. PAYMENTS

7.1 Method of payment

Condition 7.1 of the Terms and Conditions of the Notes as set out in the Offering Circular is deemed to be deleted in its entirety and replaced with the following:

Payments in U.S. dollars will be made by credit or transfer to an account in U.S. dollar maintained by the payee with, or at the option of the payee, by a cheque in U.S. dollar drawn on, a bank in the New York City.

Payments will be subject in all cases to (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 9, and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the **Code**) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof, or (without prejudice to the provisions of Condition 9) any law implementing an intergovernmental approach thereto.

7.2 Presentation of Definitive Bearer Notes, Receipts and Coupons

Condition 7.2 of the Terms and Conditions of the Notes does not apply to the Capital Securities.

7.3 Payments in respect of Bearer Global Notes

Condition 7.3 of the Terms and Conditions of the Notes does not apply to the Capital Securities.

7.4 Payments in respect of Definitive Registered Notes and Registered Global Notes

Condition 7.4 of the Terms and Conditions of the Notes as set out in the Offering Circular is deemed to be deleted in its entirety and replaced with the following:

Payments of principal in respect of each Definitive Registered Note and each Registered Global Note will be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the Definitive Registered Note or Registered Global Note at the specified office of the Registrar or any of the Paying Agents. Such payments will be made by transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Capital Security appearing in the register of holders of the Capital Securities in registered form maintained by the Registrar (the **Register**) (i) where in global form, at the close of the business day (being for this purpose, a day on which Euroclear and Clearstream, Luxembourg are open for business) before the relevant due date, and (ii) where in definitive form, at the close of business on the third business day (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar is located) before the relevant due date. Notwithstanding the previous sentence, if (a) a holder does not have a Designated Account or (b) the principal amount of the Capital Securities held by a holder is less than US$250,000, payment will instead be made by a cheque in U.S. dollar drawn on a Designated Bank (as defined below). For these purposes, **Designated Account** means the account maintained by a holder with a Designated Bank and identified as such in the Register and **Designated Bank** means a bank in the New York City.

Payments of Distribution in respect of each Definitive Registered Note and each Registered Global Note will be made by a cheque in U.S. dollar drawn on a Designated Bank and mailed by uninsured mail on the business day in the city where the specified office of the Registrar is located immediately preceding the relevant due date to the holder (or the first named of joint holders) of the Capital Security in registered form appearing in the Register (i) where in global form, at the close of the business day (being for this purpose, a day on which Euroclear and Clearstream, Luxembourg are open for business) before the relevant due date, and (ii) where in definitive form, at the close of business on the fifteenth day (whether or not such fifteenth day is a business day) before the relevant due date (the **Record Date**) at his address shown in the Register on the Record Date and at his risk. Upon application of the holder to the specified office of the Registrar not less than three business days in the city where the specified office of the Registrar is located before the due date for any payment of Distribution in respect of a Capital Security in registered form, the payment may be made by transfer on the due date in the manner provided in the preceding paragraph. Any such application for transfer shall be deemed to relate to all future payments of Distribution (other than Distribution due on redemption) in respect of the Capital Securities in registered form which become payable to the holder who has made the initial application until such time as the Registrar is notified in writing to the contrary by such holder. Payment of the Distribution due in respect of each Capital Security in registered form on redemption will be made in the same manner as payment of the principal amount of such Capital Security.

Holders of Capital Securities in registered form will not be entitled to any Distribution or other payment for any delay in receiving any amount due in respect of any Capital Security in registered form as a result of a cheque posted in accordance with this Condition arriving after the due date for payment or being lost in the post. No commissions or expenses shall be charged to such holder by the Registrar in respect of any payments of principal or Distribution in respect of Capital Securities in registered form.

None of the Issuer, the Trustee or the Agents will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

7.5 General provisions applicable to payments

Condition 7.5 of the Terms and Conditions of the Notes as set out in the Offering Circular is deemed to be deleted in its entirety and replaced with the following:

The holder of a Capital Security represented by a global note (**Global Note**) shall be the only person(s) entitled to receive payments in respect of Capital Securities represented by such Global Note and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Note in respect of each amount so paid. Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg, as the beneficial holder of a particular nominal amount of Capital Securities represented by such Global Note must look solely to Euroclear, Clearstream, Luxembourg, for his share of each payment so made by the Issuer to, or to the order of, the holder of such Global Note.

7.6 Payment Day

Condition 7.6 of the Terms and Conditions of the Notes as set out in the Offering Circular is deemed to be deleted in its entirety and replaced with the following:

If the date for payment of any amount in respect of any Capital Security is not a Payment Day (as defined below), the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further Distribution or other payment in respect of such delay. For these purposes, **Payment Day** means any day which (subject to Condition 10) is:

(a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:

  (i) in the case of Capital Securities in definitive form only the relevant place of presentation;

  (ii) London; and

(b) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the New York City.

7.7 Interpretation of principal and interest

Condition 7.7 of the Terms and Conditions of the Notes as set out in the Offering Circular does not apply to the Capital Securities.

7.8 Payments Subject to Fiscal and Other Laws

Payments will be subject in all cases, to (i) any fiscal or other laws and regulations applicable thereto, but without prejudice to the provisions of Condition 9, in the place of payment, and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the **Code**) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 9) any law implementing an intergovernmental approach thereto.

8. REDEMPTION AND PURCHASE

8.1 Redemption at maturity

Condition 8.1 of the Terms and Conditions of the Notes as set out in the Offering Circular does not apply to the Capital Securities.

The following Condition 8.1A shall be inserted after Condition 8.1:

8.1A No Fixed Redemption Date

The Capital Securities are perpetual securities in respect of which there is no fixed redemption date. The Capital Securities may not be redeemed at the option of the Issuer other than in accordance with this Condition.

8.2 Redemption for tax reasons

Condition 8.2 of the Terms and Conditions of the Notes as set out in the Offering Circular is deemed to be deleted in its entirety and replaced with the following:

Subject to Condition 8.12A, the Capital Securities may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Trustee and the Principal Paying Agent and, in accordance with Condition 15, the Securityholders (which notice shall be irrevocable), if the Issuer satisfies the Trustee immediately before the giving of such notice that (a) on the occasion of the next payment due under the Capital Securities, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 9 as a result of any change in, or amendment to, the laws or regulations of Hong Kong or any political subdivision or any authority thereof or therein, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date and such change or amendment was not foreseeable at the time of the issuance of the Capital Securities and (b) such obligation cannot be avoided by the Issuer taking reasonable measures available to it (a **Withholding Tax Event**); provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts or give effect to such treatment, as the case may be, were a payment in respect of the Capital Securities then due.

Prior to giving any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Trustee (i) a certificate signed by two Directors of the Issuer stating that the requirement referred to in (a) above will apply on the next Distribution Payment Date and cannot be avoided by the Issuer taking reasonable measures available to it and (ii) a copy of the written consent of the Monetary Authority as referred to in Condition 8.12A; and the Trustee shall be entitled to accept the certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Securityholders.

Capital Securities redeemed pursuant to this Condition 8.2 will be redeemed at their outstanding principal amount together (if appropriate) with Distributions accrued to (but excluding) the date of redemption, subject to adjustment following the occurrence of a Non-Viability Event in accordance with Condition 6C.

The following Condition 8.2A shall be inserted after Condition 8.2:

8.2A Redemption for tax deduction reasons

Subject to Condition 8.12A, the Capital Securities may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Trustee, the Principal Paying Agent and the Registrar, and, in accordance with Condition 15, the Securityholders (which notice shall be irrevocable, subject to Condition 6C, and shall specify the date fixed for redemption), following the occurrence of a Tax Deduction Event.

For the purposes of this Condition 8.2A, a **Tax Deduction Event** occurs if the Issuer satisfies the Trustee immediately before the giving of such notice that:

(a) in respect of the Distribution payable on the Capital Securities, the Issuer is no longer, or will no longer be, entitled to claim a deduction in respect of computing its taxation liabilities in Hong Kong or any political subdivision or any authority thereof or therein having power to tax as a result of any change in, or amendment to, the laws or regulations of Hong Kong or any political subdivision or any authority thereof or therein or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective subsequent to any official ruling (a **Tax Ruling**) issued after the Issue Date by the relevant tax authorities in Hong Kong determining that Distributions are tax deductible; and

(b) such non tax deductibility cannot be avoided by the Issuer taking reasonable measures available to it, provided that: (i) the Conditions for Redemption set out in Condition 8.12A have been satisfied and (ii) no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would cease to be able to claim a tax deduction in respect of the Distribution payable on the Capital Securities as provided in paragraph (a) above as a result of any change in, or amendment to, the laws or regulations of Hong Kong or any political subdivision or any authority thereof or therein or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective subsequent to a Tax Ruling issued after the Issue Date by the relevant tax authorities in Hong Kong determining that Distributions are tax deductible.

Prior to the publication of any notice of redemption pursuant to this Condition 8.2A, the Issuer shall deliver to the Trustee (i) a certificate signed by two Directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that: (1) the conditions precedent to the right of the Issuer so to redeem have occurred, and (2) such non tax deductibility cannot be avoided by the Issuer taking reasonable measures available to it and (ii) a copy of the written consent of the Monetary Authority as referred to in Condition 8.12A and the Trustee shall be entitled to accept the certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Securityholders.

Capital Securities redeemed pursuant to this Condition 8.2A will be redeemed at their outstanding principal amount together (if appropriate) with Distributions accrued to (but excluding) the date of redemption, subject to adjustment following the occurrence of a Non-Viability Event in accordance with Condition 6C.

At the Issue Date, there is no Tax Ruling from the relevant tax authorities in Hong Kong determining that Distributions are tax deductible. Redemption for tax deduction reasons may only be exercised if, following a Tax Ruling determining that Distributions are tax deductible, subsequently Distributions become no longer tax deductible as a result of any change in, or amendment to, the laws or regulations of Hong Kong or any political subdivision or any authority thereof or therein or any change in the applicable or official interpretation of such laws or regulations.

8.3 Redemption of the Undated and/or Dated Subordinated Notes for regulatory reasons

Condition 8.3 of the Terms and Conditions of the Notes as set out in the Offering Circular does not apply to the Capital Securities.

The following Condition 8.3A shall be inserted after Condition 8.3:

8.3A Redemption of the Capital Securities for regulatory reasons

Subject to Condition 8.12A, the Capital Securities may be redeemed at the option of the Issuer in whole, but not in part, at any time on giving not less than 30 nor more than 60 days' notice to the Trustee and the Principal Paying Agent and, in accordance with Condition 15, the Securityholders (which notice shall be irrevocable) following the occurrence of a Capital Event.

For the purposes of this Condition 8.3A, a **Capital Event** occurs if the Issuer satisfies the Trustee immediately before the giving of the notice of redemption referred in this Condition 8.3A that (a) the Capital Securities, after having qualified as such, will no longer qualify (in whole or in part) as Additional Tier 1 Capital (or equivalent) of the Issuer and/or (b) the Capital Securities cease to be included in the calculation of the Issuer's capital adequacy ratio, as a result of a change or amendment in (or any change in the application or official interpretation of) the relevant provisions of the Banking Ordinance (Cap.155) of Hong Kong, Banking (Capital) Rules (Cap. 155L), Banking (Capital) (Amendment) Rules 2012, or any successor legislation, or any statutory guidelines issued by the Monetary Authority in relation thereto and such change or amendment was not foreseeable at the time of the issuance of the Capital Securities, provided, however, that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which it is determined that a Capital Event has occurred.

Prior to giving any notice of redemption pursuant to this Condition 8.3A, the Issuer shall deliver to the Trustee (i) a certificate signed by two Directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer to redeem have occurred and (ii) a copy of the written consent of the Monetary Authority; and the Trustee shall be entitled to accept the certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Securityholders.

Capital Securities redeemed pursuant to this Condition 8.3A will be redeemed at their outstanding principal amount together (if appropriate) with Distributions accrued to (but excluding) the date of redemption, subject to adjustment following the occurrence of a Non-Viability Event in accordance with Condition 6C.

8.4 Redemption at the option of the Issuer (Issuer Call)

Condition 8.4 of the Terms and Conditions of the Notes as set out in the Offering Circular is deemed to be deleted in its entirety and replaced with the following:

The Issuer may, having given:

(a) not less than 15 nor more than 45 days' notice to the Securityholders in accordance with Condition 15; and

(b) not less than 15 days before the giving of the notice referred to in (a) above, notice to the Trustee and the Principal Paying Agent and the Registrar;

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all but not some only of the Capital Securities then outstanding on the First Call Date or any Distribution Payment Date thereafter, at the their outstanding principal amount together (if appropriate) with Distributions accrued to (but excluding) the date of redemption, subject to adjustment following the occurrence of a Non-Viability Event in accordance with Condition 6C.

For the avoidance of doubt, the Issuer does not provide any undertaking that it will call the Capital Securities at any time.

8.5 Redemption at the option of the Noteholders other than holders of Undated Subordinated Notes (Investor Put)

Condition 8.5 of the Terms and Conditions of the Notes as set out in the Offering Circular does not apply to the Capital Securities.

8.6 Early Redemption Amounts

Condition 8.6 of the Terms and Conditions of the Notes as set out in the Offering Circular does not apply to the Capital Securities.

8.7 Instalments

Condition 8.7 of the Terms and Conditions of the Notes as set out in the Offering Circular does not apply to the Capital Securities.

8.8 Partly Paid Notes

Condition 8.8 of the Terms and Conditions of the Notes as set out in the Offering Circular does not apply to the Capital Securities.

8.9 Purchases

Condition 8.9 of the Terms and Conditions of the Notes as set out in the Offering Circular does not apply to the Capital Securities.

8.10 Cancellation

Condition 8.10 of the Terms and Conditions of the Notes as set out in the Offering Circular does not apply to the Capital Securities.

8.11 Late payment on Zero Coupon Notes

Condition 8.11 of the Terms and Conditions of the Notes as set out in the Offering Circular does not apply to the Capital Securities.

8.12 Conditions for Redemption and Purchase in respect of Subordinated Notes

Condition 8.12 of the Terms and Conditions of the Notes as set out in the Offering Circular does not apply to the Capital Securities.

The following Condition 8.12A shall be inserted after Condition 8.12:

8.12A Conditions for Redemption and Purchase in respect of the Capital Securities

Notwithstanding any other provision in these Conditions, the Issuer shall not redeem any of the Capital Securities (other than pursuant to Condition 11.2A) and the Issuer or any of its Subsidiaries shall not purchase any of the Capital Securities unless the prior written consent of the Monetary Authority thereto shall have been obtained, provided however, that if from time to time the consent of the Monetary Authority is not a requirement of any such Capital Securities to constitute Additional Tier 1 Capital (or equivalent) of the Issuer for the purposes of, and as defined in, the Banking Ordinance (Cap. 155) of Hong Kong, or any successor legislation, then the condition to the redemption or purchase and cancellation of the relevant Capital Securities set out in this Condition 8.12A shall not apply for so long as such consent is not required.

For the avoidance of doubt, this provision shall not apply to the Issuer or any of its Subsidiaries holding the Capital Securities in a purely nominee capacity.

9. TAXATION

Condition 9 of the Terms and Conditions of the Notes as set out in the Offering Circular is deemed to be deleted in its entirety and replaced with the following:

All payments of principal and Distribution in respect of the Capital Securities by or on behalf of the Issuer shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (**Taxes**) imposed or levied by or on behalf of Hong Kong or any political subdivision or any authority thereof or therein having power to tax, unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Capital Securities after such withholding or deduction shall equal the respective amounts of principal and Distribution which would otherwise have been receivable in respect of the Capital Securities in the absence of the withholding or deduction; except that no such additional amounts shall be payable with respect to any Capital Security:

(a) to on behalf of, a holder who is liable to the Taxes in respect of such Capital Security by reason of his having some connection with Hong Kong other than the mere holding of such Capital Security; or

(b) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any other law implementing or complying with, or introduced in order to conform to, such Directive; or

(c) presented for payment by or on behalf of a holder who would be able to avoid such withholding or deduction by presenting the relevant Capital Security to another Paying Agent in a Member State of the European Union; or

(d) in respect of which the Certificate representing it is presented for payment more than 30 days after the Relevant Date except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on the last day of the period of 30 days assuming that day to have been a business day.

As used in these Conditions, **Relevant Date** means the date on which the payment first becomes due but, if the full amount of the money payable has not been received by the Principal Paying Agent, the Trustee or the Registrar on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect is duly given to the Securityholders by the Issuer in accordance with Condition 15.

10. PRESCRIPTION

Condition 10 of the Terms and Conditions of the Notes as set out in the Offering Circular is deemed to be deleted in its entirety and replaced with the following:

Claims against the Issuer for payment in respect of the Capital Securities will become void unless made within a period of 10 years (in the case of principal) and five years (in the case of Distribution) after the Relevant Date (as defined in Condition 9) therefor.

11. EVENTS OF DEFAULT AND ENFORCEMENT

11.1 Events of Default relating to Senior Notes

Condition 11.1 of the Terms and Conditions of the Notes as set out in the Offering Circular does not apply to the Capital Securities.

11.2 Events of Default relating to Subordinated Notes

Condition 11.2 of the Terms and Conditions of the Notes as set out in the Offering Circular does not apply to the Capital Securities.

The following Condition 11.2A shall be inserted after Condition 11.2:

11.2A Events of Default and Winding-up Proceedings

If default is made in the payment of any amount of principal or Distribution in respect of the Capital Securities on the due date for payment thereof and such failure continues for a period of seven days in the case of principal or 14 days in the case of Distribution (each, an **Event of Default**) then in order to enforce the obligations of the Issuer, the Trustee at its sole discretion may and, if so requested in writing by holders of at least 25 per cent. in principal amount of the outstanding Capital Securities or if so directed by an Extraordinary Resolution (as defined in the Trust Deed), shall (subject to the Trustee having been indemnified and/or provided with security and/or put in funds to its satisfaction) institute a Winding-Up Proceeding against the Issuer. For the avoidance of doubt, no Distribution will be due and payable if such Distribution has been cancelled or is deemed cancelled (in each case, in whole or in part) in accordance with these Conditions. Accordingly, no default in payment under the Capital Securities will have occurred or be deemed to have occurred for the non-payment of any Distribution that has been so cancelled or deemed cancelled.

If an order is made or an effective resolution is passed for the Winding-Up of the Issuer (whether or not an Event of Default has occurred and is continuing) then the Trustee at its sole discretion may and, if so requested in writing by holders of at least 25 per cent. in principal amount of the outstanding Capital Securities or if so directed by an Extraordinary Resolution, shall (subject to the Trustee having been indemnified and/or provided with security and/or put in funds to its satisfaction) give written notice to the Issuer declaring the Capital Securities to be immediately due and payable, whereupon they shall become immediately due and payable at their outstanding principal amount together (if appropriate) with Distributions accrued to (but excluding) the date of actual payment, subject to adjustment following the occurrence of a Non-Viability Event in accordance with Condition 6C, without further action or formality.

In these Conditions:

Winding-Up Proceedings shall mean, with respect to the Issuer, proceedings in Hong Kong in respect of the Issuer for the bankruptcy, liquidation, winding-up, receivership, or other similar proceeding of the Issuer.

11.3 Enforcement

Condition 11.3 of the Terms and Conditions of the Notes as set out in the Offering Circular is deemed to be deleted in its entirety and replaced with the following:

(a) Without prejudice to Condition 11.2A, the Trustee may at any time and if the Issuer fails to perform, observe or comply with any obligation, condition or provision relating to the Capital Securities binding on it under these Conditions or the Trust Deed (other than any obligation of the Issuer for the payment of any principal or Distributions in respect of the Capital Securities), subject as provided below, at its discretion and without further notice, institute such proceedings against the Issuer as it may think fit to enforce such obligation, condition or provision provided that the Issuer shall not as a consequence of such proceedings be obliged to pay any sum or sums representing or measured by reference to principal or Distributions in respect of the Capital Securities sooner than the same would otherwise have been payable by it.

(b) The Trustee shall not be bound to take action as referred to in Conditions 11.2A and 11.3(a) or any other action under these Conditions or the Trust Deed unless (i) it shall have been so requested in writing by Securityholders holding at least 25 per cent. in principal amount of the Capital Securities then outstanding or if so directed by an Extraordinary Resolution of the Securityholders and (ii) it shall have been indemnified and/or secured and/or put in funds to its satisfaction. No Securityholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails to do so within a reasonable period and such failure is continuing.

(c) Subject to applicable laws, no remedy (including the exercise of any right of set-off or analogous event) other than those provided for in Condition 11.2A and Conditions 11.3(a) and (b) above or submitting a claim in the Winding-Up of the Issuer will be available to the Trustee or the Securityholders.

(d) No Securityholder shall be entitled either to institute proceedings for the Winding-Up of the Issuer or to submit a claim in such Winding-Up, except that if the Trustee, having become bound to institute such proceedings as aforesaid, fails to do so, or, being able and bound to submit a claim in such Winding-Up, fails to do so, in each case within a reasonable period and such failure is continuing, then any such Securityholder may, on giving an indemnity satisfactory to the Trustee, in the name of the Trustee (but not otherwise), himself institute Winding-Up Proceedings and/or submit a claim in the Winding-Up of the Issuer to the same extent (but not further or otherwise) that the Trustee would have been entitled to do.

12. REPLACEMENT OF NOTES, RECEIPTS, COUPONS AND TALONS

Condition 12 of the Terms and Conditions of the Notes as set out in the Offering Circular does not apply to the Capital Securities.

The following Condition 12A shall be inserted after Condition 12:

12A REPLACEMENT OF CAPITAL SECURITIES

Should any Certificate be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Registrar or the Transfer Agent upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

13. PRINCIPAL PAYING AGENT, REGISTRAR, PAYING AND TRANSFER AGENTS

Condition 13 of the Terms and Conditions of the Notes as set out in the Offering Circular is deemed to be deleted in its entirety and replaced with the following:

The names of the initial Principal Paying Agent, the other initial Paying Agents, the initial Registrar and the other initial Transfer Agents are their initial specified offices are set out in the Agency Agreement.

The Issuer is entitled, with the prior written approval of the Trustee, to vary or terminate the appointment of any Paying Agent, Registrar or Transfer Agent and/or appoint additional or other Paying Agents, Registrars or Transfer Agents and/or approve any change in the specified office through any of the same acts, provided that:

(a) there will at all times be a Principal Paying Agent and a Registrar;

(b) so long as the Capital Securities are listed on any stock exchange or admitted to trading by any other relevant authority, there will at all times be a Registrar and Transfer Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority; and

there will at all times be a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to any law implementing the European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive. Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Securityholders in accordance with Condition 15.

In acting under the Agency Agreement, the Principal Paying Agent, the Paying Agents, the Registrar or the Transfer Agent act solely as agents of the Issuer and, in certain circumstances specified therein, of the Trustee and do not assume any obligation to, or relationship of agency with, any Securityholders. The Agency Agreement contains provisions permitting any entity into which any Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor paying agent.

14. EXCHANGE OF TALONS

Condition 14 of the Terms and Conditions of the Notes as set out in the Offering Circular does not apply to the Capital Securities.

15. NOTICES

Condition 15 of the Terms and Conditions of the Notes as set out in the Offering Circular is deemed to be deleted in its entirety and replaced with the following:

All notices regarding the Capital Securities will be deemed to be validly given if (a) sent by first class mail or (if posted to an address overseas) by airmail to the Securityholders (or the first named of joint Securityholders) at their respective addresses recorded in the Register and will be deemed to have been given on the third day after mailing and (b) if and for so long as the Capital Securities are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules.

Until such time as any definitive Capital Securities are issued, there may, so long as any Global Notes representing the Capital Securities are held in their entirety on behalf of Euroclear and/or Clearstream, Luxembourg, be substituted for such publication in such newspaper(s) or such mailing the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to the Securityholders of the Capital Securities and, in addition, for so long as any Capital Securities are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules. Any such notice shall be deemed to have been given to the Securityholder of the Capital Securities on the first day after the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg.

Notices to be given by any Securityholder shall be in writing and given by lodging the same, together (in the case of any Capital Security in definitive form) with the relative Capital Security or Capital Securities, with the Principal Paying Agent (in the case if Capital Securities in bearer form) or the Registrar (in the case of Capital Securities in registered form). Whilst any of the Capital Securities are represented by a Global Note, such notice may be given by any Securityholder of a Capital Security to the Principal Paying Agent or the Registrar through Euroclear and/or Clearstream, Luxembourg, as the case may be, in such manner as the Principal Paying Agent, the Registrar and Euroclear and/or Clearstream, Luxembourg, in such manner as the Principal Paying Agent, the Registrar and Euroclear and/or Clearstream, Luxembourg, as the case may be, may approve for this purpose.

16. MEETINGS OF NOTEHOLDERS, MODIFICATIONS AND CONSOLIDATIONS

Condition 16 of the Terms and Conditions of the Notes as set out in the Offering Circular does not apply to the Capital Securities.

The following Condition 16A shall be inserted after Condition 16:

16A MEETINGS OF SECURITYHOLDERS, MODIFICATIONS AND CONSOLIDATIONS

16A.1 Meetings of Securityholders

The Trust Deed contains provisions for convening meetings of the Securityholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Capital Securities or any of the provisions of the Trust Deed. Such a meeting may be convened by the Issuer or Securityholders holding not less than 10 per cent. in nominal amount of the Capital Securities for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing more than 50 per cent. in principal amount of the Capital Securities for the time being outstanding, or at any adjourned meeting one or more persons being or representing Securityholders whatever the nominal amount of the Capital Securities so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Capital Securities or the Trust Deed (including modifying or any date for payment of Distribution thereon, reducing or cancelling the amount of principal or Distribution Rate in respect of the Capital Securities or altering the currency of payment of the Capital Securities) the quorum shall be one or more persons holding or representing not less than two-thirds in principal amount of the Capital Securities for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third in principal amount of the Capital Securities for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Securityholders shall be binding on all the Securityholders, whether or not they are present at the meeting.

16A.2 Modifications and Waivers

The Trustee may agree, without the consent of the Securityholders to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Capital Securities or the Trust Deed, or determine, without any such consent as aforesaid, that any Event of Default or Notification Event (as defined in the Trust Deed) shall not be treated as such, where, in any such case, it is not, in the opinion of the Trustee, materially prejudicial to the interests of the Securityholders so to do or may agree, without any such consent as aforesaid, to any modification which is of a formal, minor or technical nature or to correct a manifest error or an error which is, in the opinion of the Trustee, proven or to comply with mandatory provisions of law. Any such modification shall be binding on the Securityholders and any such modification shall be notified to the Securityholders in accordance with Condition 15 as soon as practicable thereafter.

16A.3 Consolidation, Merger and Sale of Assets

Except as provided in Condition 17, the Issuer shall not consolidate with or merge into any other company or entity, and the Issuer may not, directly or indirectly, sell, convey, transfer or lease all or substantially all of its properties and assets to any company or other entity unless:

(a) the company or other entity formed by or surviving such consolidation or merger or the person, company or other entity which acquires by conveyance or transfer, or which leases, all or substantially all of the properties and assets of the Issuer shall expressly assume by way of supplemental trust deed the due and punctual payment of the principal of, and Distribution on, the Capital Securities and the performance of the Capital Securities, the Trust Deed and the Agency Agreement on the part of the Issuer to be performed or observed;

(b) immediately after giving effect to such transaction, no Event of Default with respect to the Capital Securities, and no event, which after notice or lapse of time, or both, would become an Event of Default with respect to the Capital Securities, shall have happened and be continuing;

(c) the Issuer has delivered to the Trustee (in form and substance satisfactory to the Trustee) (i) a certificate signed by two Directors of the Issuer and (ii) an opinion of independent legal advisers of recognised standing (acceptable to the Trustee) stating that such consolidation, merger, conveyance, transfer or lease and any such supplemental trust deed comply with this Condition 16A.3 and that all conditions precedent relating to such transaction have been complied with; and

(d) immediately after giving effect to such consolidation, amalgamation or merger of the Issuer, no internationally recognised rating agency has in respect of the Capital Securities, issued any notice downgrading its credit rating for such Capital Securities or indicating that it intends to downgrade its credit rating for such Capital Securities.

16A.4 Exercise of Trustee's Powers etc

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the general interests of the Securityholders as a class (but shall not have regard to any interests arising from circumstances particular to individual Securityholders whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Securityholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Securityholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Securityholders except to the extent already provided for in Condition 9 and/or any undertaking or covenant given in addition to, or in substitution for, Condition 9 pursuant to the Trust Deed.

17. SUBSTITUTION

Condition 17 of the Terms and Conditions of the Notes as set out in the Offering Circular does not apply to the Capital Securities.

18. INDEMNIFICATION OF THE TRUSTEE AND ITS CONTRACTING WITH THE ISSUER

18.1 Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified and/or secured and/or put in funds to its satisfaction.

18.2 Trustee Contracting with the Issuer

Condition 18.2 of the Terms and Conditions of the Notes as set out in the Offering Circular is deemed to be deleted in its entirety and replaced with the following:

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, inter alia, (a) to enter into business transactions with the Issuer and/or any of the Issuer's Subsidiaries and to act as trustee for the Securityholders of any other securities issued or guaranteed by, or relating to, the Issuer and/or any of the Issuer's Subsidiaries, (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Securityholders, and (c) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

19. FURTHER ISSUES

Condition 19 of the Terms and Conditions of the Notes as set out in the Offering Circular does not apply to the Capital Securities.

20. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

Condition 20 of the Terms and Conditions of the Notes as set out in the Offering Circular is deemed to be deleted in its entirety and replaced with the following:

No person shall have any right to enforce any term or condition of this Capital Security under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

21. GOVERNING LAW AND SUBMISSION TO JURISDICTION

21.1 Governing law

Condition 21.1 of the Terms and Conditions of the Notes as set out in the Offering Circular is deemed to be deleted in its entirety and replaced with the following:

The Trust Deed, the Capital Securities, and any non-contractual obligations arising out of or in connection with the Trust Deed, the Capital Securities are governed by, and shall be construed in accordance with, English law, except that the subordination provisions set out in Condition 3.3(a) and Clause 7 of the Trust Deed shall be governed by and construed in accordance with the laws of Hong Kong.

21.2 Submission to jurisdiction

Condition 21.2 of the Terms and Conditions of the Notes as set out in the Offering Circular is deemed to be deleted in its entirety and replaced with the following:

(a) Subject to Condition 21.2(c) below, the English courts have exclusive jurisdiction to settle any dispute arising out of or in connection with the Trust Deed, the Capital Securities, including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity and any dispute relating to any non-contractual obligations arising out of or in connection with the Trust Deed, the Capital Securities (a **Dispute**) and all Disputes will be submitted to the exclusive jurisdiction of the English courts.

(b) For the purposes of this Condition 21.2, the Issuer waives any objection to the English courts on the grounds that they are an inconvenient or inappropriate forum to settle any Dispute.

(c) This Condition 21.2(c) is for the benefit of the Trustee, the Securityholders only. To the extent allowed by law, the Trustee, the Securityholders may, in respect of any Dispute or Disputes, take (i) proceedings in any other court with jurisdiction; and (ii) concurrent proceedings in any number of jurisdictions.

21.3 Appointment of Process Agent

The Issuer irrevocably appoints Hackwood Secretaries Limited at its specified office for the time being as its agent for service of process in any proceedings before the English courts in relation to any Dispute, and agrees that, in the event of Hackwood Secretaries Limited being unable or unwilling for any reason so to act, it will immediately appoint another person approved by the Trustee as its agent for service of process in England in respect of any Dispute. The Issuer agrees that failure by a process agent to notify it of any process will not invalidate service. Nothing herein shall affect the right to serve process in any other manner permitted by law.

FORM OF PRICING SUPPLEMENT

10 April 2014

CHINA CITIC BANK INTERNATIONAL LIMITED
中信銀行（國際）有限公司

Issue of U.S.$300,000,000 7.25 per cent. Undated Non-Cumulative Subordinated Additional Tier 1 Capital Securities under the U.S.$2,000,000,000 Medium Term Note Programme

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the offering circular dated 16 October 2013 (the "**Original Offering Circular**"), the supplemental offering circular dated 10 April 2014 (the Supplemental Offering Circular and together with the Original Offering Circular, the "**Offering Circular**"). This document constitutes the Pricing Supplement relating to the issue of Capital Securities described herein. The detailed terms and conditions of the Capital Securities are set out in the Schedule hereto and form part of the Pricing Supplement.

This Pricing Supplement contains the final terms of the Capital Securities and must be read in conjunction with the Offering Circular and the Schedule hereto. In particular, investors in the Capital Securities should read the section titled "Investment Considerations" contained in the Original Offering Circular and the Supplemental Offering Circular, including but not limited to the risk factor titled "The terms of Subordinated Notes may contain non-viability loss absorption provisions", which apply to the issue of Capital Securities described herein.

1.	Issuer	China CITIC Bank International Limited 中信銀行（國際）有限公司 (formerly known as CITIC Bank International Limited)
2.	(a) Series Number:	8
	(b) Tranche Number:	1
3.	Issue Date:	22 April 2014
4.	Net Proceeds:	U.S.$298,354,000
5.	Listing:	The Stock Exchange of Hong Kong Limited (the "**SEHK**"). It is expected that dealing in, and listing of, the Capital Securities on the SEHK will commence on or about 23 April 2014
6.	U.S. Selling Restrictions:	Reg. S Category 2; TEFRA not applicable
7.	Any clearing system(s) other than Euroclear and Clearstream, Luxembourg and the relevant identification number(s):	Not Applicable
8.	Delivery:	Delivery against payment

9.	(a) If syndicated, names of Managers:	Citigroup Global Markets Limited The Hongkong and Shanghai Banking Corporation Limited The Royal Bank of Scotland plc Australia and New Zealand Banking Group Limited 澳新銀行集團有限公司 Banco Bilbao Vizcaya Argentaria, S.A. CLSA Limited 中信里昂證券有限公司
	(b) Stabilising Manager(s) (if any):	The Royal Bank of Scotland plc
10.	Additional Paying Agent(s) (if any):	Not Applicable
	ISIN:	XS1055321993
	Common Code:	105532199
11.	Ratings:	The Capital Securities to be issued have been rated Ba3 by Moody's

LISTING APPLICATION

This Pricing Supplement comprises the pricing supplement required to list the issue of Capital Securities described herein pursuant to the U.S.$2,000,000,000 Medium Term Note Programme of China CITIC Bank International Limited.

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement.

Signed on behalf of the Issuer:

By:

Duly authorised

SCHEDULE

TERMS AND CONDITIONS OF THE CAPITAL SECURITIES

The text of the Terms and Conditions of the Capital Securities will be inserted in the Schedule of the Pricing Supplement.

CAPITALISATION

The following table sets forth the consolidated capitalisation of the Group as at 31 December 2013. The information as at 31 December 2013 has been derived from the audited financial statements of the Group as at 31 December 2013. This table should be read in conjunction with the audited financial statements of the Group as at 31 December 2013, including the notes thereto, included elsewhere in this Supplement.

Short-term funding and long-term funding

	As at 31 December 2013	
	2013	**2013**
	HK$	*US$*[1]
		(in millions)
Short-term borrowings[2]**:**		
Deposits and balances of banks and financial institutions	7,522.4	964.4
Deposits of customers, short-term portion[3]	150,947.0	19,352.2
Certificates of deposits, short-term portion[4]	13,986.0	1,793.1
Debt securities issued	1,151.3	147.6
Loan capital	—	—
Total short-term liabilities	173,606.7	22,257.3
Capitalisations:		
Long-term borrowings[5]		
Deposits of customers, long-term portion[3]	3,711.9	475.9
Certificate of deposits, long-term portion[4]	2,189.1	280.6
Debt issued	—	—
Loan capital	8,657.6	1,109.9
Total long-term liabilities	14,558.6	1,866.4
Share capital[6]	7,283.3	933.8
Reserves	9,892.7	1,268.3
Shareholders' equity	17,176.0	2,202.1
Total capitalisation[7] [8]	31,734.6	4,068.5

Notes:

(1) Translated at the rate of HK$7.80 = US$1.00.

(2) Short-term borrowings represent borrowings with a remaining maturity of one year or less or borrowings that are repayable on demand.

(3) As at 31 December 2013, deposits of customers (short-term and long-term) amounted to HK$154,659 million (US$19,828.1 million).

(4) As at 31 December 2013, certificates of deposits (short-term and long-term) amounted to HK$16,175.2 million (US$2,073.7 million).

(5) Long-term borrowings represent borrowings with a remaining maturity of more than one year.

(6) As at the date of this Offering Circular, the total authorised share capital of the Bank is HK$8,000,000,000 divided into 8,000,000,000 ordinary shares of par value HK$1.00 each, and the issued share capital is HK$7,283,341,176 divided into 7,283,341,176 ordinary shares of HK$1.00 each. All of the Bank's issued share capital comprises fully paid shares.

(7) Total capitalisation represents the sum of total long-term liabilities and shareholders' equity.

(8) Save as disclosed above, there has been no material change in the consolidated capitalisation of the Bank since 31 December 2013.

DESCRIPTION OF THE ISSUER

The section titled "Description of the Issuer" in the Offering Circular shall be replaced by the following in its entirety.

The Bank is incorporated and licensed in Hong Kong with business operations and presence spanning across Hong Kong, Macau, the PRC, the United States, Singapore and the Cayman Islands. It is wholly-owned by CITIC International Financial Holdings Limited ("**CIFH**"), which in turn is 70.32 per cent. owned by China CITIC Bank Corporation Limited ("**CNCB**"), and 29.68 per cent. owned by Banco Bilbao Vizcaya Argentaria, S.A. ("**BBVA**") of Spain. CNCB is 66.95 per cent. owned by CITIC Limited, which is a wholly owned subsidiary of CITIC Group Corporation ("**CITIC**" or the "**CITIC Group**") and 9.9 per cent. owned by BBVA. By providing value-creating financial solutions in order to define and exceed the wealth management and international business objectives of its Greater China and overseas customers, the Bank aspires to be the "China Bank of Choice" with the best international standards and capabilities.

As at the date of this Supplement, the Bank had a network of 36 branches in Hong Kong, and a branch each in Macau, Shanghai, New York, Los Angeles, Singapore and the Cayman Islands. The Bank's wholly-owned subsidiary, HKCB Finance Limited ("**HKCBF**"), specialises in consumer credit and related services in Hong Kong while its PRC-incorporated wholly-owned subsidiary, CITIC Bank International (China) Limited ("**CBI China**"), is headquartered in Shenzhen with branches in Beijing and Shanghai.

The Bank is an integral part of CITIC Group's international commercial banking strategy. It is CITIC's vehicle for developing commercial banking businesses in Hong Kong, and the commercial banking platform for business expansion in Asia for CITIC and BBVA. In an effort to drive CITIC's strategy to restructure and align its Hong Kong and mainland Chinese commercial banking businesses operated through the Bank and CNCB, respectively, CITIC privatised CIFH in November 2008 to facilitate and maximise the synergy from the tripartite Restructuring Strategy between the Bank, CNCB and BBVA. (See "Principal Shareholders — CITIC International Financial Holdings Limited".) Aside from this, CITIC also transferred all its holdings in CIFH to CNCB for a cash consideration of approximately HK$13.6 billion (US$1.7 billion) ("CIFH Acquisition"). The CIFH Acquisition was completed on 23 October 2009.

The Bank believes it has the following competitive advantages:

- International management standards — the Bank is independently managed by a team of qualified international banking professionals who are committed to international standards, business excellence and corporate governance;
- Mainland Chinese parentage — the Bank offers depth of knowledge and market connectivity in the PRC through its strong ties with and support from CNCB and its ultimate parent, CITIC;
- One-stop cross-border financial solutions — the Bank has a business model structured strategically for offering effective and timely one-stop financial solutions to customers with cross-border banking and financial needs, and for capturing cross-border opportunities entailed by Hong Kong's role as an offshore RMB centre;
- Customer-centric culture — the Bank has a customer-centric culture with a focus on upholding transparency, professionalism, discipline, innovation and progressiveness; and
- Strategic business position — the Bank is designated as the international commercial banking platform for CITIC and CNCB.

For the year ended 31 December 2013, the Group reported consolidated net profits of HK$2,135.5 million (US$273.8 million), representing an increase of 37.2 per cent, as compared to the corresponding period of the previous year. For the year ended 31 December 2012, the Group reported consolidated net profits of HK$1,556.6 million (US$199.6 million), representing an increase of 10.4 per cent. as compared to the corresponding period of the previous year. As at 31 December 2013, the Group had consolidated total assets, total loans (including trading bills) and total customer deposits and certificates of deposit issued of HK$216.3 billion (US$27.7 billion), HK$127.0 billion (US$16.3 billion) and HK$170.8 billion (US$21.9 billion), respectively, and its capital adequacy ratio, loans to deposits ratio, loans to total assets ratio and average liquidity ratio were 16.5 per cent., 74.4 per cent., 58.7 per cent. and 55.3 per cent., respectively.

The Bank's operations currently comprise four main lines of business: Personal & Business Banking Group ("**PBG**"), Wholesale and Cross-border Banking Group ("**WBG**"), International Banking Group ("**IBG**") and Treasury and Markets Group ("**TMG**").

The principal operations of the Bank's four main lines of business are as follows:

Personal & Business Banking Group

The objective of PBG is to be the preferred and trusted wealth management partner for affluent customers in Greater China, optimising wealth creation and protection through value enhancing solutions and services in tune with the goals and aspirations of its customers. Its products and services primarily comprise general banking and wealth management services for individuals, mortgage lending, consumer lending and credit cards, insurance services, as well as banking solutions for small- and medium-sized enterprises ("**SMEs**"). These are offered through a multi-channel distribution system which comprises retail branches, direct sales, automated teller machines, a 24-hour call centre, i-banking, phone banking and mobile banking.

Wholesale and Cross-border Banking Group

WBG is strategically positioned to be a full-service banking partner for Greater China and international corporates seeking, or active in, cross-border businesses and investments in the PRC. Its target customers include local Hong Kong and PRC companies, multinational companies, public and privately-owned middle market companies, banks and non-bank financial institutions. It strives to offer these customers tailored and value-enhancing solutions including products and services such as syndicated loans, structured finance, project finance, trade finance, working capital finance, bridging finance, property development and investment finance, as well as global markets and insurance products. WBG's key business units include China and Cross-border Banking ("**CBB**"), Multinational and Cross-border Banking ("**MCB**"), Financial Institutions and Public Sector ("**FI&PS**") and Structured Finance ("**SF**").

International Banking Group

In January 2010, IBG was established to strengthen the support needed for the implementation of the Bank's international strategy. IBG assumed responsibility from WBG for the governance, operations and overall general management of all overseas branches (other than branches and subsidiaries in China) of the Bank while sharing profit and loss responsibility with respective functional business heads. IBG's responsibilities for overseas branches do not include branches and subsidiaries in China which remain the responsibility of WBG.

Treasury and Markets Group

TMG performs the dual function of managing the Bank's liquidity and risk exposures, and developing customer-driven trading and distribution capabilities for the Bank. One of TMG's principal roles lies in asset and liability management for the Bank. Under the oversight of the ALCO, TMG's functions include liquidity management, funding and financing in the money markets and capital markets, and the management of the Bank's trading and investment portfolios. TMG is also responsible for developing the Bank's customer-related treasury business. Apart from offering traditional liabilities hedging solutions, TMG also offers wealth management solutions to customers and works closely with PBG and WBG to cross-sell packaged and tailored structured solutions to the Bank's retail and corporate customers.

History

The history of the Bank dates back to February 1922 with the inception of Ka Wah Ngan Ho in Guangzhou, China. In 1924, Ka Wah Ngan Ho was incorporated as a limited company in Hong Kong under the Hong Kong Companies Ordinance under the name of The Ka Wah Savings Bank Limited, which subsequently became The Ka Wah Bank Limited in January 1949. In July 1980, the Bank made an initial public offer of 35,000,000 ordinary shares of HK$1.00 par value per share. The Bank experienced financial difficulties in 1985 as a result of adverse economic conditions in Hong Kong and incurred substantial losses. This led to the restructuring of the bank with an investment injection of HK$350 million in June 1986 by CITIC, which is now the ultimate controlling shareholder of the Bank. CITIC was approved by the State Council of the People Republic of China and established in 1979. It is a large transnational conglomerate whose core business lies in the financial services industry. CITIC currently has interests in two commercial banks, namely China CITIC Bank International Limited and China CITIC Bank Corporation Limited, and in a variety of non-bank financial businesses which cover investment banking and securities brokerage, trust services, insurance, fund management, asset management, futures and others more.

In 1998, the Bank underwent a management restructuring and transformed from a small-sized bank managed predominantly by bankers from the PRC into a medium-sized bank managed predominantly by professionals recruited from international commercial banks in Hong Kong. In July 1998, the Bank changed its name to CITIC Ka Wah Bank Limited to underscore its relationship with CITIC and expanded its operations substantially in a move to reposition itself as a progressive, customer-centric bank while serving as a platform for the acquisition of The Hongkong Chinese Bank, Limited ("**HKCB**"). Reforms were implemented across most areas of the bank, including core business areas of retail banking, wholesale and cross-border banking, international banking and treasury, to improve the management and operating efficiency of its businesses. The Bank also invested in information technology infrastructure, and enhancement and development of products.

On 17 January 2002, the bank completed the acquisition of the entire issued share capital of HKCB for an aggregate consideration of HK$4.2 billion. On 25 November 2002, the merger of the Bank and HKCB was completed after the Bank transferred most of its commercial banking assets and liabilities to HKCB and changed its name into "CITIC International Financial Holdings Limited". CIFH maintained its listing status and became the holding company of a group of reorganised banking and financial services companies. At the same time, HKCB adopted the name of CITIC Ka Wah Bank Limited and continued to operate the integrated commercial banking business of the merged entities.

On 1 March 2007, CIFH and BBVA completed a strategic alliance agreement which involved BBVA taking a 14.58 per cent. stake in CIFH. On 3 June 2008, CITIC, through Gloryshare Investments Limited, proposed to privatise CIFH by way of Scheme of Arrangement (the "**Proposed Privatisation**") as part of its Restructuring Strategy to align its commercial banking businesses in Hong Kong and Mainland China (See Principal Shareholders — CITIC International Financial Holdings Limited). On 16 October 2008, CIFH's independent shareholders approved the Proposed Privatisation. On 5 November 2008, CIFH was delisted from the Hong Kong Stock Exchange and on the same day, BBVA's stake in CIFH increased from 14.58 per cent. to 29.68 per cent. The strategic investment in CNCB held by CIFH was proportionately transferred to CITIC and BBVA in December 2008, and BBVA became the sole foreign strategic investor in CNCB. As at the date of this Supplement, BBVA owned approximately 9.9 per cent. of the issued share capital of CNCB.

As part of the Restructuring Strategy, CITIC reaffirmed the role of the Bank as its exclusive vehicle for developing commercial banking business in Hong Kong and as the international commercial banking platform for business expansion in Asia for CITIC and BBVA. On 8 May 2009, CNCB announced the CIFH Acquisition which was approved at CNCB's annual general meeting held on 29 June 2009 and was completed on 23 October 2009.

On 7 May 2010, CITIC Ka Wah Bank Limited changed its name to CITIC Bank International Limited and again on 16 November 2012 to China CITIC Bank International Limited with an aim to put further emphasis on its role as CNCB's offshore platform for pursuing business expansion in Hong Kong and internationally.

On 26 March 2014, CITIC Pacific Limited ("CITIC Pacific") announced that it has entered into a framework agreement with CITIC Group Corporation and Beijing CITIC Enterprise Management Co., Ltd relating to the issued shares of CITIC Limited, which as at the date of this Supplement has an effective interest of 47.08 per cent. in the Bank. Please refer to the announcement dated 26 March 2014 published by CITIC Pacific on SEHK.

The following chart offers a simplified overview of the corporate structure of CITIC Group as at the date of this Supplement, showing its business lines, major subsidiaries and associated companies:

Strategy

Hong Kong is known across the world for its mature and highly sophisticated banking and financial services industry which has over the last two decades been characterised by intense competition posed by local and multinational financial institutions vying for opportunities from mainland China's growing prominence and the liberalisation of the country's banking industry since 2005. Major Chinese financial institutions, especially those with H-share listings in Hong Kong, have started to embrace internationalisation strategies and leverage Hong Kong as a strategic springboard for overseas expansion. Since 2006, Chinese banks have been active in acquiring Hong Kong commercial banks as a means gain immediate access to branch networks as well as operational presence in Hong Kong and abroad. As a result, smaller local and family-owned commercial banks in Hong Kong were increasingly prone to acquisition or marginalisation.

As an integral part of CITIC's international commercial banking franchise and its Hong Kong and offshore business development platform, the Bank is positioned to compete through its business model, which underpins its close collaboration with CNCB, to offer effective and timely one-stop financial solutions to customers with cross-border banking and financial needs, and capture cross-border opportunities entailed by Hong Kong's role as an offshore RMB centre. Through the strategic tripartite alliance, with CNCB and BBVA, the Bank gains access to the world-class banking expertise and network of BBVA, especially to Latin America whose trade and investment ties with China grew significantly since 2001.

In pursuit of its objective of becoming the "China Bank of Choice" in Asia with international standards and capabilities, the Bank leverages its strategic role as the offshore commercial banking platform of CITIC in Hong Kong and Asia supported by tripartite collaboration between the Bank, CNCB and BBVA. The Bank's vision is to support the establishment and expansion of the CITIC international banking franchise. In order to achieve this, the Bank adopts a three-pronged approach of (i) strengthening its core business fundamentals; (ii) identifying and building new competencies that will enhance its capacity for serving customers with cross-border business and trade flows between Greater China and the rest of the world; and (iii) developing and providing cross-border RMB business and financial solutions.

The implementation of the three-pronged approach is summarised as follows:

Personal & Business Banking: Upscale to target affluent segment

PBG aims to be a leading provider of wealth management services to affluent customers in Greater China. The Bank has focused in recent years on building its wealth management franchise in the Hong Kong market. In order to differentiate its services and establish its unique competitive niche, the Bank created CITICfirst in March 2006, a wealth management offering that is targeted at affluent customers in Greater China. By 31 December 2013, CITICfirst had built a client base of over 23,900 customers, with total client assets under management exceeding HK$62.7 billion (US$8.0 billion). See "— Principal Business Activities — Personal & Business Banking Group — Business Portfolio — Wealth Management Services for Affluent Individuals". The Bank aims to continue to focus on this market segment and will strive to offer a greater diversity of innovative wealth management products and services in order to expand its market share in this segment. Efforts will also be made to identify and serve the cross-border wealth management needs of the growing PRC affluent customer segment, as Hong Kong establishes itself as an offshore RMB centre with the support of the PRC government.

Wholesale and Cross-border Banking: Position itself as customer's preferred cross-border-focused solutions bank

WBG aims to position itself as the preferred solutions provider for Greater China and overseas corporates seeking or active in cross-border businesses and investments in the region. WBG began focusing its efforts in 2005 to develop new markets, products and services, and repositioned its relationship management model. In order to further align with the Bank's business strategy and harness the focus of building a successful cross-border bank with distinctive competitive advantages, the Wholesale Banking Group and China Banking Group were combined to form a new Wholesale and Cross-border Banking Group in 2012. WBG continues to expand its scope of financial services and solutions to mid-cap and large corporate customers and expand the Bank's regional footprint by establishing branches and representative offices and building its regional customer base to capitalise on the trade and business flows between Greater China and the rest of the region.

WBG will place an emphasis on executing the cross-border strategy with CNCB. The two banks will systematically develop an integrated product, service and system platform for their corporate clientele, and build complementary competencies in customer resources, professional know-how, product offering, service quality as well as risk management capability.

International Banking: Strengthen and expand overseas branches as the offshore business platform for CNCB

In January 2010, IBG was established to strengthen the support needed for the implementation of the Bank's international strategy. The objectives of IBG include the identification of countries and regions that present opportunities for return and growth of the Bank brand and ensuring that all existing overseas operations are well supported to achieve targets and success.

The Bank established a branch in Singapore in 2011. The Singapore branch provides wholesale banking and global markets products and services to corporate and institutional clients.

The Singapore branch may become a regional hub for Southeast Asian clients as the Bank aims to target those corporations and institutional clients in the region owned or managed by Chinese entities. This is in line with the Bank's objective to become the "China Bank of Choice" in Asia.

Treasury and Markets: Establish global markets capabilities to drive customer-related income

TMG aims to improve on its traditional role of managing the Bank's liquidity and risk exposures. It plans to leverage on the expertise and capabilities of BBVA to develop and establish the Bank's global markets capabilities to expand its revenue sources and to meet the increasingly sophisticated demands of its customers. In particular, it aims to leverage on CNCB's foreign exchange market-making leadership in Mainland China to develop an offshore capital markets platform in Hong Kong to provide timely financial solutions to customers. It will work closely with CNCB and BBVA to expand its client base and to generate more customer flows by offering hedging tools such as non-deliverable currencies products and interest rate swaps, as well as structured products for yield enhancement. It will also focus on expanding its China-related businesses such as RMB-denominated trade settlement, RMB bond issuance and RMB initial public offering businesses in due course.

Strategic alliance between the Bank, CNCB and BBVA

On 1 March 2007, CIFH and BBVA entered into a strategic alliance agreement which involved BBVA taking a 14.58 per cent. stake in CIFH. On 5 November 2008, as part of CITIC's Restructuring Strategy, CIFH was privatised and delisted from the Hong Kong Stock Exchange, and on the same day, BBVA increased its stake in CIFH to 29.68 per cent. The strategic investment in CNCB held by CIFH was proportionately transferred to CITIC and BBVA in December 2008. On 8 May 2009, also as part of CITIC's Restructuring Strategy, CNCB announced the CIFH Acquisition which was completed on 23 October 2009. As at the date of this Supplement, BBVA owned approximately 9.9 per cent. of the issued share capital of CNCB. Subsequent to this, the Bank supports CNCB to expand its branch network to international financial centres, develop its commercial banking network internationally and provide one-stop financial solutions in addition to a wide variety of more applicable products, services and channels to satisfy customers' international banking needs. The Bank was renamed into CITIC Bank International Limited in May 2010 to underscore its role within the CNCB Group and to extend the CITIC commercial banking franchise's presence to the Southeast Asia region and beyond. In November 2012, the Bank took a step further in fulfilling its role as a member of CITIC Group and CNCB's offshore platform for international expansion, and changed its name into China CITIC Bank International Limited. The Bank also adopted the CNCB logo.

The strategic partnership between the Bank, CNCB and BBVA gives the Bank and CNCB access to BBVA's international banking expertise, regional capabilities and global distribution network, and allows BBVA to commit to using the Bank and CNCB as its platform for future expansion in Asia, especially in the areas of wholesale banking, global markets, international trade finance and private banking. This also supports the Bank's aspiration of becoming the "China Bank of Choice" in Asia with the best practices of the East and West, contributing to CITIC's goal of setting up a leading international commercial banking franchise. See

"Principal Shareholders— CITIC International Financial Holdings Limited — Strategic Alliance between the Bank, CNCB and BBVA".

The Bank believes that the successful execution of these strategies is vital to the Bank's capability for serving as an effective vehicle for the future development of the CITIC financial services brand internationally.

Awards

The Bank was presented various awards and accolades for its business, management and operational excellence in addition to its contribution to the Hong Kong community. In 2007, the Bank received a Silver Award in the Hong Kong Management Association Quality Award in recognition of its outstanding achievement in Total Quality Management through the implementation of the Malcolm Baldridge Management Model with an aim to uphold quality management practices.

On the business front, the Bank was named 2007 Retail Bank of the Year — Hong Kong by Asian Banking & Finance magazine and presented a 2007 Hong Kong Award for Industries: Productivity and Quality Awards by the Hong Kong Productivity Council. In 2009 and 2011, the Bank's private wealth management brand CITIC first received a Wealth Management Service Award from local finance magazine Capital Weekly. The magazine presented the Bank another award in the RMB banking category in 2011 and in December 2013 a PRO Choice Award in the wealth management category, which was followed by an accolade as Outstanding Wealth Management Platform in the Quamnet Outstanding Enterprise Awards 2013. Aside from this, the Bank was also presented an mtn-i Asia Pacific Landmark Deal Award from mtn-i in 2010 and 2011.

The Bank's commitment to employee development was recognised by a Best Practice Financial Services — Effective Training Award from Benchmark and Best Practice Management in 2009, the Manpower Developer 1st Award from the Employees Retraining Board and Certificate of Merit in the Award for Excellence in Training and Development by the Hong Kong Management Association in 2010. In April 2012, the Bank retained the Manpower Developer first accreditation by the Employees Re-training Board for another two years until March 2014. In the area of corporate social responsibility, the Bank was awarded a Gold Certificate by the Social Welfare Department's Volunteer Movement for the fifth consecutive year in 2012, and was named Caring Company for the 11th consecutive year by the Hong Kong Council of Social Service the following year.

Principal Business Activities

The Bank's operations currently comprise four main lines of business: PBG, WBG, IBG and TMG. China Banking, which was formed in early 2002 to establish and oversee the Bank's onshore network and business developments in the PRC as well as driving business and strategic collaborative efforts with CNCB, was combined with Wholesale Banking to form the Wholesale and Cross-border Banking Group in 2012.

The following table sets out the contribution to the operating income of the Group on a consolidated basis by each of the business groups of the Group for the periods indicated.

	For the year ended December 2012 and 2013		
	2012	**2013**	**2013**
	HK$	*HK$*	*US$*
		(in millions)	
Personal and Business Banking	1,384.0	1,542.5	197.8
Wholesale and Cross-border Banking	2,076.5	2,275.2	291.7
Treasury & Markets	189.4	924.9	118.6
Unallocated[1]	65.6	4.6	0.5

	For the year ended December 2012 and 2013		
	2012	**2013**	**2013**
	HK$	*HK$*	*US$*
		(in millions)	
Operating Income	3,715.5	4,747.2	608.6

Note:

(1) Including Bank premises and any items which cannot be reasonably allocated to specific business segments.

The following table sets out the profit before taxation from each of the business groups of the Group for the period indicated.

	For the year ended December 2012 and 2013		
	2012	**2013**	**2013**
	HK$	*HK$*	*US$*
		(in millions)	
Personal and Business Banking	561.6	577.9	74.1
Wholesale and Cross-border Banking	1,312.6	1,477.2	189.4
Treasury & Markets	25.4	726.9	93.2
Unallocated(1)(2)	(33.6)	(227.7)	(29.2)
Total profit before taxation	1,866.0	2,554.3	327.5

Notes:

(1) Including Bank premises and any items which cannot be reasonably allocated to specific business segments.

(2) Profit before taxation from "Unallocated" included net profit/(loss) on disposal of fixed assets and revaluation of investment properties of HK$50.3 million (US$6.4 million) and HK$18.9 million (US$2.4 million) for the years ended 31 December 2012 and 2013 respectively.

Personal & Business Banking Group

Overview

The Bank's strategy is to focus on serving affluent individuals and small business customers in Hong Kong and the PRC. Its objective is to become the preferred and trusted wealth management partner for affluent customers in Greater China, optimising wealth creation and protection through value enhancing solutions and services in tune with the goals and aspirations of its customers. PBG is a full retail service provider and its principal products and services for retail customers include home mortgage loans, consumer finance, credit cards, deposits and general banking services, private wealth management services including insurance and investment products; and for SMEs, these include hire purchase and leasing, taxi loans, small business loans and other banking solutions. The private wealth management segment is PBG's strategic growth driver, with deposits, mortgages and credit card as the typical entry relationship products.

Customer deposit gathering is a key focus for PBG in 2013. In the face of competition during the year, PBG grew its retail deposits by 13.8 per cent. compared with year end 2012 to HK$74.0 billion (US$9.5 billion) as at 31 December 2013. PBG successfully diversified its customer loan growth in 2013 due to tough mortgage market. PBG made good progress on growing lending to small- and medium-sized enterprises ("**SME**") and secured personal loans in 2013. The outstanding retail lending balance reached HK$37.1 billion (US$4.8 billion) as at 31 December 2013, representing a 4.4 per cent. growth compared with year end 2012. Net interest income amounted to HK$1,075.8 million (US$137.9 million) for the year ended 31 December 2013, representing a 16.9 per cent. increase over the previous year. The increase in net interest income resulted mainly from the effective funding cost management and the encouraging growth of customer loans and deposits.

In addition to interest income generated from lending to retail customers and small businesses, the Bank has also focused on growing its non-interest income through the distribution of a wide range of wealth management products which include stock trading, unit trusts, insurance products and structured products. For the year ended 31 December 2013, non-interest income amounted to HK$466.8 million (US$59.8 million), representing a 0.6 per cent. increase as compared to 2012, mainly due to volatile investment markets.

Over the past years, PBG has won various awards for its innovative and successful customer-oriented business model, including the "2002 Hong Kong Retail Management Association Customer Service Award" in recognition of its high service standard, the Hong Kong General Chamber of Commerce "Hong Kong Award for Services: Innovation Award" in 2003 for the Bank's innovative products, and the Hong Kong Retail Bank of the Year award by Asian Banking & Finance Magazine in 2007 for achieving record growth in a mature consumer banking market and successfully bringing private banking-like products to the retail segment. In addition, it was awarded the "Outstanding Retail Sales Volume — Gold Prize" by VISA International in 2004 and 2005, and the "Quality Recognition Award 2004" from JPMorgan acknowledging the Bank's quality excellence in its SWIFT payments. In 2009, CITIC first received the "Wealth Management Service Award" from local finance magazine Capital Weekly in its "Service Awards 2009". In April 2011, PBG received a Capital Weekly Service Award in the RMB Banking category and another award in the Wealth Management category from local finance magazine Capital Weekly's Service Awards 2011, in recognition of CITIC first's brand recognition by the market and its customers. In 2013, CITIC first received the "2013 Capital Weekly PRO Choice Award 2013 – Wealth Management Category" organized by local finance magazine Capital Weekly with an aim to acknowledge outstanding organizations that have excellent achievements and business outcomes and have made great contributions to the Hong Kong community. PBG's qualified wealth management relationship managers were also awarded two financial planner awards jointly organized by the Institute of Financial Planners of Hong Kong and South China Morning Post.

As the Bank continues to gear up to be the regional commercial banking platform for its tripartite alliance with CNCB and BBVA, PBG will prioritise the need to build a strengthened and integrated wealth management platform under a united CITIC brand to service the affluent segment in Greater China and Asia. In April 2011, PBG officially launched its private banking service to build a highly competitive CITIC private banking platform in Hong Kong. The Bank will leverage the private banking initiative of CNCB and BBVA by serving as the offshore banking platform for CNCB private banking customers. Efforts will be made to identify and serve the cross-border wealth management needs of the growing PRC affluent customer segment, as Hong Kong establishes itself as an offshore RMB centre with the support of the PRC government.

Business Portfolio

Wealth Management Services for Affluent Individuals

CITIC*first*. To capture opportunities arising from the growing affluence of the Greater China economies, PBG upgraded its wealth management competencies to serve affluent customers by introducing CITICfirst, which targets customers who have liquid net worth of HK$3 million or more. It is a hybrid service which combines private banking's tailor-made financial solutions that are typically only accessible to high net-worth individuals with US$1 million or more, with the convenience and diversity of banking services that are available to priority banking customers with assets of HK$500,000 to HK$1 million for investment purposes.

CITIC*first* places emphasis on helping customers define and develop optimised solutions to meet their financial goals and expectations. Its service model is built on a carefully structured expert portfolio management process aimed at systematically determining individual customers' financial needs, risk-return profiles, risk tolerances and investment preferences. Utilising a sophisticated and fully-integrated on-line system, the Bank's relationship managers develop modulised risk-return adjusted asset allocation recommendations and investment products tailored to the needs of each individual customer. The system continuously tracks each portfolio's realised and unrealised gains and losses, allowing the relationship managers to deliver timely portfolio monitoring and updates for individual customers.

Following its pilot launch to existing customers in October 2005, the full marketing launch of CITIC*first* was rolled out in March 2006, and by the end of 2013, CITIC*first* had attracted a total of over 23,900 customers with total client assets under management of HK$62.7 billion (US$8.0 billion). In addition, since the launch of CITIC*first*, the Bank has experienced a robust growth in service fee and commission income associated with unit trust products, securities and investment-linked products as well as bancassurance products. CITIC*first* continued to upgrade its wealth management process to enhance customers' understanding of their own risk appetite and wealth objectives. The upgraded process allows the Bank to derive more suitable wealth management strategies for its clients.

As at the date of this Supplement, the Bank operated 24 dedicated CITIC*first* banking centres located within its branches in Sheung Wan, Des Voeux Road West, Central, Admiralty, CITIC Tower, Harbour Road, Causeway Bay, Leighton Road, Wan Chai and North Point in Hong Kong; Jordan, Tsim Sha Tsui, Ho Man Tin, Mongkok, Kowloon City, Mei Foo, Hoi Yuen Road and Kwun Tong in Kowloon; Tseung Kwan O, Tsuen Wan, Shatin, Tai Wai, Tai Po and Yuen Long in the New Territories. Dedicated teller counters are also available at all branches.

With the CITIC*first* wealth management service, the Bank has a foundation in serving high net-worth clientele. The Bank has seen an increase in demand from its high net-worth customers requesting customised wealth management solutions. To cope with this rising business need, the Bank has decided to establish a private banking service focusing on high net-worth individuals and corporations.

Initially, it will focus on upgrading eligible CITIC*first* customers, new customer acquisition with particular attention on those seeking to create wealth, protecting wealth which includes risk diversification and passing assets to their next generation. The entry level of the new private banking service will be set at US$1 million. It aims at providing investment management solutions as well as regular banking services to the high net worth segment.

Investment products. The Bank offers a comprehensive range of investment products to meet the risk diversification and yield enhancement needs of its customers. Investment products of PBG consist primarily of stocks, bonds, unit trusts and structured products. The Bank offers its customers stock trading services through its branch network as well as its i-banking and call centre channels. Stock trading orders are passed on to the Bank's affiliate, CITIC Securities International Company Limited. The Bank currently distributes unit trusts from global fund companies (including regional equities funds and global balanced money market funds, and individual bonds and equities), and a range of structured products of TMG and other third party investment banks.

The Bank offers online US stock trading services through its i-banking platform. All US stock trading orders are executed by Automatic Data Processing ("**ADP**"), an independent computing services company in the United States that handles equities trades. ADP acts as the Bank's execution broker to order execution and clearing services.

Insurance products. The Bank has established non-exclusive strategic alliances with Manulife (International) Limited ("**Manulife**") and China Life Insurance (Overseas) Co. Ltd. ("**China Life**") to distribute a range of insurance products to the Bank's retail customers. These life insurance products are distributed through the Bank's branch network, CITICfirst centres. The Bank distributes a series of retirement plans (eg. MyChoice & Enjoyable Guaranteed Annuity Plan), limited pay whole life protection plans (e.g. Premier Estate Protector Series and La Vie) and short-term endowment plans (e.g. Wise Choice series and Elite 5). The dual partnership arrangement with Manulife and China Life will ensure that the Bank has the ability to offer a diversified range of wealth planning solutions to suit its customers' savings and protection needs.

Lending to Individual Customers

Mortgages. Residential mortgages represent the largest segment of PBG's total loans to customers. The majority of residential mortgage loans is extended to homeowners and all residential mortgage loans are secured by a first legal charge on the property. These typically have floating interest rates and average loan maturity is approximately 20 years. The Bank offers a comprehensive range of mortgage plans that are linked to the prime lending rate or HIBOR, card repayment mortgages and composite rate mortgage loans. The strategy for residential mortgages remains defensive and prudent lending disciplines are strictly enforced. Aggressive price-cutting competition is deliberately eschewed and preferential mortgage offerings are structured mainly as an integral part of the total service solutions for PBG's core customer segments.

Consumer finance. With the industry-wide decline in consumer demand for revolving credit card balances, the Bank strategically repositioned its credit card business in 2005 to target growth in fee-generating instalment receivables and new sales. PBG avoided direct pricing competition in the consumer lending market by adopting a business acquisition strategy through its Dollar$mart instalment loan product which emphasises innovative product features and creative pricing packages. PBG has also shifted its consumer finance strategy from a mass strategy to one that enhances traction in deepening relationships with the affluent segment. This strategy dovetailed with CITICfirst's customer inflow and resulted in the growth of its platinum credit card base. For the mass customer base, reviews were conducted regularly to ensure that the overall risk was contained within the expected level.

SME Business

PBG's Business Banking division was established in July 2004 to focus on servicing small business customers with annual sales turnover of up to HK$50 million, or an outstanding loan value with the Bank of up to HK$20 million, which was previously serviced by WBG. In early 2008, PBG tightened its account review process and enhanced its security position with a higher proportion of the portfolio in order to manage worsening credit conditions in the small- to medium- enterprise business segment. The Bank believes that small business customers offer an excellent opportunity for cross-selling fee-based products and are an important source of interest income for the Bank. Since 2011, PBG has focused on growing its portfolio of residential mortgage and secured lending to SMEs. This has led to a growth in retail loan balance of 4.4 per cent. compared with year end 2012 with an outstanding balance of retail loan balance of HK$37.1 billion (US$4.8 billion) as at 31 December 2013.

Insurance Services

CITIC Insurance Brokers Limited ("**CIBL**"), a wholly owned subsidiary of the Bank, offers a diversified range of professional insurance services to its corporate customers. As a member of the Hong Kong Confederation of Insurance Brokers, CIBL is a full-service insurance consultancy broker providing tailor-made financial and insurance solutions. CIBL adopts a flexible, innovative and professional approach in recommending and selecting insurance products that meet its clients' needs and goals from products offered by over 100 local and international insurance companies.

Private Banking Business

PBG officially launched its private banking service in April 2011 to build a CITIC private banking platform in Hong Kong. By harnessing the strengths and market insights from the unique synergy created through the collaboration between the Bank and its parent CNCB, PBG is capable of providing a comprehensive range of premium wealth management solutions to high net worth individuals with assets under management of no less than US$1.0 million and entrepreneurs in Mainland China and Hong Kong and has received an encouraging response.

Wholesale and Cross-border Banking Group

Overview

In 2012, the Wholesale Banking Group and China Banking Group were combined to form a new Wholesale and Cross-border Banking Group to accelerate collaboration and connectivity with CNCB/ CITIC Group and build on overseas operations to underpin CNCBI's "offshore banking platform" position and expand diversified revenue stream.

WBG continued to improve its asset quality while growing its business, managing the balance between risk and return through developing and putting into practice an improved risk-based pricing methodology and concentration risk management.

The four key business areas of WBG

China & Cross-border Banking ("**CBB**"). The CBB Group focuses on state-owned enterprises in Mainland China, existing core and strategic customers of CNCB with cross-border needs, privately-owned PRC enterprises who are leaders in their industries, and non-PRC companies which are predominantly doing business in Mainland China. These companies are primarily conglomerates or companies that operate in the manufacturing, trading, toll roads, power and property investment and development industries. Additionally, it also targets Mainland China-focused investment and private equity funds as customers.

CBB also covers the management of CBI China, a wholly-owned subsidiary of the Bank, which was formally established in 2008 with its headquarters in Shenzhen. CBI China currently offers a full range of RMB and foreign currency wholesale banking services, foreign currency banking services for individual customers as well as RMB banking services for non-PRC residents. CBI China serves primarily as an execution platform for the Bank's clients in Mainland China and operates as an extension to the Hong Kong-based WBG marketing teams to provide timely client coverage in the Pearl River Delta region, the Pan-Bohai region and the Yangtze River Delta region.

Multinational & Cross-border Banking ("**MCB**"). MCB focuses on major Hong Kong corporates, multinationals and regional corporates with Asian business exposure especially in Hong Kong and Mainland China, as well as large PRC privately-owned enterprises with international partners and active in o v erseas e xpansion and international trade. MCB offers banking f acilities to public and privately-owned upper-tier and mid-cap companies, primarily in the manufacturing, trading, wholesale and logistic sectors with operations in Hong Kong and the Pearl River Delta region. MCB also places great emphasis on providing project and structured finance to the commercial real estate sector in Greater China and the region and real estate funds and investment trusts.

Financial Institutions and Public Sector ("**FI&PS**"). The FI&PS team is responsible for expanding the Bank's marketing reach to banks and non-bank financial institutions in the region and offering banking solutions to government and quasi-government departments or bodies and non-profit making organisations.

Structured Finance ("**SF**"). The SF team is responsible for the origination, underwriting and distribution capabilities of the Bank. The team has expertise in cross-border structured finance transactions and experience in various industries including banking, energy, property and funds management.

Strategic Collaboration with CNCB under Tripartite Alliance with CNCB and BBVA

As the Bank's main interface for collaboration with CNCB and other CITIC Group entities in the Mainland China market, the Group Co-operation office of WBG is responsible for driving the business and strategic collaborative efforts with CNCB under the tripartite alliance. It will continue to promote and co-ordinate business collaboration across all business lines between the Bank and CNCB as well as other CITIC subsidiaries, with the support of CBI China as its extended onshore team. A series of new business cooperation initiative s w ere successfully introduced, including RMB trade settlement programme, structured financing, pre-Initial Public Offering financing, offshore account opening, i-banking services and offshore bills operations and services.

Furthermore, to realise and maximise synergies under CITIC's Restructuring Strategy for its commercial banking businesses, the Bank and CNCB have commenced formal discussions and dedicated workgroups have been formed to systematically develop integrated product and services platforms for customers, and to build complementary competencies in customer resources, professional know-how, product range, service quality and risk management (See *Principal Shareholders — CITIC Group*).

Other specific areas for collaboration include organizing a number of large-scale customer forums jointly with CNCB in promoting cross-border syndications and structured financial solutions as well as developing an e-banking platform with a CNCB-Bank SWIFT connectivity function. The two banks will also focus on training and development, particularly in areas such as credit and risk management.

International Banking Group

In January 2010, IBG was established to strengthen the support needed for the implementation of the Bank's international strategy. IBG assumed responsibility from WBG for the governance, operations and overall general management of all the overseas branches of the Bank while sharing profit and loss responsibility with the respective functional business groups. IBG's responsibilities for overseas branches do not include branches and subsidiaries in Mainland China which remain the responsibility of WBG.

Overseas Branches

US branches. The Bank's businesses in the United States are conducted through its two branches located in Los Angeles and New York. The US branches work closely with local enterprises and US-based corporations engaged in PRC-related businesses and aim to meet the financial needs of Chinese corporations in the United States.

Macau branch. The Bank's branch in Macau, opened in 2005, strengthens the Bank's geographic reach and serves customers in the Western Pearl River Delta region. The branch's business is focused on Hong Kong businesses which have set up offshore companies in Macau, property funds and developers, and Macau corporates. The branch provides tailor-made services in the areas of trade finance, foreign exchange, remittances, loans and deposits, and mortgage for selected individual borrowers.

Singapore branch. The Bank opened its Singapore branch in 2011. The Bank's Singapore branch provides wholesale banking and global markets products and services to corporate and institutional clients. The branch will increasingly capitalise on opportunities arising from the internationalisation of the Renminbi, and the growing economies in Southeast Asia. The branch's business is focused on corporations engaged in PRC-related business.

Treasury and Markets Group

Overview

TMG has two principal functions: one function is to undertake the role of corporate treasury under the oversight of ALCO, and the other function is to undertake the role of Global Markets in managing and developing the trading and distribution business.

Under the oversight of ALCO, TMG's corporate treasury functions include liquidity management, funding and financing in the money markets and capital markets, and the management of the Bank's trading and investment portfolios. Its objectives are to ensure the adequate supply of funds to finance the Bank's local and foreign currency business, to ensure ready access to financing through the money and capital markets, to lower the cost of funding through the use of various financial instruments and different sources of funding, and to invest the Bank's surplus liquidity in debt securities and funds according to the investment criteria set by ALCO.

The Global Markets function of TMG includes managing foreign exchange and interest rate trading risks, market-making of treasury products, and distribution of treasury solutions to the Bank's retail and wholesale customers. In order to enhance the Bank's wealth management business, TMG established its in-house product capability in structured products, and is focused on further building its distribution of wealth management products by working closely with PBG and WBG to cross-sell packaged and tailored structured solutions to the Bank's retail and corporate customers.

Liquidity, Funding and Interest Rates Risk Management

Under the supervision of ALCO, TMG is responsible for managing the funding and liquidity of the Bank. It engages in inter-bank placing and borrowing, and fulfills the Bank's long-term funding requirements by issuing debt securities in both the local and international capital markets. Derivatives are used to swap assets or liabilities to fixed rate or floating rate exposure according to strategies set by ALCO. In addition to being able to issue Notes under the Programme as described in this Supplement, the Bank also has a HK$25.0 billion (US$3.2 billion) and a HK$2.0 billion (US$0.26 billion) certificates of deposit issuance facility that it utilises to secure longer term funding so as to reduce the mismatch between the Group's loan and deposit maturities. The Bank aims to structure its liability mix and strengthen its long-term sources of funds by issuing certificates of deposit at regular intervals. Through public syndication and placement, as at 31 December 2013, the Bank's outstanding certificates of deposit amounted to HK$16,175.17 million (US$2,073.7 million).

Another major function of TMG is to invest the surplus liquidity of the Bank under the supervision of ALCO. The interest rate sensitivity of the portfolio is set by ALCO. Surplus liquidity of the Bank is traditionally invested in high grade and liquid fixed income securities and primarily through the Bank's available-for-sale securities portfolio. As at 31 December 2013, this portfolio amounted to HK$21,661.8 million (US$2,777.2 million), and was primarily invested in senior debt of, and exchange fund bills and notes issued by investment grade international financial institutions and governments. The average credit rating of the securities within the portfolio is A-rated or above. Apart from generating extra income for the Bank, this portfolio is also a source of liquidity when necessary. For the year ended 31 December 2013, TMG recorded revenue of HK$353.0 million (US$45.3 million) from managing the Bank's surplus funds for the year of 2013.

Customer-driven Trading and Distribution

TMG, which serves as an offshore platform for banking businesses of CNCB, has been focusing on its Non-Deliverable Forward business for clients of CNCB who wish to hedge their onshore exposures. In July 2010, Renminbi as an off-shore currency was introduced in the Hong Kong market, and deliverable products denominated in Renminbi have gradually grown popular. TMG expects customer demand for these treasury tools and solutions to continue to increase, and is focused on strengthening its structuring capabilities and service quality. TMG is also active in delivering structured products to individual investor customers through the Bank's retail banking channel.

In November 2005, the Bank established a treasury operation in its Shanghai branch in order to capitalise on business opportunities arising from the financial development and financial reforms in the PRC which began with the introduction of the new RMB foreign exchange regime in July 2005. The Bank's Shanghai branch obtained its derivatives licence in April 2006 and TMG launched its first derivative product in the PRC in early August 2006. The Bank's Shanghai branch has since been reorganised as a branch of CBI China and the derivatives licence has accordingly been transferred to CBI China. Apart from allowing the Bank to deliver more effective solutions to its existing clients, the derivatives licence will also enable the Bank to strengthen its collaboration with CNCB in the provision of treasury services. The derivatives licence also allows the Bank to capitalise on opportunities to develop relevant Qualified Domestic Institutional Investor ("**QDII**") products and services.

In 2010, TMG started to offer RMB deliverable forward solutions to corporate clients of CNCB in the PRC to facilitate cross border RMB trade settlement flow, with transaction volumes exceeding USD$5 billion in the year of 2012. To support the Bank's tripartite alliance with CNCB and BBVA, TMG aims to leverage on the expertise and capabilities of BBVA to develop and establish the Bank's global markets capabilities and to further develop its customer-driven trading and distribution capabilities in order to expand its revenue sources and to meet the increasingly sophisticated demands of its customers. In particular, it aims to leverage on CNCB's foreign exchange market-making leadership in Mainland China to develop timely and relevant customer solutions to capitalise on the liberalisation of RMB trade settlement between Mainland China, Hong Kong and the rest of the world.

Other Investments

The Group also invests in fixed income securities from time to time as a means to diversify its income source. The Group mainly invests in investment grade fixed income securities, with approximately 69.8 per cent. of the fixed income securities held by the Group as at 31 December 2013 being rated A-/A3 or above by Standard & Poor's Financial Service LLC or Moody's Investors Services Inc. Other than these fixed income securities, as of the date of this Supplement the Group did not have any material exposure to other types of investment, such as funds, structured investment vehicles, collateralised debt obligations and credit default swaps.

Properties

As at 31 December 2013, the Group owned properties with aggregate floor areas of approximately 37,555 square feet, 7,471 square feet and 9,366 square feet on Hong Kong Island, in Kowloon and in the New Territories, respectively. In addition, as at 31 December 2013, the Group also leased properties with aggregate floor areas of approximately 282,030 square feet, 101,325 square feet and 22,888 square feet on Hong Kong Island, in Kowloon and in the New Territories, respectively. These leased properties are used as offices, branches, staff quarters, business continuity sites and warehouses.

Outside of Hong Kong, as at 31 December 2013, the Group owned and leased approximately 10,786 square feet, 2,474 square feet, 4,842 square feet, 7,600 square feet 8,900 square feet and 14,161 square feet in Shanghai, Shenzhen, Macau, Los Angeles, New York and Singapore, respectively. As at 31 December 2013, the Group also owned several apartments in the PRC, which are vacant or used as staff quarters. As at 31 December 2013, CBI (China) leased approximately 11,263 square feet and 14,316 square feet in Beijing and Shanghai, respectively as branches and 18,299 square feet in Shenzhen as the headquarters.

Insurance

The Group procured Banker's Blanket Bond, Computer Crime and Professional Indemnity Insurance to cover potential liabilities against acts including dishonesty, fraud, forgery or alteration, computer crime, internet banking exposure, breach of fiduciary duty, breach of professional duty, breach of statutory duty and misrepresentation and libel. The Bank maintains an "all risk" insurance coverage for its cash, properties and computers, public liability insurance and motor insurance. The Bank generally requires borrowers to obtain appropriate insurance coverage for certain types of security, such as residential premises.

The Bank has also acquired employee compensation, medical and earthquake insurance cover for the Bank's Macau and New York branches.

In addition, following the implementation of the Hong Kong Deposit Protection Scheme since September 2006, the Bank is required to pay contributions to the HKMA to provide customer deposit protection for its customers. This has increased the cost of deposits and the Bank plans to pass part of such cost to customers through reduced deposit interest rates.

Systems and Controls

The Bank operates in a highly regulated environment, and continually reviews and enhances its internal controls, compliance systems, operating policies and procedures. Each business unit and support unit is responsible for ensuring that the internal controls relevant to it are in place, and reviewing the adequacy and appropriateness of such internal controls in light of the changing regulatory requirements and international best practices. The Bank's Operational Risk Management Committee ("**ORMC**"), which is chaired by the Chief Risk Officer, and convenes on a regular basis. Among other duties, the ORMC monitors, reviews and evaluates the effectiveness of the Bank's operational risk framework and internal control environment and makes recommendations for improvement as appropriate.

The Bank invests in technology to improve its operating efficiency, competitiveness and internal control environment.

Litigation

The Group is currently not involved in any material litigation or similar proceedings and the Group is not aware of any circumstances under which any of the same is pending or threatened except those complaints and legal proceedings lodged by the investors against the Bank as a result of losses incurred with respect to the Minibonds and Structured Investment Products. See "The Bank may be adversely affected by allegations made against it by its customers and/or its regulators".

Intellectual Property

The Group relies on domain name registrations to establish and protect its internet domain names. The Group has registered more than 500 internet domain names in various jurisdictions for its current operations.

Employees

As at 31 December 2013, the Group, on a consolidated basis, had a total of 1,764 employees as set forth in the following table.

	No. of Employees
PBG, WBG (including China Banking Department), TMG and IBG	935
Head office and operational support	570
Overseas (Mainland China, Macau, Singapore and the United States)	259

	No. of Employees
Total	1,764

As at 31 December 2013, approximately 21 per cent. of the Group's employees, on a consolidated basis, performed supervisory and management functions, while the remaining 79 per cent. performed business and operational support functions.

The Group places high priority on its ongoing efforts to attract and retain talent through a combination of prudent people management practices, employee care and recreation programmes, and market-aligned compensation schemes. Emphasis is also placed on performance management, with variable rewards linked to results through differentiation and levelling.

At the same time, training and development remain at the core of the Group's talent development and retention strategy. The Group's staff force received an average of 5 training days during the year of 2013, covering business, technical, leadership, managerial, and personal effectiveness training as well as attainment of professional qualifications.

The Board also believes that the Group maintains a good relationship with its employees. None of the Group's employees are members of a trade union. The Group provides staff housing loans and contingency loans, as well as life, personal accident and medical insurance benefits for its employees. The Group maintains a Mandatory Provident Fund Scheme as well as an ORSO Provident Fund Scheme (The Ka Wah Bank Group Provident Fund) for its employees.

Competition

The Hong Kong banking industry is well developed and the Group faces intense competition from many other Hong Kong banks as well as PRC and international banks. In particular, the banking and financial services industry in Hong Kong is a mature market, and as at the date of this Supplement, supported 21 Hong Kong incorporated licensed banks and 136 banks incorporated outside Hong Kong competing for a customer population of approximately 7 million people. Therefore, many of the international and local banks and niche players operating in Hong Kong compete for substantially the same customers as the Group.

With the PRC's growing economic strength and the liberalisation of the PRC banking industry since 2005, major PRC financial institutions, especially those with H-share listings in Hong Kong, have started to embrace internationalisation strategies that leverage Hong Kong as a strategic platform for overseas expansion. Since 2006, PRC banks have been active in acquiring Hong Kong commercial banks to gain immediate access to branch networks as well as operational presence in Hong Kong and overseas. As a result, smaller local and family-owned commercial banks in Hong Kong are increasingly vulnerable to becoming acquisition targets or face the risk of being marginalised.

The intensity of competition in the past few years has had an adverse impact on the pricing of certain products.

In recent years, competition among banks in Hong Kong for investment and insurance products, home mortgage loans, credit cards, personal loans and transport lending businesses has become intense.

Since 2000, many banks in Hong Kong, including the Bank, have lowered interest rates charged on new-home mortgage loans not guaranteed by the Hong Kong government. Despite a slight increase in such interest rates in 2008, competition in the mortgage loans market remains intense. In 2011, with interest rates at an extremely low level, a significant portion of new-home mortgage loans charged by banks in Hong Kong was

HIBOR based. As at 31 December 2013, the standard rate the Bank charged on its new-home mortgage loans was 2.70 per cent. below the prime lending rate or 170 basis points above HIBOR.

As a result of the intensified competition among banks, the Bank has experienced downward pressure on its profit margins in recent years. To counter the effects of increased competition, the Bank has actively pursued a strategy of diversifying its income sources by focusing on increasing its fee-based income, introducing innovative products and, at the same time, improving the cost efficiency of its operations. See "Investment Considerations — Considerations relating to the Group — The Group is subject to significant competition".

Principal Subsidiaries

The Bank's subsidiaries are involved in the provision of general banking and other financial services. Details of the Bank's principal subsidiaries and its effective equity interest in each, as at 31 December 2013, are set out below.

Name of Company	Place of incorporation/operation	% of shares held	Principal activities	Issued ordinary share capital
Subsidiary				
Carford International Limited	Hong Kong	100%	Property holding	HK$2
CITIC Bank International (China) Limited	People's Republic of China	100%	Banking	RMB1,000,000,000
CITIC Insurance Brokers Limited	Hong Kong	100%	Insurance broker	HK$5,000,000
HKCB Finance Limited	Hong Kong	100%	Consumer financing	HK$200,000,000
The Hongkong Chinese Bank (Nominees) Limited	Hong Kong	100%	Nominees 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

SELECTED STATISTICAL AND OTHER INFORMATION RELATING TO THE GROUP

The section titled "Selected Statistical and Other Information Relating to the Group" in the Offering Circular shall be replaced by the following in its entirety.

Loan Portfolio

Overview

As at 31 December 2013, the Group's total loans to customers were HK$127,016.8 million (US$16,284.2 million) which represented 58.7 per cent. of its total assets. Home mortgage loans and loans for property investment represented 19.2 per cent. of the Group's total loans to customers as at 31 December 2013.

The table below sets forth a summary of the Group's loans by sector as at the dates indicated.

Loans and advances to customers analysed by industry sectors

The following economic sector analysis is based on categories and definitions used by the HKMA.

	As at 31 December 2012			As at 31 December 2013		
	Gross loans and advances to customers		Percentage of total	Gross loans and advances to customers		Percentage of total
	HK$	*US$*		*HK$*	*US$*	
	(in millions)			*(in millions)*		
Industrial, commercial and financial						
Property development	10.8	1.4	0.0%	15.2	1.9	0.0%
Property investment	14,165.3	1,816.1	13.5%	14,074.5	1,804.4	11.1%
Financial concerns	1,785.4	228.9	1.7%	4,073.8	522.3	3.2%
Stockbrokers	31.0	4.0	0.0%	255.9	32.8	0.2%
Wholesale and retail trade	7,984.9	1,023.7	7.6%	13,762.1	1,764.4	10.8%
Manufacturing	3,401.1	436.0	3.2%	5,844.0	749.2	4.6%
Transport and transport equipment	2,604.9	333.9	2.5%	2,252.7	288.8	1.8%
Recreational activities	189.2	24.2	0.2%	272.0	34.9	0.2%
Information technology	1.3	0.2	0.0%	882.7	113.2	0.7%
Others	2,208.0	283.1	2.1%	2,272.5	291.3	1.8%
Individuals						
Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	20.1	2.6	0.0%	17.8	2.3	0.0%
Loans for the purchase of other residential properties	9,671.2	1,239.9	9.2%	10,254.5	1,314.7	8.1%
Credit card advances	289.0	37.0	0.3%	318.7	40.9	0.3%
Others	6,132.2	786.2	5.8%	5,853.4	750.4	4.6%
Gross loans and advances for use in Hong Kong	48,494.4	6,217.2	46.1%	60,149.8	7,711.5	47.4%
Trade finance	13,930.1	1,785.9	13.3%	15,489.4	1,985.8	12.2%

	As at 31 December 2012			As at 31 December 2013		
	Gross loans and advances to customers		Percentage of total	Gross loans and advances to customers		Percentage of total
	HK$	*US$*		*HK$*	*US$*	
Gross loans and advances for use outside Hong Kong	42,667.3	5,470.2	40.6%	51,377.6	6,586.9	40.4%
Gross loans and advances to customers	105,091.8	13,473.3	100.0%	127,016.8	16,284.2	100.0%

Notes:

(1) "Others" includes loans which are used to finance the general working capital of conglomerates including conglomerates in the hotel, retail, import and export, civil engineering, gas and electricity industries.

(2) "Others" includes personal loans, tax loans and loans for the purchase of commercial and industrial properties.

(3) This refers to loans to customers with a principal place of business outside Hong Kong.

Geographical concentration

A significant proportion of the Group's loans to customers are advanced to PRC entities, which are identified by those borrowers that are domiciled in the PRC, or are guaranteed by entities domiciled in the PRC and thus have risk transferred to PRC country risk. As at 31 December 2013, Mainland China-related loans accounted for 34.7 per cent. of the Group's total loans to customers. See "— Asset quality".

The table below sets forth a summary of the Group's loans to customers by geographical location as at the dates indicated.

	As at 31 December 2012			As at 31 December 2013		
	Gross loans and advances to customers		Percentage of total	Gross loans and advances to customers		Percentage of total
	HK$	*US$*		*HK$*	*US$*	
	(in millions, except percentages)					
Hong Kong	58,723.5	7,528.7	55.9%	65,078.8	8,343.4	51.2%
Mainland China	33,425.8	4,285.3	31.8%	44,105.5	5,654.6	34.7%
United States	1,303.0	167.0	1.2%	1,213.2	155.5	1.0%
Singapore	4,537.2	581.7	4.3%	7,377.2	945.8	5.8%
Others	7,102.3	910.6	6.8%	9,242.1	1,184.9	7.3%
	105,091.8	13,473.3	100.0%	127,016.8	16,284.2	100.0%

Notes:

(1) The geographical breakdown is classified by the location of the counterparties after taking into account the transfer of risk and therefore, where a claim guaranteed by a party is situated in a country different from the counterparty, risk will be transferred to the country of the guarantor.

(2) "Others" includes Bermuda, British Virgin Islands, the United Kingdom, the Cayman Islands, Macau, Taiwan and the United Arab Emirates.

Customer loan concentration

The Banking Ordinance (Cap. 55) of the laws of Hong Kong (the Banking Ordinance) generally prohibits any bank incorporated in Hong Kong from maintaining a financial exposure to any single person or group of connected persons in excess of 25.0 per cent. of its capital base. For a discussion of financial exposure, see "Regulation and Supervision — Principal Obligations of Authorised Institutions — Financial exposure to any one customer". As at 31 December 2013, the Group's 20 largest borrowers (including groups of individuals and companies) accounted for HK$28,997.2 million (US$3,717.6 million) or 18.5 per cent. of the Group's committed exposure. As at 31 December 2013, the Group's five largest borrowers (including groups of individuals and companies) accounted for HK$10,717.8 million (US$1,374.1 million) or 6.8 per cent. of the Group's committed exposure with the largest borrower accounting for HK$2,791.3 million (US$357.9 million) or 1.8 per cent. of the Group's committed exposure. As at 31 December 2013, 12.9 per cent. of the total loans to customers was represented by outstanding loans to individual borrowers of HK$16,444.4 million (US$2,108.3 million).

Loan analysis

A significant proportion of the Group's loans are advanced for the purchase of residential property. 16.1 per cent. and 20.2 per cent. of total loans to customers had a remaining maturity of more than five years as at 31 December 2012 and 31 December 2013, respectively. The following table sets forth a summary of the Group's total loans to customers by remaining maturity as at the dates indicated.

	As at 31 December 2012			As at 31 December 2013		
	Gross loans and advances to customers		Percentage of total	Gross loans and advances to customers		Percentage of total
	HK$	*US$*		*HK$*	*US$*	
	(in millions, except percentages)					
Repayable on demand	2,771.9	355.4	2.6%	3,301.4	423.3	2.6%
3 months or less but not repayable on demand	22,903.4	2,936.3	21.8%	29,761.1	3,815.5	23.4%
1 year or less but over 3 months	31,419.1	4,028.1	29.9%	36,643.8	4,697.9	28.9%
5 years or less but over 1 year	25,835.9	3,312.3	24.6%	36,514.1	4,681.3	28.7%
After 5 years	21,230.8	2,721.9	20.2%	20,392.9	2,614.5	16.1%
Undated[1]	930.7	119.3	0.9%	403.5	51.7	0.3%
	105,091.8	13,473.3	100.0%	127,016.8	16,284.2	100.0%

Note:

(3) This refers to loans whose repayments are overdue for more than one month and impaired loans.

As at 31 December 2013, 87.8 per cent. of loans to customers made by the Group were at floating rates and prime lending rates of interest. The Group's interest rate for home mortgage loans and commercial mortgage loans in Hong Kong typically ranges from 0.95 per cent. above the prime lending rate to 1.25 per cent. above the prime lending rate. The Group's interest rate for Hong Kong dollar consumer finance or personal loan products (other than overdrafts) is generally calculated on the initial principal amounts of such loans and typically ranges from 0.038 per cent. to 1.7 per cent. per month and for overdrafts may be as high as 2.75 per cent. above the prime lending rate. The Group's interest rates for Hong Kong dollar hire purchase and equipment leasing loans are with floating rates or at prime lending rates. Trade finance loans made by the Group are typically with floating rates. The interest rate for project finance loans and syndicated loans made by the Group is typically a margin over the HIBOR or, in the case of US dollar facilities, a margin over the London inter-bank offering rate. The Group may, i n appropriate circumstances, offer rates which are lower than the above rates. As at 31 December 2013, 42.6 per cent. of total loans to customers made by the Group was denominated in Hong Kong dollars while the remainder was denominated primarily in US dollars.

An important component of the Group's asset and liability policy is its management of interest rate risk, which is the relationship between market interest rates and the Group's interest rates on its interest-earning assets and interest-bearing liabilities. See "— Asset and Liability Management".

Home mortgage loans are generally secured by a first legal charge over the underlying property. Working capital loans for businesses are typically secured by fixed and floating charges over land, buildings, machinery, inventory and receivables. Term loans for specific projects or developments are typically secured against the underlying project's assets and its receivables, while the sponsors or shareholders typically provide additional guarantees. The Group also receives guarantees in relation to certain of its other loans to cover, in the case of trade finance, any shortfall in security or, in the case of consumer loans to younger or less financially secure customers, to provide security on what are normally unsecured loans.

All forms of security taken as collateral against credit facilities are monitored by the respective departments which extended the loans. Collateral in the form of property is typically valued by an independent valuer at the origination of the loan. With the exception of home mortgage loans, which are not subject to regular reviews, collateral is generally reviewed on an annual basis by the department which extended the loan.

Credit Policies and Approval Procedures

Internal policies and procedures

The Bank's lending policies have been formulated in line with international standards and industry best practice as well as with close reference to the Banking Ordinance, HKMA guidelines and policies of the Hong Kong Association of Banks and other statutory requirements (and in the case of overseas branches and subsidiaries, the relevant local laws and regulations).

The Group has established loan-to-value ratio requirements for its secured lending based on the appraised market value of the relevant collateral. Loan-to-value ratios on home mortgage loans (excluding loans under the Home Ownership Scheme and Private Sector Participation Scheme and loans under the new mortgage refinancing scheme), which directly follow HKMA guidelines, are currently limited to a maximum of 70 per cent. depending on the property type and the property price. Underlying property values are based on the lower of the purchase price or the independently appraised value of the property. The Group's lending policies also limit the maximum monthly repayment amount to 50 per cent. of the gross household income of a borrower.

The Group has set limits on the Group's banking operations, reinforced the management of operational risks, including risk analysis for new products, and adopted a system for measuring foreign currency derivatives. The Bank has also enhanced its credit review process with the implementation of a total exposure limit system that enforces maximum exposure limits by business groups. With an independent credit management unit in each of the Group's main lines of business, credit origination and approval functions are separated, enabling independent credit evaluation. Loan application and credit reports are standardised. The Bank has control procedures in credit approval and exposure monitoring for new business areas, such as setting up of approval criteria, authorisation procedures, provisioning policy and portfolio quality tracking were also put in place. The Group has also developed a risk based pricing tool based on facility rating and capital consumption. The tool is being used at the point of credit application to assess the profitability of the deals from a risk perspective for the WBG portfolio.

Within the Group, the credit risk management function is centralised and is governed by the CRMC at Board level of the Bank, see "Credit and Risk Management Committee". The CRMC defines and delegates the approval authority to two credit related functional committees: the Credit Committee and the Non-Performing Loans Committee ("**NPL Committee**"), which focus on different aspects of the credit risk management function of the Group. These two committees comprise the Chief Executive Officer of the Bank, the Chief Risk Officer of the Bank and other members of senior management. The Credit Committee has overall responsibility for the Group's credit policies and oversees the credit quality of the Group's loan portfolio. The NPL Committee controls and manages all critical credits and approves loan impairments.

Under the oversight of the Credit Committee, officers of the Bank are authorised to approve credit based on the size of the loan, the collateral provided and the credit standing of the applicant. In order to improve efficiency and allow the Credit Committee to be more focused on appraising and approving larger and more complicated credits, the lending authority matrix empowers experienced and skilled managers with the responsibility for appraising and approving transactions that are of a lower risk profile and with a lower expected loss.

For its corporate commercial loans and trade finance loans, the Bank has instituted an internal credit scoring system which grades the creditworthiness of a potential borrower based upon a set of expert judgment risk factors together with comprehensive financial analysis and scoring criteria. The credit scoring system comprise a 14-grade internal risk rating system. The credit score given to a potential borrower and related obligors will help determine whether the Bank will extend credit to such borrower, the size of the loan facility, the pricing on the loan and whether collateral will be required. See "— Asset Quality — Loan Classification".

For the Group's retail banking loans, such as credit cards and personal loans, a TransUnion Information Services Limited check ("**TU Check**") is carried out for credit information of the particular borrower. The Bank plans to expand its retail lending business selectively and prudently. All credit cards and personal loans are subject to a TU Check, although the Bank does not implement any credit scoring system for hire purchase and equipment financing loans. In the case of taxi and public light bus financing, the Bank approves the size of financing on the basis of the value of collateral (including the vehicle, operating

licence and any dealer's guarantee) and the future cash flow of the borrower comprising rental or operating income that can be derived from the vehicle. In approving any equipment financing, the Bank primarily focuses on the repayment ability of the borrower as indicated by the debt-service ratio of the borrower calculated by the Bank in accordance with a prescribed formula rather than the value of the equipment.

Risk Management Group

The Risk Management Group is responsible for: (i) credit policy formulation; (ii) credit evaluation; (iii) authorisation and approval; (iv) compliance with credit policies and approval conditions; and (v) exposure control. The Risk Management Group's key objectives are to evaluate new credit applications and review existing accounts to ensure sound credit and robust asset quality monitoring. When loans are graded sub-standard or below by the Group, such loans will generally be transferred to the Risk Assets Management Department ("**RAMD**") which will institute the appropriate debt recovery actions.

Asset Quality

Overview

The Group has managed its asset quality in a prudent manner in the face of the global financial crisis as triggered by the collapse of the US financial market since the second half of 2008. As a result of such efforts, the Group's impaired loan decreased from HK$1,407.2 million (US$180.4 million) in 2008 to HK$406.5 million (US$52.1 million) as at 31 December 2013, representing 0.3 per cent. Of the Group's total loans to customers.

The Bank's residential mortgage delinquency ratio was 0.01 per cent. as at 31 December 2013, which was slightly below the industry average of 0.02 per cent. as announced by the HKMA. As at the date of this Supplement, the Bank has a credit rating of "BBB" from Fitch Ratings and a credit rating "Baa2" from Moody's.

The Group's PRC exposure accounted for 34.7 per cent. of the Group's total loans to customers as at 31 December 2013. Since 1998, the Bank has sought to improve the quality of its PRC-related loans. As a result, PRC-related non-performing loans as a percentage of the Group's total non-performing loans have been reduced from 37.4 per cent. as at 31 December 2008 to 21.5 per cent. as at 31 December 2013. See "Asset Quality — Overview". The Group plans to expand its PRC lending business selectively and prudently by leveraging off the established network and relationships in the PRC of the CITIC Group. See "— Credit Policies and Approval Procedures — Internal policies and procedures".

The performance of the Hong Kong economy is heavily dependent on the property sector. The Group's property lending accounted for 19.2 per cent. of the Group's total loans to customers as at 31 December 2013. As a result, the Group's asset quality is closely correlated to the industry performance of the property markets. As at 31 December 2013, home mortgage loans accounted for HK$10,272.3 million (US$1,317.0 million) or 8.1 per cent. of the Group's total loans to customers. Home mortgage loans accounted for the largest segment of the Group's total loans to customers. See "Risk Factors — Considerations relating to the Group — The Group has significant exposure to the Hong Kong property market".

RAMD is responsible for resolving the Group's exposure to non-performing loans and improving the Group's recovery on such non-performing loans. In general, loans are transferred to RAMD once they have been classified as sub-standard or below.

Loan classification

In 2005, the Group developed a judgment-based risk rating system which is used to rank borrowers of the Bank's wholesale banking portfolio based on their default risk. In 2011, these ratings were deployed into a new credit rating platform, with a risk analyst facility rating being assessed separately. This borrower risk rating system has 14 grades (including three classified grades) and each grade is mapped to the probability of default of the borrowers. This model was developed to assess the creditworthiness of borrowers and output from the model will then be mapped to HKMA rating scales.

The rating system can provide information on the borrower's credit quality and allow credit grade migration, monitoring and analysis. It provides significant value-added benefits to the Bank's strategic and business decision-making process in terms of asset allocation and portfolio management of credit grades distribution.

The Group's credit grading classifies loans into the following 14 categories:

Grades 1 to 10 — pass;

Grade 11 — special mention; and

Grades 12 to 14 — classified loans.

A borrower risk rating estimates the borrower's default risk. It is used to classify borrowers into different risk categories according to their level of default risk mapped against default experience. Borrower risk ratings should provide a meaningful risk differentiation and should be calibrated to the borrower's Probability of Default ("**PD**"). All corporate borrowers are mapped to the master rating scale based on their PD. The structure of the master rating scale is specified with a PD range for each grade. Each internal grade reflects the likelihood that a borrower will default.

Recognition of classified loans

The Group's classified loans are sub-divided into three categories: sub-standard (Grade 12), doubtful (Grade 13) and loss (Grade 14). A key driver for determining a loan classification is the number of overdue days. For the WBG portfolio, sub-standard loans are unsecured loans overdue for 91 to 180 days and secured loans overdue for 91 to 360 days, doubtful loans are unsecured loans overdue for over 180 days and secured loans overdue for over 360 days and loss loans are secured and unsecured loans with remote collectability. For the PBG portfolio, a more stringent classification is adopted, sub-standard loans are secured and unsecured loans overdue for 91 to 120 days, doubtful loans are secured and unsecured loans overdue for 121 to 180 days and loss loans are secured and unsecured loans overdue for over 180 days or with remote collectability. The Group would only consider not downgrading a loan in accordance with the overdue days when there is good justification that is in line with the guidance of the HKMA. Even when there is no overdue day, the Group may still consider downgrading a loan as sub-standard, doubtful or loss if there are severe trigger events such as liquidation, bankruptcy, winding-up, receivership and proven management fraud. The terms "classified loans", "impaired loans" and "non-performing loans" are used synonymously in this Supplement and refer to loans that are classified as sub-standard, doubtful and loss.

Impairment of loans and receivables

The Group has adopted both the collective assessment approach and the individual assessment approach in accordance with the HKAS 39 to ascertain the impairment amounts of its non-impaired and impaired credit exposures. The accounting policy for the impairment of loans and receivables is set out in the F-pages of this Supplement.

All non-impaired corporate credit exposures are subject to regular collective impairment assessment by major industry sectors. The assessment framework takes into consideration the Group's loss experience, emerging period factors and macroeconomic factors.

With respect to impaired corporate loans, provision is made according to the prospects for recovery. Whenever the likelihood of recovery appears remote, bad and doubtful corporate debts are written off.

Concerning unsecured personal credit exposures, both impaired and non-impaired are subject to collective impairment assessment. The collective assessment framework for personal credits takes into account the bankruptcy rate, decease rate and account migration rate. For secured personal credit exposures, the collective impairment assessment is conducted for non-impaired loans while the impaired loans are subject to individual assessment. It is the Group's policy to make full provisions for all unsecured amounts outstanding. Whenever the likelihood of recovery appears remote, impaired personal debts are written off.

Top ten non-performing loans

As at 31 December 2013, the Group's ten largest non-performing loans accounted for 0.3 per cent. of its total loans to customers and 95.8 per cent. of its gross non-performing loans to customers. As at 31 December 2013, the Group's exposure from its ten largest non-performing loans ranged from HK$4.8 million (US$0.6 million) to HK$95.9 million (US$12.3 million), and amounted to approximately HK$389.3 million (US$49.9 million) in the aggregate out of HK$406.5 million (US$52.1 million) of non-performing loans in total, of which the Hong Kong exposure accounted for approximately 61.7 per cent., the PRC exposure accounted for approximately 22.5 per cent., and exposure to others accounted for approximately 15.8 per cent.

Recovery of non-performing and classified loans

RAMD is responsible for managing problematic loans that are transferred from WBG and other business units in the Bank. Accounts that are transferred to RAMD are reviewed and monitored on an ongoing basis and, depending on the performance of the account, RAMD may recommend the restoring of the loan to normal status, the restructuring of the loan or the commencement of debt collection or asset recovery procedures.

RAMD adopts a systematic and flexible approach towards the recovery of non-performing and classified loans through means such as enforcement of security, debt restructuring, asset swaps and settlement. In certain circumstances, particularly in relation to PRC-related loans, the department may conduct asset-for-debt swaps and accept assets such as equity interests in PRC businesses and land for residential or commercial development in the PRC. Where appropriate, risks and problems associated with transfer of legal title are managed with the advice of PRC legal advisers.

Even after a non-performing loan has been written off, RAMD will continue its recovery efforts until it is satisfied that all recovery efforts have been exhausted, in which case it will recommend the closing of the account.

The Group's classified loans are resolved on a case-by-case basis, subject to the approval of the NPL Committee on the restructured limits and recovery measures. Loans are generally considered for restructuring where there has been a deterioration in the financial position or repayment capability of a customer, or where a customer has been granted concessions with respect to the tenor of the loan or repayment terms. For the year ended 31 December 2013, the Group resolved a total of HK$192.0 million (US$24.6 million) of classified loans, as a result the net total impaired loan was HK$406.5 million (US$52.1 million) as at 31 December 2013, equating to 0.3 per cent. of all loans. For the year ended 31 December 2012, the Group resolved a total of HK$333.6 million (US$42.8 million) of classified loans, as a result the net total impaired loan was HK$475.9 million (US$61.0 million) as at 31 December 2012, equating to 0.5 per cent. of all loans.

Asset and Liability Committee

ALCO comprises senior management of the Bank, including the President & Chief Executive Officer, Chief Risk Officer, Head of Wholesale and Cross-border Banking Group, Head of Personal and Business Banking Group, Chief Financial Officer, Head of Market Risk and Liquidity Modeling, Head of International Banking Group, Treasurer and the Head of Central Treasury Unit.

ALCO regularly makes assessments and recommendations on issues that are likely to impact the Group's financial condition, including the management of market risk, interest rate risk, foreign exchange risk, liquidity risk, capital, asset and liability mix and key strategic investments. ALCO meets on a bi-weekly basis to formulate the Bank's asset and liability strategies. TMG is responsible for the daily management of the discretionary portion of the Bank's assets and liabilities within the approved internal limits, including repricing gap limits.

The Bank measures the sensitivity of its assets and liabilities to interest rate fluctuations by way of gap analysis. This analysis provides the Bank with a static view of re-pricing characteristics of its balance sheet positions. An interest rate gap report is prepared by classifying all assets and liabilities into various time period categories according to repricing dates. This would then give the Bank an indication of the extent to which it is exposed to the risk of potential changes in net interest income with the anticipated change in interest rate.

The Bank's liquidity structure, derived from its assets, liabilities and contingent commitments, is managed so as to ensure that all of the Bank's operations can meet their funding requirements and comply with the statutory liquidity ratio and regulatory requirements. The liquidity risk is well managed by holding sufficient cash and liquid positions as well as a pool of high quality assets. Access to inter-bank borrowing is maintained through sufficient counterparty money market as well as repurchase facilities. Moreover, the Bank also solicits longer term funding through regular issuance of medium-term certificates of deposit.

The Chief Financial Officer of the Bank reports the Bank's liquidity position on a daily basis while TMG proactively manages the Bank's liquidity position by carrying out daily forecasts. The average liquidity ratio of the Bank was approximately 55.3 per cent. and 59.4 per cent. for the years ended 31 December 2013 and 2012, respectively, which was in each case well above the statutory minimum ratio of 25 per cent.

The majority of the Bank's loans is made at floating rates that are benchmarked against the inter-bank rates and prime lending rate. These assets are primarily funded by floating rate liabilities, including customer deposits and certificates of deposit. The interest rate risk, basis risk and liquidity risk of the Bank's assets and liabilities are continuously monitored by ALCO and if necessary, ALCO may take necessary action to mitigate these risks, such as using interest rate swaps to hedge against rises in interest rates.

The Group has limited foreign exchange exposure as foreign exchange positions and foreign currency balances arising from customer transactions are normally offset against other customer transactions or transactions with the market. The Group's assets and liabilities are primarily denominated in Hong Kong dollars, US dollars and Renminbi. The net exposure positions, both by individual currency and in aggregate, are managed by TMG on a daily basis within established foreign exchange limits.

Long-term foreign currency funding, to the extent that this is used to fund Hong Kong dollar assets, is normally hedged using currency swaps and forward exchange agreements to reduce the foreign exchange risk.

Credit and Risk Management Committee

The CRMC was established in 2002 at the Board level of the Bank to oversee the Bank's risk management strategy, policies and mechanisms, with a view to optimising the Bank's risk management system. The risks concerned primarily include credit, market, interest rate, liquidity, operational, reputation, legal and strategic risks. The CRMC carries out its oversight function on the Bank's risk management through various committees at the Bank's management level, including: Credit Committee, NPL Committee, ALCO and Operational Risk Management Committee. The CRMC comprises seven Directors of the Bank, including two Independent Non-executive Director.

Internal Auditing

The Audit Department of the Bank has responsibility for the internal audit of its operations. Through regular audits of the Bank and its subsidiaries, the Audit Department reviews and evaluates the adequacy and effectiveness of internal controls over safeguarding of its assets, improving efficiency of operations and assuring compliance with established policies, procedures and relevant statutory requirements. The Audit Department reports its findings to the Chairman of the Board and the Chief Executive Officer of the Bank as well as the relevant subsidiaries and departments of the Bank. All major findings are reported to the Audit Committee of the Board on a monthly basis. Such findings are also shared with the Bank's external auditors and the HKMA regularly.

Legal and Compliance

The Legal Department and Compliance Department are respectively responsible for administering the legal issues and regulatory compliance issues concerning the Bank's business. Both of the Legal Department and the Compliance Department also respectively review new products and business proposals from the legal perspective and compliance perspective. Another key function of the Bank's Compliance Department is to conduct periodic reviews of certain of the Bank's activities, advise senior management in accordance with applicable laws, rules and regulations and raise compliance awareness among staff members. The Compliance Manual, which is updated regularly, was first issued to all staff members of the Bank in November 2001 and regular training sessions are conducted to update them on any significant legal and regulatory changes relevant to the operations of the Bank.

MANAGEMENT

The section titled "Management" in the Offering Circular shall be replaced by the following in its entirety.

The Bank is managed by the Board, which is responsible for the direction and management of the Bank. The articles of association of the Bank require that there shall be no fewer than eight directors (each a "**Director**") unless and until otherwise determined by the shareholders of the Bank. Directors can be appointed at any time either by the shareholders or by the Board. Directors appointed by the Board shall hold office until the next annual general meeting and shall be eligible for re-election at that meeting. The Board also rotates its Directors. At each annual general meeting, all Directors are required to retire from office by rotation and are eligible at the same meeting for re-election.

The aggregate emoluments, consisting of fees, salaries, allowances and benefits in kind, pension contributions and bonuses, of the Directors for the year ended 31 December 2013 was HK$ 37.0 million (US$ 4.7 million).

Board of Directors

The current Board comprises the following individuals:

Name	Age	Title
CHEN Xiaoxian	59	Chairman
ZHANG Xiaowei	56	President & Chief Executive Officer
Margaret MAN	59	Deputy Chief Executive Officer
KAN NG Chau Yuk Helen	52	Alternate Chief Executive Officer
Jaime Pablo AZCOITI LEYVA	49	Non-executive Director
CAO Guoqiang	49	Non-executive Director
GILLOT Patrick Georges	55	Non-executive Director
JU Weimin	50	Non-executive Director
SUN Deshun	55	Non-executive Director
TORANO Gonzalo	53	Non-executive Director
ZHANG Qiang	50	Non-executive Director
GIL-TIENDA Rafael	61	Independent Non-executive Director
LAM Kwong Siu	79	Independent Non-executive Director
TANG shisheng	57	Independent Non-executive Director
TSANG Yiu Keung Paul	60	Independent Non-executive Director
WU Jiesi	62	Independent Non-executive Director
YIN Fenglan	60	Independent Non-executive Director

Dr. Chen Xiaoxian

(Chairman)

Appointed Director of China CITIC Bank International Limited on 17 January 2005 and elected Chairman on 28 August 2012. Dr. Chen is currently Director and First Vice-Chairman of China CITIC Bank Corporation Limited, Director of China Investment and Finance Limited, and Director of CITIC International Financial

Holdings Limited. He is a mentor for doctoral students and a visiting professor of Dongbei University of Finance and Economics, and a visiting professor of Renmin University of China. Dr. Chen was formerly Executive Director and Vice President of CITIC Group Corporation and President of China CITIC Bank Corporation Limited. Before joining CITIC Group Corporation, Dr. Chen was a Director and Executive Vice President of China Merchants Bank. Dr. Chen graduated from Renmin University of China with a Bachelor's Degree in Finance. He received his Master's Degree in Finance from Xinan University of Finance and Economics and his Ph.D. in Finance from Dongbei University of Finance and Economics. Dr. Chen was granted the title of "Senior Economist" by The People's Bank of China. He has 30 years of extensive experience in banking. From 2005 to 2011 consecutively, Dr. Chen received the "China's Top Ten Finance Figures of the Year Award" from The Chinese Banker magazine. He also received the "Top Ten New Leaders in Finance of the Year Award" from the China International Forum in 2006 and 2007. In 2011, Dr. Chen was named "2011 The Most Valuable President of Listed Companies in China" by Moneyweek in China.

Mr. Zhang Xiaowei

(Executive Director, President & Chief Executive Officer)

Appointed Director and Chief Executive Officer of the Bank on 22 October 2012. Mr. Zhang is also a Non-executive Director of China CITIC Bank Corporation Limited and Chairman of CITIC Bank International (China) Limited. Prior to joining the Bank, Mr. Zhang was an Executive Director, General Manager and Alternate Chief Executive Officer of Wing Lung Bank. A veteran banker with nearly 30 years of experience in the banking industries in Mainland China and Hong Kong, Mr. Zhang had held various senior positions at Agricultural Bank of China and Bank of Communications. He was also Vice President of the Hong Kong Branch of Bank of Communications and President of the Hong Kong Branch of China Merchants Bank. Mr. Zhang holds a Bachelor's Degree in Economics from the Beijing Institute of Economics and a Master's Degree in Monetary Banking from the Graduate School of The People's Bank of China. He was appointed Vice President of The Hong Kong Institute of Bankers in August 2013.

Mr. Jaime Pablo Azcoiti Leyva

(Non-executive Director)

Appointed Director of the Bank on 13 November 2013. Mr. Azcoiti Leyva is Head of Risk, Asia of Banco Bilbao Vizcaya Argentaria, S.A. He is also a Non-executive Director of CITIC International Financial Holdings Limited. Mr. Azcoiti Leyva has more than 22 years of experience in risk management. He was formerly Chief Risk Officer of China CITIC Bank International Limited and Director of Risk for Global Clients & Structured Finance of Banco Bilbao Vizcaya Argentaria, S.A. Mr. Azcoiti Leyva holds a Bachelor's Degree in Business Administration from Universidad Pontificia de Comillas and a Bachelor's Degree in Law from Universidad Nacional de Educacion a Distancia in Spain.

Mr. Cao Guoqiang

(Non-executive Director)

Appointed Director of the Bank on 23 October 2009. Mr. Cao is Vice President of China CITIC Bank Corporation Limited, Non-executive Director of CITIC International Financial Holdings Limited and Director of China Investment and Finance Limited. Mr. Cao has 25 years of experience in China's banking industry. Prior to joining China CITIC Bank Corporation Limited in 2005, he had held various senior positions at China Merchants Bank, including General Manager of the Planning and Treasury Department at its headquarters and at its Shenzhen Administrative Department respectively. He had also worked at the Planning and Treasury Department of the Shaanxi Branch of The People's Bank of China from July 1988 to June 1992. Mr. Cao graduated from Hunan College of Finance and Economics with a Bachelor's Degree in Money and

Banking. He received his Master's Degree in Money and Banking from Shaanxi College of Finance and Economics.

Mr. Rafael Gil-Tienda

(Independent Non-executive Director)

Appointed Independent Non-executive Director and Chairman of the Credit & Risk Management Committee of the Bank on 20 October 2003. Mr. Gil-Tienda is Chairman of the Asia Pacific region and a member of the Senior Advisory Board of Oliver Wyman. He is also an Independent Non-executive Director of CITIC International Financial Holdings Limited. Mr. Gil-Tienda was formerly with Standard Chartered Bank and Citibank and has over 25 years of banking experience. He obtained a Bachelor's Degree in Philosophy, Politics and Economics from the University of Oxford and a Master's Degree in Business Administration from the University of California, Berkeley.

Mr. Patrick Georges Gillot

(Non-executive Director)

Appointed Director of the Bank on 6 December 2011. Mr. Gillot is Chief Operating Officer, Asia and Managing Director of Banco Bilbao Vizcaya Argentaria, S.A. He is also a Non-executive Director of CITIC International Financial Holdings Limited. Mr. Gillot was formerly with Standard Chartered Bank. He holds a Master's Degree in Political Sciences and Economy from Sciences-Po Paris (Institut D'Etudes Politiques de Paris) and a Master's Degree in Business Administration from Hautes Etudes Commerciales Paris respectively.

Mr. Ju Weimin

(Non-executive Director)

Appointed Director of the Bank on 25 November 2002. Mr. Ju is Vice President and Chief Financial Officer of CITIC Limited, Deputy Chairman of Asia Satellite Telecommunications Holdings Limited, Non-executive Director of CITIC Pacific Limited, CITIC Securities Company Limited and CITIC International Financial Holdings Limited. He was formerly Executive Director, Vice President and Chief Financial Officer of CITIC Group Corporation, and Non-executive Director of China CITIC Bank Corporation Limited. Mr. Ju graduated from Renmin University of China with a Master's Degree in Accounting.

Mrs. Helen Kan

(Executive Director, Alternate Chief Executive Officer and Group Head of Personal & Business Banking)

Appointed Director and Alternate Chief Executive Officer of the Bank on 15 March 2013. Mrs. Kan is also Group Head of Personal & Business Banking Group of the Bank. She has 27 years of experience in the banking and finance industry. Over the years, Mrs. Kan had held various senior positions across a broad spectrum of banking and finance exposures in Hong Kong, Mainland China and other global markets. These have included the personal and consumer banking sectors. Prior to joining the Bank, she was Standard Chartered Bank's Global Head of Distribution in charge of the strategic development and performance of distribution channels across 33 geographic locations covering a global customer population in excess of 14 million. Mrs. Kan holds an Honours Degree in Management and Economics, and a Master's Degree in Law from The University of Hong Kong.

Mr. Lam Kwong Siu

(Independent Non-executive Director)

Appointed Independent Non-executive Director of the Bank on 17 January 2002. Mr. Lam is Vice Chairman of BOC International Holdings Limited. He is also an Independent Non-executive Director of CITIC International Financial Holdings Limited, China Overseas Land & Investment Limited, Far East Consortium International Limited, Fujian Holdings Limited, Xinyi Glass Holdings Limited and Yuzhou Properties Co., Ltd. Mr. Lam has over 50 years of extensive banking experience. He was formerly Deputy Chief Executive of Bank of China Hongkong-Macau Regional Office, Chairman of Po Sang Bank Limited, Vice Chairman of Chiyu Banking Corporation Limited, and Director of Bank of China, BOC China Fund Limited and Henderson China Holdings Limited.

Ms. Margaret Man

(Executive Director, Deputy Chief Executive Officer and Group Head of Wholesale & Cross-border Banking)

Appointed Director and Deputy Chief Executive Officer of the Bank on 28 June 2012. Ms. Man is also Group Head of Wholesale and Cross-border Banking of the Bank, and Vice Chairman of CITIC Bank International (China) Limited. Ms. Man has about 30 years of experience in the banking and finance industry. She had held a number of senior positions including Division Chief of The People's Bank of China and Deputy Managing Director of China Venturetechno International Co Ltd. Ms. Man graduated from Shanxi Financial and Economics University with a Bachelor's Degree in Economics and further studied for a Master's Degree in Banking and Finance at the Graduate School of The People's Bank of China.

Mr. Sun Deshun

(Non-executive Director)

Appointed Non-executive Director of the Bank on 15 March 2013. Mr. Sun is Vice President of China CITIC Bank Corporation Limited. Mr. Sun has over 30 years of experience in China's banking industry. Prior to joining China CITIC Bank Corporation Limited in 2011, he had held various senior positions at The Industrial and Commercial Bank of China as well as Bank of Communications, and had also worked in The People's Bank of China from April 1981 to May 1984. Mr. Sun graduated from Dongbei University of Finance and Economics with a Master's Degree in Economics. Mr. Sun was granted the title of "Senior Economist" by The Industrial and Commercial Bank of China.

Mr. Tang Shisheng

(Independent Non-executive Director)

Appointed Independent Non-executive Director of the Bank on 13 November 2013. Mr. Tang is Chairman of Huaduo Jiuzhou Investment Management Limited. He has extensive experience in finance and securities industries. Mr. Tang graduated from Hunan College of Finance and Economics with a Bachelor's Degree in Finance. He received his Master's Degree in Economics and Doctor's Degree in Economics respectively from the Graduate School of The People's Bank of China and the Graduate School of Chinese Academy of Social Sciences. Mr. Tang was granted the title of "Senior Economist" by The People's Construction Bank of China in 1993.

Mr. Gonzalo Torano

(Non-executive Director)

Appointed Director of the Bank on 1 August 2011. Mr. Torano is Head of Asia Pacific and Managing Director of Banco Bilbao Vizcaya Argentaria, S.A. He has been working with BBVA Group since 2002. Mr. Gonzalo is also Non-executive Director of China CITIC Bank Corporation Limited and CITIC International Financial Holdings Limited. Mr. Torano graduated from Complutense University of Madrid.

Mr. Tsang Yiu Keung Paul

(Independent Non-executive Director)

Appointed Independent Non-executive Director and Chairman of the Audit Committee of the Bank on 1 September 2004. Mr. Tsang is also an Independent Non-executive Director and Chairman of the Audit Committee of CITIC International Financial Holdings Limited and two listed companies in Hong Kong, namely Guotai Junan International Holdings Limited and L. K. Technology Holdings Limited. Mr. Tsang was with KPMG for more than 27 years, where he was a senior banking partner until he retired from the firm on 31 March 2003. He graduated from Hong Kong Polytechnic (currently The Hong Kong Polytechnic University) with a Higher Diploma in Accounting. Mr. Tsang is a professional accountant and a Fellow Member of The Hong Kong Institute of Certified Public Accountants, The Association of Chartered Certified Accountants and The Institute of Chartered Secretaries and Administrators.

Mr. Wu Jiesi

(Independent Non-executive Director)

Appointed Independent Non-executive Director of the Bank on 5 August 2013. Mr. Wu is Chairman of Shenzhen Fuhaiyintao Asset Management Co., Ltd. He is also an independent non-executive director of Beijing Enterprises Holdings Limited, China Taiping Insurance Holdings Company Limited and The Industrial and Commercial Bank of China (Asia) Limited, and non-executive director of Shenzhen Investment Limited and Silver Base Group Holdings Limited. Mr. Wu has extensive experience in corporate management, investment and finance. He holds a Doctor's Degree in Economics from The Research Institution of The People's Bank of China. Mr. Wu conducted post-doctorate research work in theoretical economics at Nankai University and was conferred a professorship qualification by Nankai University in 2001.

Ms. Yin Fenglan

(Independent Non-executive Director)

Appointed Independent Non-executive Director of the Bank on 5 August 2013. Ms. Yin has 38 years of experience in finance. She was with China Merchants Bank for 19 years, where Ms. Yin was its vice president until she retired on 9 July 2013. Ms. Yin holds a Master's Degree in Economics from the Graduate School of Chinese Academy of Social Sciences. She was granted the title of "Senior Economist" by The People's Bank of China.

Mr. Zhang Qiang

(Non-executive Director)

Appointed Director of the Bank on 15 April 2013. Mr. Zhang is Vice President of China CITIC Bank Corporation Limited. He joined China CITIC Bank Corporation Limited in 1990 and has held various senior positions. Mr. Zhang has over 25 years of experience in China's banking industry. He graduated from Zhongnan University of Finance and Economics with a Bachelor's Degree in Economics and obtained a

Master's Degree in Finance from Liaoning University. Mr. Zhang was granted the title of "Senior Economist" by CITIC Group Corporation.

PRINCIPAL SHAREHOLDERS

The section titled "Principal Shareholders" in the Offering Circular shall be replaced by the following in its entirety.

CITIC GROUP CORPORATION ("CITIC")

CITIC is the ultimate controlling shareholder of the Bank. As at the date of this Supplement, CIFH, the holding company of the Bank, was 70.32 per cent. owned by CNCB which, in turn, was 66.95 per cent. owned by CITIC Limited which is a wholly owned subsidiary of CITIC.

CITIC was approved by the PRC's State Council and established in 1979. Since its founding, CITIC has received the support of the PRC government. The late Mr. Rong Yiren, former Vice President of the PRC, was the first Chairman of CITIC. Since then, CITIC has grown into a large transnational conglomerate with a substantial number of subsidiaries operating in Hong Kong, the United States, Canada and Australia. CITIC has also set up representative offices in Tokyo, New York and Kazakhstan. CITIC's operations span across the financial industry, industrial investments and service industries. Its core business lies with the financial industry, which accounts for 84.1 per cent. of its total assets as at 31 December 2012. CITIC currently has interests in two commercial banks (being an indirect majority interest in the Bank, through its indirect holdings in CNCB, and its indirect majority interest in CNCB) as well as interests in non-bank financial businesses, including securities firms, an insurance company and a trust company. As at 31 December 2012, CITIC's total assets stood at RMB3,565.7 billion with a net profit of RMB30.1 billion. CITIC is currently rated BBB+ by Standard & Poor's and Baa2 by Moody's. The Chairman of CITIC is Mr. Chang Zhenming (who is also the Vice Chairman of CIFH).

CITIC as the ultimate controlling shareholder of the Bank ultimately determines the strategy, management and operations of the Bank. Subject to compliance with the regulations of the HKMA, CITIC, through CNCB, is able to determine the Bank's corporate policies, appoint the Bank's Directors and officers, and vote to pursue corporate actions requiring shareholders' approval. Three of the Directors of the Bank, including the Chairman and the Chief Executive Officer, are currently directors of CNCB.

CITIC owns or controls a number of companies, including CNCB and CITIC Securities Co., Ltd., which may compete directly or indirectly with the businesses of the Bank and CIFH and its subsidiaries and associated companies (the "**CIFH Group**"), and have more experience, superior resources and a larger scale of operations in the PRC.

Currently, the Bank also engages in, and expects from time to time in the future to engage in, financial and commercial transactions with members of the CITIC Group. See "Related Party Transactions".

The following chart sets out the simplified corporate structure of the CITIC Group as at the date of this Offering Circular, showing its business lines and major subsidiaries and associated companies:

CITIC Limited

CITIC Limited is a wholly owned subsidiary of CITIC and was incorporated in China in December 2011. As at the date of this Supplement, CITIC Limited held 66.95 per cent. of the share capital of CNCB.

China CITIC Bank Corporation Limited

As at the date of this Supplement, CNCB held 70.32 per cent. of the issued share capital of CIFH, the holding company of the Bank.

As part of the Restructuring Strategy, on 8 May 2009, CNCB entered into a Share Purchase Agreement with CITIC and GIL to acquire a 70.32 per cent. interest in CIFH for a cash consideration of approximately HK$13.6 billion (US$1.7 billion). This CIFH Acquisition is an integral part of CITIC's Restructuring Strategy, the intention of which was explicitly stated at the time of CIFH's privatisation in November 2008. The CIFH Acquisition was completed on 23 October 2009. Three senior executives of CNCB are currently Non-Executive Directors of the Bank.

The CIFH Acquisition is expected to enable CNCB to:

- expand its branch network to international financial centres, develop its commercial banking network both domestically and internationally, and to provide "one-stop-shop" financial solutions and a wider variety of and more applicable service products and service channels for its customers with international banking needs;
- realise its strategic objective to become a "leading international bank";
- maximise synergies by promoting the effective integration of financing resources, optimise the allocation of resources, constantly increasing the business synergies between CIFH and CNCB, and enhance its overall competitiveness in the banking market; and
- use excess capital to enhance shareholder value.

The CIFH Acquisition also created opportunities for CNCB and the Bank to expand the width and depth of their collaboration. The Bank extended cooperation to more CNCB branches, spanning across most of CNCB's major geographical coverage in Mainland China. A series of new business cooperation initiatives were successfully introduced during the year, including RMB trade settlement programme, structured financing, pre-Initial Public Offering financing, offshore account opening, i-banking services and offshore bill operation and services.

CITIC International Financial Holdings Limited

The Bank is a wholly-owned subsidiary of CIFH which is the financial flagship of CITIC outside Mainland China. The CIFH Group is a financial services group whose core businesses include the provision of commercial banking, investment management and advisory, asset management and other related financial services. CIFH became the holding company of the CIFH Group following the group reorganisation on 25 November 2002, the appointed day designated by the board of directors of CIFH for the legal merger of the relevant undertakings of CIFH and HKCB pursuant to the CITIC Ka Wah Bank Limited (Merger) Ordinance (Cap. 1171) of the laws of Hong Kong. As part of the group reorganisation, CIFH (which prior to the reorganisation was named CITIC Ka Wah Bank Limited) transferred most of its commercial banking assets and liabilities to HKCB, a wholly-owned subsidiary of CIFH. At the same time, HKCB changed its name to CITIC Ka Wah Bank Limited and continued to operate the integrated commercial banking business of the CIFH Group. See "Business — History".

CIFH is supported by CITIC in its vision to drive the offshore expansion and establishment of the CITIC brand in international banking and financial services. One of its strategic priorities is to develop effective partnership models with companies in the CITIC Group in the Mainland China to maximise strategic opportunities to promote the CITIC brand in international banking and financial services. On 29

December 2006, CIFH completed the acquisition of a 15.17 per cent. strategic stake in CNCB to enhance its ability to capture opportunities from the increasing cross-border business flows into and out of the PRC market. Upon the listing of CNCB on The Stock Exchange of Hong Kong Limited on 27 April 2007, CIFH topped up its investment in CNCB to maintain a 15 per cent. equity interest in CNCB's enlarged share capital.

On 9 February 2007, CIFH's shareholders gave approval for BBVA to become a 14.58 per cent., strategic investor in CIFH, and the transaction was duly completed on 1 March 2007.

On 16 October 2008, CIFH's independent shareholders gave approval for CITIC, through GIL, to take CIFH private by way of Scheme of Arrangement. On 5 November 2008, CIFH was delisted from the Hong Kong Stock Exchange, and on the same day, BBVA's stake in CIFH was increased to 29.68 per cent. The strategic investment in CNCB held by CIFH was proportionately transferred to CITIC and BBVA in December 2008.

The privatisation of CIFH was part of CITIC's Restructuring Strategy to create a single banking business platform within the CITIC Group. The intention of the privatisation was for the Bank of become CITIC's exclusive vehicle to develop commercial banking business in Hong Kong and a commercial banking platform for new business expansion for CITIC in Asia.

As at 31 December 2013, the CIFH Group's total assets, shareholders' funds, total loans and total deposits were HK$220.2 billion (US$28.2 billion), HK$21.5 billion (US$2.8 billion), HK$127.0 billion (US$16.3 billion) and HK$170.8 billion (US$21.9 billion), respectively.

As at the date of this Supplement, CIFH had 7,459,172,916 issued and fully paid ordinary shares.

Principal Activities of the CIFH Group

The CIFH Group currently engages in a wide range of banking and financial businesses through the following entities:

The Bank and its subsidiaries	retail banking (including home mortgage loans, consumer finance, credit cards, deposits, personal wealth management, distribution of insurance and investment products, hire purchase and leasing and small business loans), wholesale banking (including commercial mortgages, trade finance, corporate loans, syndicated loans, term loans and overdrafts, and structured finance) and treasury activities
CITIC International Assets Management Limited and its subsidiaries	non-performing loans management, fund management and Mainland China-related asset management through venture capital and direct investments.
CITIC Capital Holdings Limited and its subsidiaries	Mainland China-focused investment management and advisory (including private equity, real estate, mezzanine and debt finance, asset management and special situations)

Strategic alliance between the Bank, CNCB and BBVA

As at the date of this Supplement, BBVA owned 9.9 per cent. of the issued share capital of CNCB and 29.68 per cent. of the issued share capital of CIFH.

The Bank believes that the strategic partnership between the Bank, CNCB and BBVA will give the Bank and CNCB access to BBVA's international banking expertise, regional capabilities and global distribution network, and will allow BBVA to commit to using the Bank and CNCB as its platform for future expansion in Asia. This will further the Bank's goal of establishing itself as an offshore PRC bank that combines the best practices of the East and the West.

The Bank believes the successful execution of these strategies is critical to its ability to serve as an effective vehicle to further the development of the CITIC financial services brand internationally.

BBVA, headquartered in Spain, is a bank with business operations spanning across retail, wholesale and investment banking in over 30 countries. As at 31 December 2013, BBVA had total assets of approximately EUR599.5 billion (US$782.4 billion) and BBVA's net profit for the year ended 31 December 2013 was approximately EUR3.0 billion (US$39 billion).[2]

[2] Solely for convenience only, translations from EUR into US$ were made at the rate of EUR1.00 to US$1.3052.

INDEX TO FINANCIAL STATEMENTS

Audited Consolidated Financial Statements of the Bank for the year ended 31 December 2013

The consolidated audited financial statements of the Bank as of 31 December 2012 and 2013 set out herein are reproduced from the Bank's financial statements for the year ended 31 December 2013. Page references referred to in the consolidated audited financial statements named above refer to pages set forth in such financial statements

KPMG

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	**Margaret MAN**	**Helen KAN**	**Steve WONG**
Executive Director, President and Chief Executive Officer	*Executive Director and Deputy Chief Executive Officer*	*Executive Director and Alternate Chief Executive Officer*	*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	**Margaret MAN**	**Helen KAN**	**Steve WONG**
Executive Director, President and Chief Executive Officer	*Executive Director and Deputy Chief Executive Officer*	*Executive Director and Alternate Chief Executive Officer*	*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.

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			2012		
	Individually assessed HK$'000	**Collectively assessed HK$'000**	**Total HK$'000**	Individually assessed HK$'000	Collectively assessed HK$'000	Total HK$'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			2012		
	Individually assessed HK$'000	**Collectively assessed HK$'000**	**Total HK$'000**	Individually assessed HK$'000	Collectively assessed HK$'000	Total HK$'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	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'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

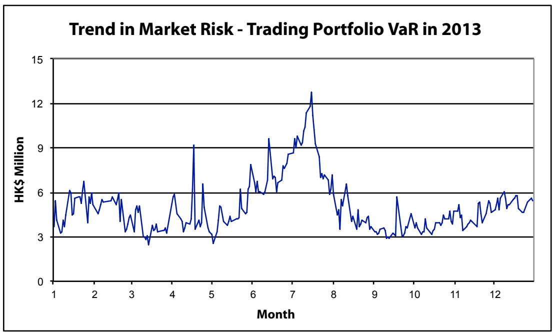
VaR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon, and that provides a level of confidence. The model is designed to capture the different risk types including interest rate risk,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

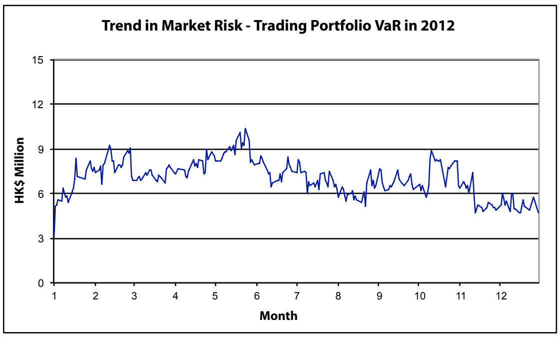
The VaR models used by the Group are predominantly based on historical simulations, and Monte Carlo simulations are also used as a reference. These models derive plausible future scenarios from historical market rates and prices, taking into account the correlation of different markets and rates such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





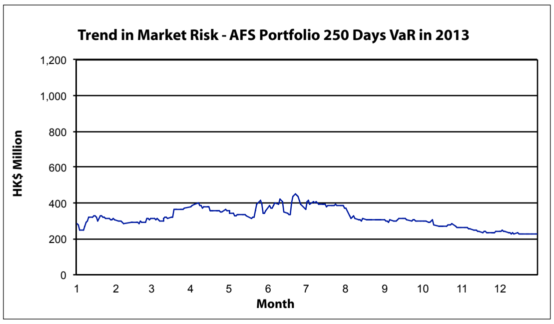
42 Financial risk management *(continued)*

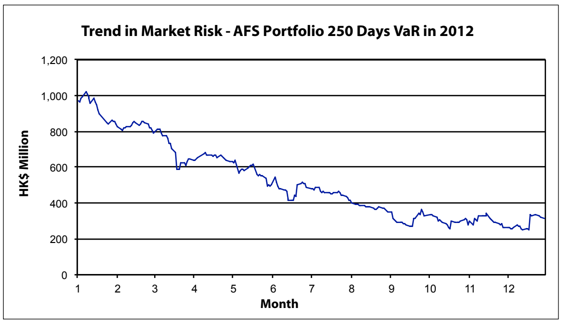
(b) Market risk management *(continued)*

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

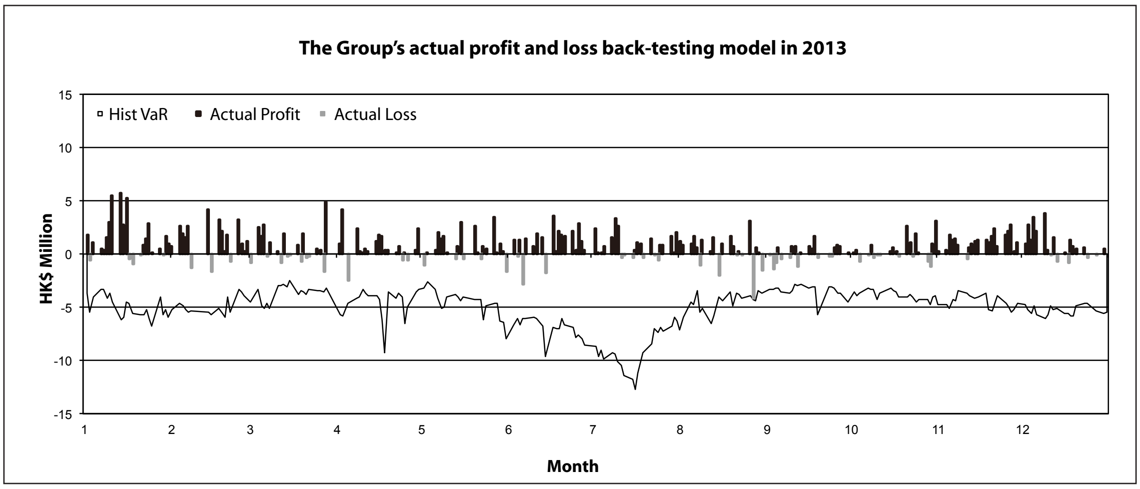
Value at risk *(continued)*

– 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.

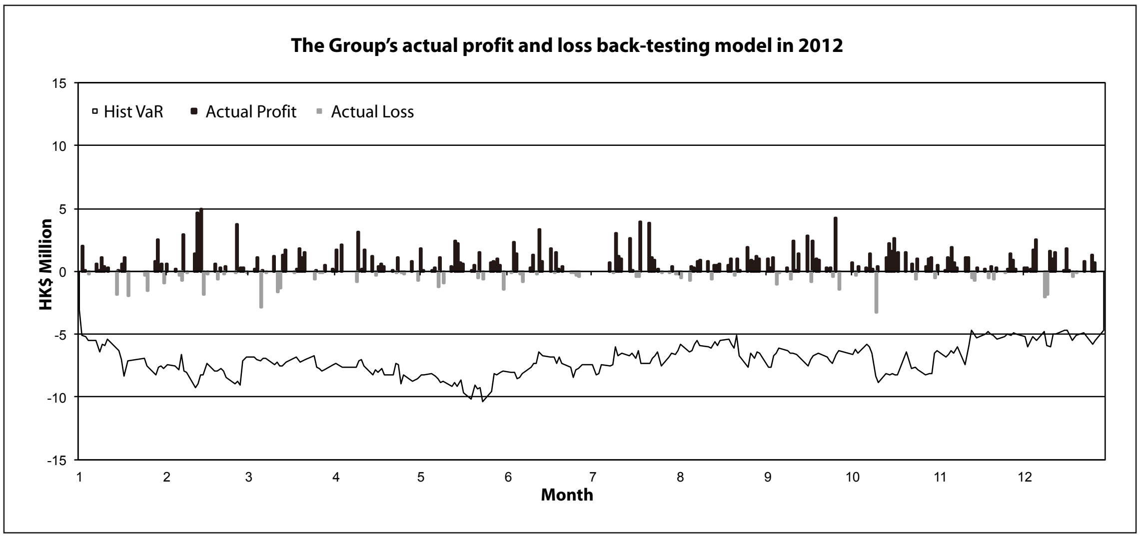


42 Financial risk management *(continued)*

(b) Market risk management *(continued)*

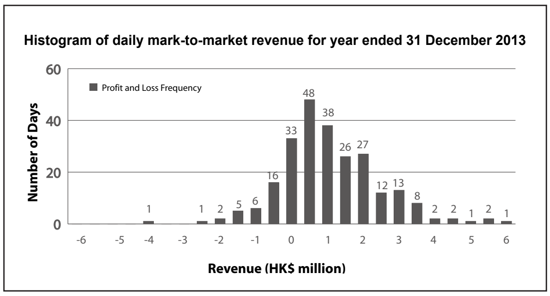
Methodology and characteristics of the market risk model *(continued)*

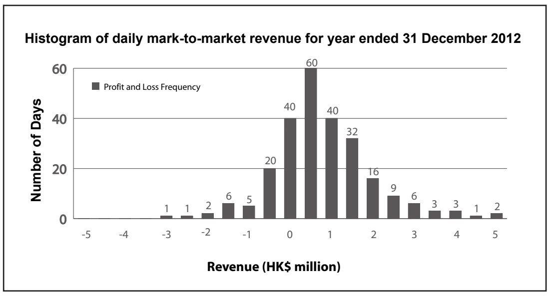
Value at risk *(continued)*



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	Debt securities	Debt securities	Equity securities	
	HK$'000	HK$'000	HK$'000	HK$'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				2012			
	Notional amounts with remaining life of				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				2012			
	Notional amounts with remaining life of				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.

THE ISSUER

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