永亨銀行

WING HANG BANK

Stock Code：302

# 2013

Annual Report

# Contents

# Corporate Profile

Wing Hang Ngan Ho was first established in 1937 by the late Mr Y K FUNG in Guangzhou to carry on the business of a money changer. Its early years were difficult due to the prevailing turbulent political and economical conditions in China. In 1945 the company re-established in Hong Kong with a capital of HK$300,000 and a staff of 19 and prospered during the post war boom. In 1960 Wing Hang Bank was incorporated and was granted a banking licence reaching the first milestone in its future growth.

In 1973 the Irving Trust Company of New York acquired a majority interest in the Bank and the partnership provided the Bank with a stronger financial base and the expertise of a major international bank. In 1979 the Head Office Building was re-developed and provided much needed modern facilities for its operations. In 1989 the Irving Trust Company merged with The Bank of New York and became a stronger and more diversified partner. In July 1993, the shares of Wing Hang Bank were listed on The Stock Exchange of Hong Kong. In August 2004, the Bank completed the merger with Chekiang First Bank, a local bank noted for its solid credit history and high quality portfolio. This acquisition provided the Bank with a greater scale and coverage in the market. In January 2007, the Bank acquired Inchroy Credit Corporation Ltd., a major financial institution engaged in the hire purchase and lease financing business. In July 2007, The Bank of New York Company Inc. merged with Mellon Financial Corporation to form The Bank of New York Mellon Corporation, further increasing its financial strength and standing in the market.

Wing Hang Bank is the holding company and the principal operating company of the Group. It provides a comprehensive range of banking and related financial services through a network of 42 branches in Hong Kong. Its wholly-owned subsidiary, Wing Hang Bank (China) Limited, was established in June 2007 with a network of branches in Shenzhen, Guangzhou, Shanghai, Beijing and Zhuhai. The Group's subsidiary, Banco Weng Hang, S.A. has been operating in Macau since 1941 and has an extensive branch network in the territory. In addition, through its other subsidiaries and affiliated companies the Group provides nominee, deposit taking, offshore banking, hire purchase, consumer financing, insurance and share brokerage services.

Wing Hang Bank Group is always dedicated to providing comprehensive services to its customers and becoming their "Preferred Bank".

At the end of 2013, the Group's total assets and shareholders' funds amounted to HK$214.4 billion and HK$21.7 billion respectively, net profit attributable to shareholders for 2013 was HK$2,187.1 million.

# Group Results in Brief

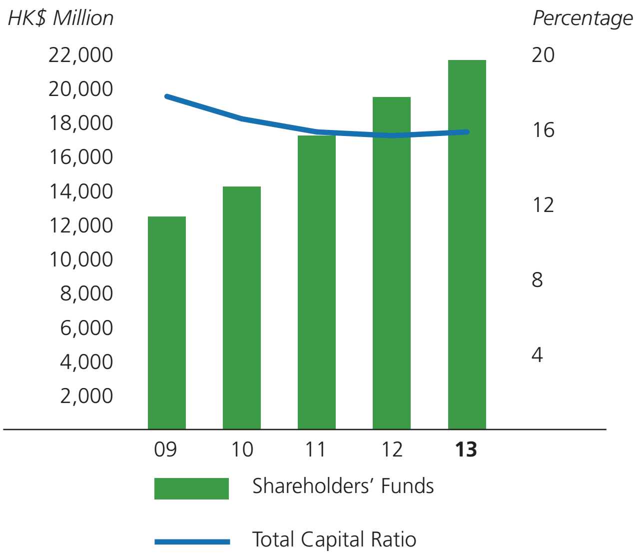
| FOR THE YEAR | 2013 HK$ million | 2012 HK$ million | Increase % | 2013 US$ million |
|---|---|---|---|---|
| Profit Attributable to Shareholders | **2,187** | 1,802 | 21 | **282.06** |
| Dividends | **639** | 628 | 2 | **82.41** |
| **PER SHARE** | **HK$** | HK$ | % | **US$** |
| Basic Earnings | **7.17** | 6.00 | 20 | **0.92** |
| Interim and Final Dividends | **2.08** | 2.08 | – | **0.27** |
| Net Asset Value | **70.59** | 64.65 | 9 | **9.10** |
| **AT YEAR END** | **HK$ million** | HK$ million | % | **US$ million** |
| Shareholders' Funds | **21,700** | 19,534 | 11 | **2,798.6** |
| Total Deposits | **185,355** | 169,590 | 9 | **23,905.1** |
| Advances to Customers | **135,323** | 114,054 | 19 | **17,452.5** |
| Total Assets | **214,376** | 197,364 | 9 | **27,647.9** |
| **RATIO** | **%** | % | | |
| Cost to Income Ratio | **52.0** | 47.6 | | |
| Return on Average Assets | **1.07** | 0.95 | | |
| Return on Average Shareholders' Funds | **10.6** | 9.8 | | |

*US$1.00=HK$7.7538*

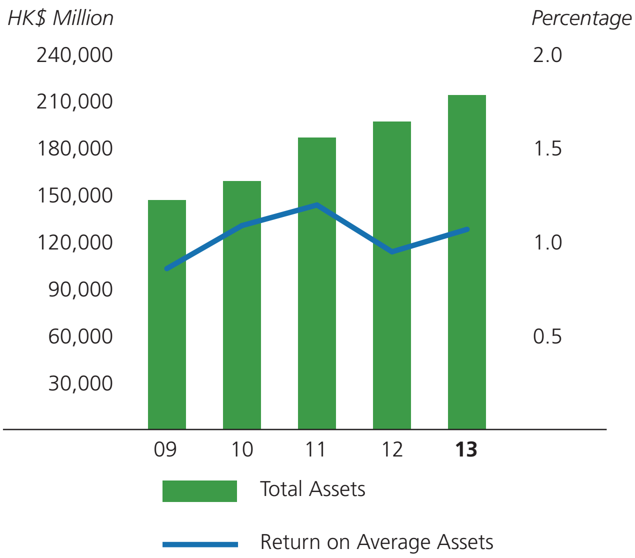
# Five-Year Group Financial Summary

| HK$ million | 2009 | 2010 | 2011 (restated) | 2012 | **2013** |
|---|---|---|---|---|---|
| Shareholders' Funds | 12,521 | 14,279 | 17,256 | 19,534 | **21,700** |
| Total Deposits | 127,416 | 137,062 | 161,320 | 169,590 | **185,355** |
| Advances to Customers | 80,497 | 97,254 | 110,578 | 114,054 | **135,323** |
| Total Assets | 147,124 | 159,297 | 187,249 | 197,364 | **214,376** |
| Operating Income | 2,853 | 3,298 | 3,785 | 3,891 | **4,301** |
| Operating Expenses | 1,571 | 1,610 | 1,735 | 1,852 | **2,236** |
| Profit Attributable to Shareholders | 1,205 | 1,626 | 2,149 | 1,802 | **2,187** |
| Dividends | 207 | 407 | 537 | 628 | **639** |
| **HK$** | | | | | |
| Basic Earnings per Share | 4.08 | 5.51 | 7.24 | 6.00 | **7.17** |
| Interim and Final Dividends per Share | 0.70 | 1.38 | 1.80 | 2.08 | **2.08** |
| **Ratio** | | | | | |
| Loan to Deposit Ratio | 63.2 | 71.0 | 68.5 | 67.3 | **73.0** |
| Total Capital Ratio | 17.8 | 16.6 | 15.9 | 15.7 | **15.9** |
| Average Liquidity Ratio | 53.6 | 45.6 | 39.9 | 38.6 | **38.6** |
| Cost to Income Ratio | 55.1 | 48.8 | 45.8 | 47.6 | **52.0** |
| Return on Average Assets | 0.86 | 1.09 | 1.20 | 0.95 | **1.07** |
| Return on Average Shareholders' Funds | 10.6 | 12.2 | 13.7 | 9.8 | **10.6** |

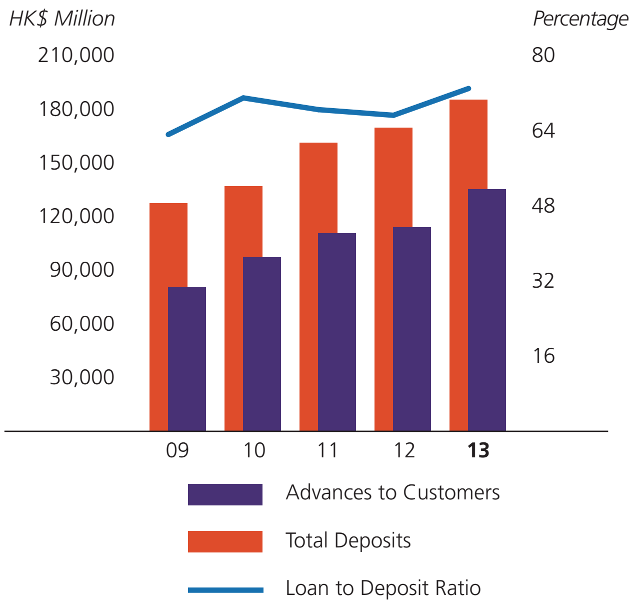
## Shareholders' Funds / Total Capital Ratio



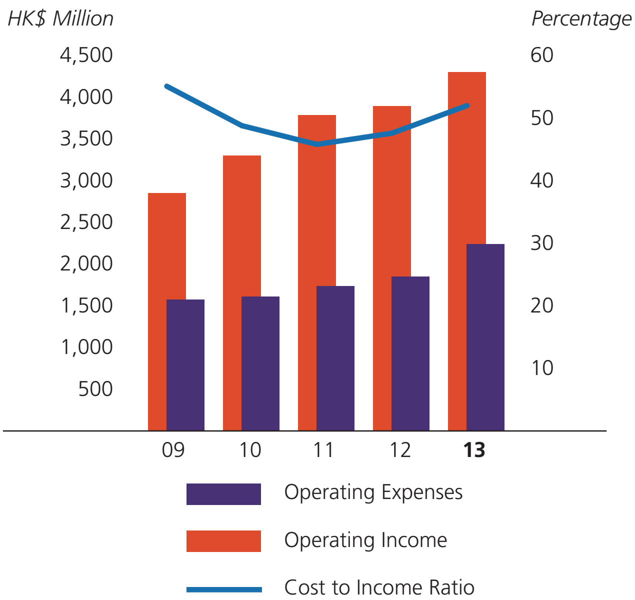

## Total Assets / Return on Average Assets




## Advances to Customers / Total Deposits / Loan to Deposit Ratio




## Operating Expenses / Operating Income / Cost to Income Ratio



# Corporate Information

## Board of Directors

### Chairman

Dr FUNG Yuk Bun Patrick JP *(Chief Executive)*

### Executive Directors

Mr Frank John WANG *(Deputy Chief Executive)*
Mr FUNG Yuk Sing Michael *(Senior General Manager)*

### Non-executive Directors

Mr HO Chi Wai Louis
Mr Stephen Dubois LACKEY
Mr Brian Gerard ROGAN

### Independent Non-executive Directors

Dr CHENG Hon Kwan GBS, JP
Mr LAU Hon Chuen Ambrose GBS, JP
Mr LI Sze Kuen Billy
Mr TSE Hau Yin Aloysius

## Executive Committee

Dr FUNG Yuk Bun Patrick JP
Mr Frank John WANG
Mr FUNG Yuk Sing Michael

## Audit Committee

Dr CHENG Hon Kwan GBS, JP
Mr Stephen Dubois LACKEY
Mr TSE Hau Yin Aloysius

## Risk Management Committee

Mr TSE Hau Yin Aloysius
Mr LI Sze Kuen Billy
Mr Frank John WANG

## Remuneration Committee

Dr CHENG Hon Kwan GBS, JP
Mr LAU Hon Chuen Ambrose GBS, JP

## Nomination Committee

Mr LAU Hon Chuen Ambrose GBS, JP
Dr CHENG Hon Kwan GBS, JP
Mr HO Chi Wai Louis

## Company Secretary

Mr LEUNG Chiu Wah

## Auditors

KPMG
Certified Public Accountants

## Registered Office

161 Queen's Road Central, Hong Kong

## Share Listing

The Stock Exchange of Hong Kong Limited

## Share Registrars

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor, Hopewell Centre
183 Queen's Road East, Wanchai, Hong Kong

## ADR Depositary Bank

The Bank of New York Mellon
BNY Mellon Shareowner Services
PO Box 358516
Pittsburgh, PA 15252-8516
Telephone: 1-201-680-6825
Email: shrrelations@bnymellon.com

## Affiliated with The Bank of New York Mellon Corporation

# Biographical Details of Directors

### Dr FUNG Yuk Bun Patrick JP
**Chairman & Chief Executive**
Aged 66. Dr FUNG joined the Bank in 1976 and was appointed a Director in 1980, Chief Executive in 1992, and Chairman in April 1996. He is a member of the Executive Committee and also the Chairman of various subsidiaries and committees of the Bank. Dr FUNG is a non-executive director of Miramar Hotel and Investment Company, Limited and an independent non-executive director of The Link Management Limited, the manager of The Link Real Estate Investment Trust. Miramar Hotel and Investment Company, Limited and The Link Real Estate Investment Trust are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). He is a member of the Court of the Hong Kong Polytechnic University, a court member of the Hong Kong University of Science and Technology, Vice President of the Hong Kong Institute of Bankers and a member of Board of Governors of The Hong Kong Philharmonic Society Limited.

Dr FUNG obtained his MBA Degree from the University of Toronto in 1973, and was awarded an Honorary Doctor of Business Administration by the Hong Kong Polytechnic University in 2001 and an Honorary Doctor of Laws by the University of Toronto in 2005.

Dr FUNG is a son of the late Mr Y K FUNG, founder of the Bank.

### Mr Frank John WANG
**Executive Director & Deputy Chief Executive**
Aged 62. Mr WANG joined the Bank as Executive Director and Deputy Chief Executive in June 1999. He is a member of the Executive Committee, Risk Management Committee, Credit Committee and Management Committee of the Bank and a director of various subsidiaries of the Bank. Mr WANG is also a former member of the Deposit Taking Company Advisory Committee. He previously worked with The Bank of New York Mellon and has extensive credit control experience.

Mr WANG obtained his MBA Degree from the Cornell University in 1979.

### Mr FUNG Yuk Sing Michael
**Executive Director & Senior General Manager**
Aged 64. Mr FUNG joined the Bank in 1978 and was appointed an Executive Director in 1992. He is a member of the Executive Committee, Credit Committee, Management Committee and a director of various subsidiaries of the Bank.

Mr FUNG obtained his BA Degree from the Carleton University in Ottawa, Canada.

Mr FUNG is a son of the late Mr Y K FUNG, founder of the Bank.

### Mr HO Chi Wai Louis
**Non-executive Director**
Aged 77. Mr HO joined the Bank in 1972. He was appointed an Executive Director in October 1995 and re-designated as Non-executive Director of the Bank on 1st July, 2008. He is also a member of Nomination Committee of the Bank. Before his re-designation as a Non-executive Director of the Bank, Mr HO was the Company Secretary and a member of the Management Committee and Credit Committee of the Bank.

Mr HO obtained an Engineering Degree from the McGill University in 1961. Mr HO is presently an Honorary Adviser of The Chinese Gold and Silver Exchange Society.

Mr HO is the brother-in-law of Dr FUNG Yuk Bun Patrick and Mr FUNG Yuk Sing Michael.

### Mr Stephen Dubois LACKEY
**Non-executive Director**
Aged 57. Mr LACKEY joined the Board in July 2011 and is a member of Audit Committee of the Bank. He is currently the Chairman of Asia Pacific for The Bank of New York Mellon and a member of its Executive Committee. Immediately prior to taking up his current position, he served as Head of Global Corporate Development and Investor Relations of The Bank of New York Mellon in New York. Mr LACKEY has substantial experience in the banking industry.

Mr LACKEY obtained a Bachelor's Degree from Vanderbilt University and a Master's Degree in International Management from the American Graduate School of International Management (Thunderbird).

### Mr Brian Gerard ROGAN
**Non-executive Director**
Aged 56. Mr ROGAN joined the Board in January 2009. He is currently a Vice Chairman and Chief Risk Officer of The Bank of New York Mellon Corporation and its subsidiary, The Bank of New York Mellon. Mr ROGAN started his career with The Bank of New York in 1981. He has extensive experience in the banking industry.

Mr ROGAN obtained a Bachelor's Degree in Economics from the University of Rochester, New York in 1979 and a Master Degree in Business Administration from UCLA Anderson School of Management, Los Angeles, California in 1988.

# Biographical Details of Directors

### Dr CHENG Hon Kwan GBS, JP

**Independent Non-executive Director**

Aged 86. Dr CHENG joined the Board in 1987. He is the Chairman of the Audit Committee and Remuneration Committee and a member of the Nomination Committee of the Bank. Dr CHENG is also an independent non-executive director of Agile Property Holdings Limited, Hang Lung Group Limited, Hang Lung Properties Limited and Tianjin Development Holdings Limited. These companies are listed on the Stock Exchange. Dr CHENG is a former member of the Executive Council and Legislative Council, and former Chairman of Land and Building Advisory Committee, Transport Advisory Committee, Hong Kong Housing Authority, Councils of City University and Open University of Hong Kong.

Dr CHENG obtained a Bachelor's Degree in Engineering from the Tianjin University and is a fellow of Imperial College London, an Honorary Fellow, Gold Medallist and former President of The Hong Kong Institution of Engineers. He is also Fellow and Gold Medallist of The Institution of Structural Engineers.

### Mr LAU Hon Chuen Ambrose GBS, JP

**Independent Non-executive Director**

Aged 66. Mr LAU joined the Board in 1996. He is a member of the Remuneration Committee and the Chairman of the Nomination Committee of the Bank. Mr LAU is an independent non-executive director of Brightoil Petroleum (Holdings) Limited, Franshion Properties (China) Limited, Glorious Sun Enterprises Limited, Yuexiu Transport Infrastructure Limited, COFCO Land Holdings Limited, Yuexiu Property Company Limited and The People's Insurance Company (Group) of China Limited. He was formerly an independent non-executive director of Qin Jia Yuan Media Services Company Limited. These companies are listed on the Stock Exchange.

Mr LAU obtained his LLB Degree from the University of London. He is a solicitor of the High Court of the HKSAR, a China-Appointed Attesting Officer and a Notary Public and the Senior Partner of Messrs Chu and Lau, Solicitors and Notaries.

Mr LAU was awarded the Gold Bauhinia Star by the HKSAR Government in 2001. He is also a Standing Committee member of the National Committee of the Chinese People's Political Consultative Conference.

### Mr LI Sze Kuen Billy

**Independent Non-executive Director**

Aged 67. Mr LI joined the Board on 9 May, 2013. He is a member of the Risk Management Committee of the Bank. Mr LI has extensive professional experience in audit and accounting. He is currently a director of a Certified Public Accounting firm in Hong Kong. Mr LI is a member of the Canadian Institute of Chartered Accountants and the Hong Kong Institute of Certified Public Accountants. He graduated from the University of Manitoba, Canada in 1970 with a Bachelor of Arts degree. Mr LI was appointed as an independent director of the Bank's wholly owned subsidiary Wing Hang Bank (China) Limited in December 2011, and currently still holds this position. He is currently also an independent non-executive director of Capital Estate Limited, a company listed on the Stock Exchange.

### Mr TSE Hau Yin Aloysius

**Independent Non-executive Director**

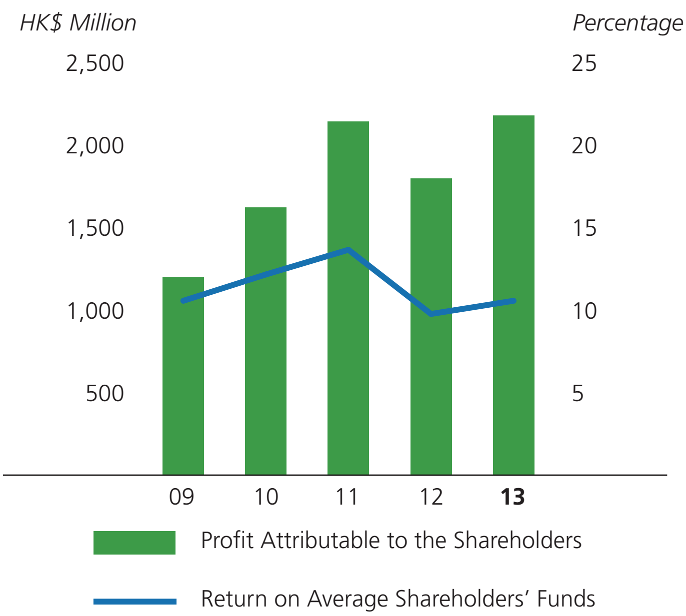
Aged 66. Mr TSE joined the Board in November 2004. He is the Chairman of the Risk Management Committee and a member of the Audit Committee of the Bank. He is also the Supervisor of two subsidiaries of the Bank incorporated in Macau and China. Mr TSE is a fellow of the Institute of Chartered Accountants in England and Wales, and the Hong Kong Institute of Certified Public Accountants ("HKICPA"), a former president and a former member of the Audit Committee of the HKICPA. Mr TSE joined KPMG in 1976 and became a partner in 1984 and retired in March 2003. Mr TSE was a non-executive chairman of KPMG's operations in the PRC and a member of the KPMG China Advisory Board from 1997 to 2000. Mr TSE also serves as independent non-executive director in a number of listed companies in Hong Kong, including China Telecom Corporation Limited, CNOOC Limited, Linmark Group Limited, Sinofert Holdings Limited and SJM Holdings Limited. Between 2004 and 2010, he was an independent non-executive director of China Construction Bank Corporation, which is listed on the Stock Exchange Main Board. He has been an independent non-executive director of CCB International (Holdings) Limited, a wholly-owned subsidiary of China Construction Bank Corporation since March 2013. He is currently a member of the International Advisory Council of The People's Municipal Government of Wuhan.

Mr TSE is a graduate of the University of Hong Kong.

# Chairman's Statement

**Dr FUNG Yuk Bun Patrick JP**
***Chairman & Chief Executive***

## Profit Attributable to the Shareholders / Return on Average Shareholders' Funds




The Group achieved record profit in 2013 with satisfactory growth across all business divisions. Profit attributable to shareholders rose by 21.3 percent to HK$2,187.1 million for the year ended 31st December, 2013 compared to HK$1,802.4 million in 2012. Earnings were boosted by an increase in net interest income as well as capital gains on disposal of properties and financial assets. Earnings per share increased by 19.5 percent to HK$7.17. The Board has recommended a final dividend of HK$1.62 per share. Together with the interim dividend of HK$0.46 paid on 9th October, 2013 the year's total distribution amounts to HK$2.08 per share.

# Chairman's Statement

Hong Kong's economy grew moderately during the first three quarters of 2013. Real GDP growth in the third quarter was 2.9 percent higher than the same period in 2012. The economy was underpinned by exports and stable labor market conditions. By the end of the year the unemployment rate stood at just 3.2 percent. Merchandise imports and exports staged a recovery on the back of stronger economic growth in the United States and a modest pick-up in Europe. Meanwhile underlying inflation trended down to 4.0 percent in 2013 from 4.7 percent previously as a result of slower residential rental growth.

In China the economy grew by 7.7 percent in 2013. A modest recovery in external demand has given rise to improved merchandise trade conditions. In addition, an increasingly affluent middle class boosted retail sales by more than 13 percent. However, in an effort to rein in credit growth, the government announced new regulations on risk controls in the shadow banking sector in July. This has led to a deleveraging of the economy. Both factors have driven interbank interest rates in China to higher levels.

The tight liquidity conditions in China have prompted growing demand for loans in Hong Kong. Total loans and advances jumped by 16.0 percent whereas loans for use outside Hong Kong grew by 21.5 percent. Meanwhile demand for mortgage loans was relatively subdued following the implementation of additional stamp duty measures by the Hong Kong authorities. Outstanding residential mortgage loans increased by just 4.1 percent in 2013.

Despite these challenges, Wing Hang was able to achieve moderate growth in customer loans and total deposits which jumped by 18.6 percent and 9.3 percent respectively over the previous year. Loan demand was broad-based across the various business units including residential mortgages, the wholesale and retail trade, auto and equipment leasing as well as corporate and consumer lending. This was supported by higher loan demand in Macau and on the Mainland. Deposit growth was fuelled by a significant increase in demand and time deposits.

The Group's asset quality remains sound supported by strong economic fundamentals and an effective credit risk monitoring policy.

Here are some key financial ratios for the year under review:

- Return on average shareholders' funds: 10.6 percent
- Loan-to-deposit ratio as at 31st December: 73.0 percent
- Average liquidity ratio: 38.6 percent
- Total capital ratio as at 31st December: 15.9 percent
- Tier 1 capital ratio as at 31st December: 12.0 percent

Our network currently comprises 42 branches in Hong Kong, 13 branches in Macau and 15 branches/sub-branches on the Mainland. As at 31st December, 2013, the Group employed a total of 3,446 staff.

Looking ahead, we expect the local economy to achieve moderate growth in 2014 supported by low unemployment and recovering external demand mainly from the United States and Europe. Tighter credit conditions in China could cause the deposit environment more competitive this year. There is also a risk of capital flight as the Federal Reserve continues to reduce its quantitative easing operations.

With the growing internationalisation of the RMB, interest rate differentials between Hong Kong and the Mainland will give rise to ample opportunities for our onshore and offshore RMB businesses. As China's economy continues to develop we will remain strategically focused on these RMB-related businesses.

Once again, I wish to extend my sincere gratitude to all our customers, shareholders and colleagues for their support of Wing Hang Bank. I am also indebted to the Board of directors for their continued support and counsel.

**FUNG Yuk Bun Patrick**
*Chairman and Chief Executive*

Hong Kong, 6th March, 2014

# Review of Operations

## Financial Review

For the year ended 31st December, 2013, profit attributable to shareholders increased by 21.3 percent to HK$2,187.1 million compared to HK$1,802.4 million in 2012.

Here are the key financial statistics for the financial year:

- Profit before taxation increased by 20.6 percent to HK$2,555.5 million. This improvement was largely due to an increase in net interest income and capital gains on disposal of properties and financial assets.

- Net interest income increased by 13.0 percent to HK$3,338.5 million as a direct result of higher interest income and reduced interest expenses. Our net interest margin improved by 9 basis points to 1.71 percent thanks to higher loan volumes coupled with lower interest expenses on our subordinated debt.

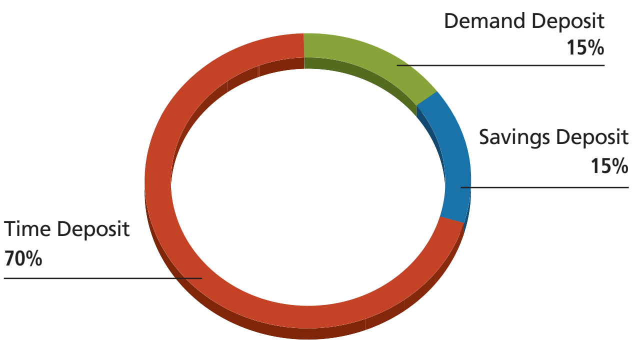
- Other operating income increased by 4.1 percent to HK$845.6 million supported by higher insurance, credit card and share brokerage commissions.

- Total operating expenses increased by 20.8 percent to HK$2,236.2 million. The Group's cost-to-income ratio increased to 52.0 percent compared to 47.6 percent the previous year.

- Impairment losses and allowances for loans and advances decreased by 63.4 percent to HK$86.3 million. Impaired loans as of 31st December 2013 stood at HK$594.6 million, equivalent to 0.44 percent of total loans.

- Net gains on the revaluation and disposal of properties increased by 70.2 percent to HK$315.5 million.

### Deposit Mix




### Loan Composition

| | | | |
|---|---|---|---|
| Property Development & Investment | 17% | Share Financing | 1% |
| Residential – Individuals | 17% | Non-domestic Loans | 33% |
| HOS & PSPS* | 2% | Loans to Corporate | 5% |
| Trade Finance | 7% | Commercial | 12% |
| Loans to Individuals | 6% | | |

* Home Ownership Scheme and Private Sector Participation Scheme.

- Net gains from the disposal of available-for-sale financial assets increased by 143.2 percent to HK$210.6 million following the sale of available-for-sales debt securities and equity investment.

- Total deposits increased by 9.3 percent to HK$185.4 billion while customer deposits grew by 7.2 percent to HK$177.9 billion. Certificates of deposit issued by the bank increased by 63.3 percent to HK$4.2 billion.

- Total customer loans increased by 18.6 percent to HK$135.3 billion. This significant increase was supported by broad-based loan demand in residential mortgages, the wholesale and retail trade, auto and equipment leasing, corporate and consumer lending as well as in Macau and China.

## Retail Banking

Retail Banking enjoyed solid growth in 2013 as profit before taxation jumped by 11.1 percent over the previous year.

In the residential mortgage business, we introduced a range of new and comprehensive loan packages that proved popular with our customers. Consequently we continued to outperform the market achieving growth of 16.2 percent despite keen market competition.

We were also able to further expand our customer base by launching promotions in a range of products and services such as deposits, securities trading, payrolls, retail shop programs, Elite Gold Banking as well as loans under the SME Financing Guarantee Scheme.

In May we launched an Integrated Account through which customers can simultaneously manage their savings accounts, time deposit accounts and current accounts. Customers can now review the balances of their investment accounts, credit cards and gold accounts in a single consolidated statement. The launch of the Integrated Account also facilitates the cross-selling of our products and services.

In eBanking we continue to strengthen our range of services. For instance we now offer online services for unit trusts, equity-linked and currency-linked deposits and bill payments through credit card accounts.

Security in online banking is always an important concern. In order to enhance the security of our customer accounts we have introduced dual passwords for potentially high-risk transactions. In addition an overseas withdrawal limit has been set for ATM cards while all debit cards are now embedded with a chip.

In terms of our branch network, we attach great importance to interior design features so that our customers can enjoy the user experience. A new branch was opened in Sheung Shui in January while several other branches were renovated and/or expanded over the past year. In a further development, we opened our first Wing Hang Elite Gold Banking Zone at the North Point branch in August. Customers visiting the zone, which is equipped with a stock quote machine, can now enjoy various high-level banking services such as share trading and wealth management. The aim is to provide a cozy and quiet environment for our premium customers to enjoy our banking services in privacy.

In October the Hong Kong Monetary Authority launched the "Treat Customers Fairly (TCF) Charter" which compels banks to protect the interests of their customers. As a signatory to the charter, Wing Hang announced the cancellation of its service fees on all dormant accounts.

Looking ahead we will continue to upgrade our branch network and develop new products and services to capture more cross-selling opportunities. At the same time we are broadening the scope of our eBanking platform and participating in the development of new retail payment initiatives such as Near Field Communications mobile payment services.

# Review of Operations

## Consumer Finance

Despite tough competition, Wing Hang Credit continued to maintain its leading market position by offering a wide range of high quality loan products to our customers. Throughout the year successful brand building campaigns and marketing promotions enabled us to boost personal and tax loans by 22.9 percent. The opening of a new branch in Jordan increased our network across Hong Kong to 24 offices. This has enabled us to broaden our business scale and customer base.

This year the company will focus on diversifying our promotional channels, such as via email marketing and mobile phone applications, in order to further improve our market position and enhance customer interaction. We are committed to maintain our leadership position in the local consumer finance market by proactively strengthening our brand identity while at the same time exploring new business opportunities.

## Auto and Equipment Leasing

Demand for auto and equipment financing in Hong Kong remained relatively robust throughout the year. Our loan portfolio grew by 8.1 percent enabling us to maintain our leading market position. Despite a rise in funding costs in the second half of 2013, we have strived to keep profitability at a similar level to last year. This was achieved by further improving customer service while taking measures to stabilise the cost of funding. In the equipment finance sector, we have been impacted by the tightening of monetary policy in China. However we were still able to achieve moderate growth in this comparatively high margin business.

## Wing Hang Insurance

General insurance commissions maintained steady growth throughout the year as premiums rose on a number of insurance products. There have also been more cross-selling opportunities for products such as life insurance across our branch network. Total commission income increased by 12.1 percent compared with the previous year.

## Wing Hang Share Brokerage

There was an improvement in market sentiment in Hong Kong last year leading to a more active stock trading environment. Average daily market turnover on the stock exchange surged by 14.8 percent over the previous year. As a result, brokerage income grew by 17.6 percent despite keen competition from other brokers and retail banks.

To sustain further growth we plan to launch marketing campaigns to target corporate and high-net-worth clients in order to maintain our competitive edge and further increase our market share.

## Corporate Banking

An increase in net interest income helped to boost profit before taxation in Corporate Banking by 70.7 percent. Total loan volumes recorded an increase of 26.6 percent over 2012 with respectable business growth particularly in the corporate bilateral loan sector. With an emphasis on prudent lending and risk diversification, the credit quality of our loan portfolio has remained sound. This is reflected in our low impaired loan ratio.

In view of a brighter global economic outlook in the year ahead, we shall continue to grow our corporate loan portfolio while maintaining a reasonable interest-rate spread. We shall continue to focus on high-credit-quality medium to large corporations while at the same time enhancing customer cross-referral initiatives between Hong Kong and China.

## Treasury

Profit before taxation in the Treasury division rose by 3.4 percent over the previous year. The profit growth was supported by the reduction in interest expense due to early redemption of one of our subordinated debts. Partially offsetting this increase was the partial sale of our debt securities portfolio to fund new loan demand.

## China

Our China operations remained strong in 2013 due to a 74.1 percent reduction in impairment losses. This helped to boost profit before taxation by 57.9 percent over 2012. In line with market demand, loan assets at our wholly-owned subsidiary Wing Hang Bank (China) Limited ("WHBCL") achieved moderate growth. Meanwhile WHBCL has continued to explore cross-border trade business opportunities by leveraging our China/Hong Kong/Macau platform.

Our business focusing on small enterprises in China has continued to grow at a good pace resulting in the expansion of our unsecured loan portfolio. To meet the growing business needs of these small enterprises we have also launched a new secured loan product with encouraging results. The equipment financing business also maintained satisfactory growth during the year.

Looking ahead WHBCL will continue to seek opportunities to strengthen its branch network in the Pearl River Delta. In October last year we opened a new sub-branch in the Haizhu District of Guangzhou to capture more mortgage lending opportunities in the area as well as to provide loans for SMEs and equipment financing. Currently WHBCL's network comprises a total of 15 branches/sub-branches in China.

## Macau

Macau's economy continues to power ahead as the gaming and tourism industries flourish. Real GDP grew by 10.5 percent in the first three quarters of 2013. Reflecting this strong growth, Banco Weng Hang's net profit surged 31.2 percent to 356.3 million patacas.

Net interest income jumped 25.4 percent on the back of strong consumer loan demand coupled with lower deposit funding costs. Non-interest income also increased by a healthy 11.3 percent as fees from several business divisions including share trading, foreign exchange and credit cards all recorded double digit growth.

The lending business remained robust as total loans increased by 19.9 percent compared to the end of 2012. This was supported by an increase in mortgage, consumer and corporate loans. Encouragingly, customer deposit growth almost matched loan growth rising by 15.4 percent. This followed the launch of a number of successful campaigns to promote new savings products. Our loan-to-deposit ratio remained at a healthy level of 72.5 percent. Net gain from a property disposal increased by 28.2 million patacas to 54.0 million patacas.

# Report of the Directors

The Directors of Wing Hang Bank, Limited (the "Bank") have pleasure in presenting their report together with the audited consolidated financial statements of the Bank and its subsidiaries (collectively the "Group") for the year ended 31st December, 2013.

## Principal Place of Business

The Bank is a licensed bank incorporated and domiciled in Hong Kong and has its registered office and principal place of business at 161 Queen's Road Central, Hong Kong.

## Principal Activities

The Group is engaged in commercial banking and related financial services.

The analysis of the principal activities and geographical locations of operations of the Group during the year are set out in notes 20 and 35 to the financial statements.

## Results and Dividend

The results of the Group for the year ended 31st December, 2013 and the state of affairs of the Group and the Bank as at 31st December, 2013 are set out in the financial statements on pages 44 to 171.

The Board has recommended the payment of a final dividend of HK$1.62 (2012: HK$1.62) per share for the year ended 31st December, 2013 to shareholders whose names appear on the register of members of the Bank on Thursday, 8th May, 2014, subject to shareholders' approval at the forthcoming annual general meeting of the Bank to be held on Wednesday, 30th April, 2014 ("AGM"). The final dividend, if approved, will be paid in cash on Monday, 19th May, 2014. The dividend warrants will be sent to shareholders by ordinary mail on or around Monday, 19th May, 2014.

## Reserves

Profit attributable to shareholders of HK$2,187,123,000 (2012: HK$1,802,361,000) has been transferred to reserves. Details of the movements in reserves of the Group during the year are set out in the consolidated statement of changes in equity.

## Major Customers

The Directors believe that the five largest customers of the Group accounted for less than 30% of the total income of the Group for the year.

## Fixed Assets

Details of the movements in fixed assets of the Group and of the Bank during the year are set out in note 22 to the financial statements.

## Share Capital

During the year, the Bank issued 5,261,822 (2012: 3,350,592) ordinary shares under the share option scheme, employee incentive plan and scrip dividend schemes of the Bank. Details of the share capital are set out in note 31 to the financial statements.

## Charitable Donations

During the year, the Group made donations for charitable and community purposes amounting to approximately HK$1,675,000 (2012: HK$1,308,000).

## Directors

The Directors of the Bank during the year and up to the date of this report are as follows:

### Executive Directors

Dr FUNG Yuk Bun Patrick JP *(Chairman & Chief Executive)*
Mr Frank John WANG *(Deputy Chief Executive)*
Mr FUNG Yuk Sing Michael *(Senior General Manager)*

### Non-executive Directors

Mr HO Chi Wai Louis
Mr Stephen Dubois LACKEY
Mr Brian Gerard ROGAN

### Independent Non-executive Directors

Dr CHENG Hon Kwan GBS, JP
Mr LAU Hon Chuen Ambrose GBS, JP
Mr LI Sze Kuen Billy *(appointed on 9th May, 2013)*
Mr TSE Hau Yin Aloysius
Mr TUNG Chee Chen *(retired on 9th May, 2013)*

During the year, Mr LI Sze Kuen Billy was appointed as Independent Non-executive Director and Mr TUNG Chee Chen retired as Independent Non-executive Director with effect from 9th May, 2013.

In accordance with the Bank's Articles of Association, Dr CHENG Hon Kwan and Mr TSE Hau Yin Aloysius will retire from office by rotation at the AGM. These retiring Directors, being eligible, have offered themselves for re-election at the AGM. Other remaining Directors of the Bank will continue in office.

None of the Directors offering themselves for re-election at the AGM has a service contract with the Bank or any of its subsidiaries that is not determinable by the Bank within one year without payment of compensation (other than statutory compensation).

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

Except for the share option scheme and the employee incentive plans of the Bank, at no time during the year was the Bank, or any of its subsidiaries a party to any arrangements to enable the Directors of the Bank to acquire benefits by means of the acquisition of shares in or debentures of the Bank or any other body corporate. Details of the share option scheme and the employee incentive plans are set out in the following sections headed "Share Option Scheme" and "Employee Incentive Plans".

## Changes in Information in respect of Directors

There is no change in Directors' information since the date of the 2013 Interim Report of the Bank required to be disclosed pursuant to Rule 13.51B(1) of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

## Directors and Chief Executive's Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Bank or any Associated Corporation

As at 31st December, 2013, the interests and short positions of the Directors and Chief Executive of the Bank and their respective associates in the shares, underlying shares and debentures of the Bank or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) are as follows:

### Long position in Ordinary Shares of the Bank

| | Number of shares | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Name of Director | Personal interest | Family interest | Corporate interest | Option Note(1) | Award Note(2) | Others | Total | Percentage of the number of issued shares Note(4) |
| FUNG Yuk Bun Patrick | 3,484,500 | – | – | 100,000 | 482,500 | Note(3) | 4,067,000 | 1.32 |
| FUNG Yuk Sing Michael | 3,261,750 | 60,000 | – | 80,000 | 241,250 | Note(3) | 3,643,000 | 1.19 |
| HO Chi Wai Louis | 319,500 | 103,000 | – | – | 5,000 | Note(3) | 427,500 | 0.14 |
| LAU Hon Chuen Ambrose | 76,931 | – | – | – | – | – | 76,931 | 0.03 |
| Frank John WANG | 103,000 | – | – | 80,000 | 292,000 | – | 475,000 | 0.15 |

### Subordinated Note of the Bank

| | Amount (US$) | | | | |
|---|---|---|---|---|---|
| Name of Director | Personal interest | Family interest | Corporate interest | Others | Total |
| FUNG Yuk Sing Michael | – | – | 3,000,000 | – | 3,000,000 |

Notes:

(1) Share options were granted to the Directors pursuant to the share option scheme adopted by the Bank on 24th April, 2003. Details of the share options are stated under the section headed "Share Option Scheme".

(2) Share awards were granted to the Directors pursuant to the employee incentive plan adopted by the Bank on 22nd April, 2004. Details of the share awards are stated under the section headed "Employee Incentive Plans".

(3) Dr FUNG Yuk Bun Patrick, Mr FUNG Yuk Sing Michael and the spouse of Mr HO Chi Wai Louis, together with other parties, are eligible beneficiaries of the trusts of Po Ding Company Limited, YKF Holding (PTC) Corporation and Tessel Inc. The interests of these corporations in the shares of the Bank are stated under the section headed "Substantial Shareholders' Interests".

(4) The number of issued shares of the Bank as at 31st December, 2013 was 307,424,722 shares.

Save as disclosed above and for certain Directors holding non-beneficial interests in the share capital of some of the subsidiaries of the Bank as nominee shareholders, as at 31st December, 2013, none of the Directors or Chief Executive of the Bank or their respective associates had any interests or short positions in any shares, underlying shares and debentures of the Bank or any associated corporation (within the meaning of the SFO).

## Substantial Shareholders' Interests

As at 31st December, 2013, the following persons (other than a Director or Chief Executive of the Bank) had interests or short positions in the shares and underlying shares of the Bank as recorded in the register required to be kept under Section 336 of the SFO:

### Interests or short position in Ordinary Shares of the Bank

| Name | Capacity and nature | Number of shares | Percentage of issued share capital Note[4] |
|---|---|---|---|
| The Bank of New York Mellon Corporation | Interest in controlled corporation / Approved lending agent | 63,815,936 (Long position) 1,085,507 (Lending pool) Note[1] | 20.76<br>0.35 |
| The Bank of New York Mellon | Interest in controlled corporation / Approved lending agent | 63,815,936 (Long position) 1,085,507 (Lending pool) Note[1] | 20.76<br>0.35 |
| BNY International Financing Corporation | Beneficial owner | 63,815,936 Note[1] | 20.76 |
| Federal Trust Company Limited | Trustee | 36,463,200 Notes[2] & [3] | 11.86 |
| Aberdeen Asset Management PLC and its associates | Investment manager | 27,821,328 | 9.05 |
| YKF Holding (PTC) Corporation | Trustee | 25,803,900 Notes[2] & [3] | 8.39 |
| Po Ding Company Limited | Trustee | 25,551,500 Note[2] & [3] | 8.31 |
| Wing Hang Bank (Nominees) Limited | Nominee | 23,378,400 Notes[2] & [3] | 7.60 |
| Schroders Plc | Investment manager | 17,105,022 | 5.56 |
| Tessel Inc. | Trustee | 10,911,700 Notes[2] & [3] | 3.55 |

Notes:

(1) BNY International Financing Corporation is a wholly-owned subsidiary of The Bank of New York Mellon. The Bank of New York Mellon is a wholly-owned subsidiary of The Bank of New York Mellon Corporation. The Bank of New York Mellon Corporation and The Bank of New York Mellon hold 63,815,936 shares as interest in controlled corporation and hold 1,085,507 shares as an approved lending agent of a lending pool.

(2) Federal Trust Company Limited is the trustee for Tessel Inc. and Po Ding Company Limited. Wing Hang Bank (Nominees) Limited is the registered holder of certain shares on behalf of YKF Holding (PTC) Corporation.

(3) Each of Po Ding Company Limited, YKF Holding (PTC) Corporation and Tessel Inc. is a trust of which Dr FUNG Yuk Bun Patrick, Mr FUNG Yuk Sing Michael and the spouse of Mr HO Chi Wai Louis, together with other parties, are eligible beneficiaries.

(4) The number of issued shares of the Bank as at 31st December, 2013 was 307,424,722 shares.

Save as disclosed above, as at 31st December, 2013, no other interests or short positions in the shares or underlying shares of the Bank were recorded in the register required to be kept by the Bank under Section 336 of the SFO.

## Share Option Scheme

The Bank's share option scheme was adopted on 24th April, 2003 ("Share Option Scheme") and has expired in April 2013 and ceased to have any further effect, except that the options granted thereunder remain valid and exercisable until expiry of their exercise periods.

A summary of the Share Option Scheme as required to be disclosed under the Listing Rules is as follows:

### (1) Purpose of the Share Option Scheme

The Share Option Scheme is to enable the Group to grant options to selected participants as incentives and rewards for their contribution to the Group and will also assist the Group in its recruitment and retention of high calibre professionals, executives and employees who are instrumental to the growth of the Group.

### (2) Participants of the Share Option Scheme

The Directors may at their absolute discretion, invite any full time employee of the Group, including executive directors, to take up options to subscribe for shares.

### (3) Maximum number of shares available for issue

Maximum number of shares available for issue under the Share Option Scheme is 14,678,000 shares, which is 5% of the issued share capital of the Bank as at the date of adoption of the Share Option Scheme.

### (4) Maximum entitlement of each participant under the Share Option Scheme

The total number of shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option scheme (including both exercised or outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital. Any further grant of options in excess of this limit in any 12-month period up to and including the date of such further grant shall be subject to shareholders' approval at general meeting of the Bank with such participants and his associates abstaining from voting.

### (5) The period within which the shares must be taken up under an option

An option may be exercised during the period commencing on the first anniversary of the date of grant of such option and expiring at the close of business on the tenth anniversary of the date of grant of such option.

### (6) The minimum period for which an option must be held before it can be exercised

The minimum period for which an option must be held before it can be exercised is one year after the date of grant.

**(7) The amount payable on acceptance of an option and the period open for acceptance**

An option must be accepted within 21 days from the date of grant and a consideration of HK$1.00 must be paid on acceptance.

**(8) The basis of determining the exercise price**

The exercise price for shares under the Share Option Scheme shall be a price determined by the Directors but shall not be less than the highest of:

(i) the closing price of the shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant which must be a business day; and

(ii) the average closing price of shares as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of grant which must be a business day.

**(9) The remaining life of the Share Option Scheme**

The Share Option Scheme has expired at the close of business on 24th April, 2013. As at the date of this report, the total number of shares of the Bank outstanding and available for issue under the Share Option Scheme is 460,000 shares, which represents 0.15% of the number of issued shares of the Bank on the date of this report.

On 31st December, 2013, the closing price of the shares of the Bank on the Stock Exchange was HK$117.00.

Details of the movements of outstanding options granted under the Share Option Scheme during the year ended 31st December, 2013 as required under the Listing Rules are disclosed as follows:

| | | Number of options | | | | | |
|---|---|---|---|---|---|---|---|
| | Date of grant | Outstanding as at 01/01/2013 | Granted | Exercised | Lapsed/ cancelled | Outstanding as at **31/12/2013** | Exercise price |
| | | | | | | | HK$ |
| **Director** | | | | | | | |
| FUNG Yuk Bun Patrick | 21/05/2004 | 50,000 | – | – | – | **50,000** | 43.80 |
| | 14/01/2005 | 50,000 | – | – | – | **50,000** | 51.25 |
| FUNG Yuk Sing Michael | 21/05/2004 | 40,000 | – | – | – | **40,000** | 43.80 |
| | 14/01/2005 | 40,000 | – | – | – | **40,000** | 51.25 |
| Frank John WANG | 21/05/2004 | 40,000 | – | – | – | **40,000** | 43.80 |
| | 14/01/2005 | 40,000 | – | – | – | **40,000** | 51.25 |
| **Employees**(1) | 21/05/2004 | 135,000 | – | 25,000 | – | **110,000** | 43.80 |
| | 14/01/2005 | 50,000 | – | – | – | **50,000** | 51.25 |
| | 28/01/2005 | 40,000 | – | – | – | **40,000** | 50.25 |
| | | 485,000 | – | 25,000 | – | **460,000** | |

(1) The number of employees involved is 7.

(2) Exercise period of an option commences on the first anniversary of the date of grant of such option and expiring at the close of business on the tenth anniversary of the date of grant of such option.

## Employee Incentive Plans

The Bank's existing employee incentive plan was approved by the independent shareholders at the annual general meeting held on 30th April, 2009 (the "2009 EIP") and will expire in April 2014. The 2009 EIP was to renew the employee incentive plan approved by the independent shareholders on 22nd April, 2004 which had expired in April 2009 (the "2004 EIP").

The principal objectives of the 2009 EIP are to reward Executive Directors and key employees of the Group for their contributions and to incentivise such persons to remain in employment with the Group.

Under the 2009 EIP, the Board may during the first five years after the 2009 EIP was approved grant awards at no consideration for certain Executive Directors and key employees of the Group to acquire ordinary shares in the Bank at a nominal value of HK$1.00 per share. The maximum number of shares that may be issued under the 2009 EIP is 1,000,000 shares, of which no more than 500,000 shares may be issued to Executive Directors. The fair value is measured at the date of grant and is charged to the income statement and credited to shareholders' funds between the date of grant and the vesting date. The cash amount equal to the dividend that will be paid during the period up to vesting is charged to the income statement as bonus expenses on an accrual basis.

The awards granted under the 2004 EIP and 2009 EIP will be vested in stages between the sixth and the tenth anniversary of the date of grant according to its terms and conditions. Awards granted under the 2004 EIP and 2009 EIP are as follows:

| | | Number of awards | | | | | |
|---|---|---|---|---|---|---|---|
| | Date of grant | As at 01/01/2013 | Granted | Vested | Lapsed/ cancelled | As at **31/12/2013** | Fair value of awards at the date of grant |
| | | | | | | | HK$ |
| **Director** | | | | | | | |
| FUNG Yuk Bun Patrick | 21/05/2004[1] | 140,000 | – | 40,000 | – | **100,000** | 42.80 |
| | 23/01/2006[1] | 427,500 | – | 45,000 | – | **382,500** | 56.20 |
| FUNG Yuk Sing Michael | 21/05/2004[1] | 70,000 | – | 20,000 | – | **50,000** | 42.80 |
| | 23/01/2006[1] | 213,750 | – | 22,500 | – | **191,250** | 56.20 |
| HO Chi Wai Louis | 21/05/2004[1] | 7,000 | – | 2,000 | – | **5,000** | 42.80 |
| Frank John WANG | 21/05/2004[1] | 87,500 | – | 25,000 | – | **62,500** | 42.80 |
| | 23/01/2006[1] | 256,500 | – | 27,000 | – | **229,500** | 56.20 |
| **Employees**[3] | 21/05/2004[1] | 42,000 | – | 12,000 | – | **30,000** | 42.80 |
| | 23/01/2006[1] | 584,250 | – | 61,500 | – | **522,750** | 56.20 |
| | 29/01/2007[1] | 140,000 | – | 7,000 | – | **133,000** | 94.60 |
| | 05/11/2009[2] | 105,000 | – | – | – | **105,000** | 74.50 |
| | | 2,073,500 | – | 262,000 | – | **1,811,500** | |

(1) Awards were granted under the 2004 EIP.

(2) Awards were granted under the 2009 EIP.

(3) The number of employees involved is 14.

## Management Contract

No contract for the management and administration of the whole or any substantial part of any business of the Bank was entered into or existed during the year.

## Purchase, Sale or Redemption of the Bank's Listed Securities

On 11th September, 2013, the Bank early redeemed the perpetual subordinated notes with face value US$225,000,000 (the "Notes") at 100 percent of the principal amount. The Notes bore interest of 9.375 per cent per annum and were listed on Singapore Exchange Securities Trading Limited.

Save as disclosed above, there was no purchase, sale or redemption by the Bank, or any of its subsidiaries, of the Bank's listed securities during the year ended 31st December, 2013.

## Human Resources

Human resources are key capital of the Group. Our strategic imperative is to develop employees and maximise their capabilities to meet challenges and deliver business results.

## Employee Statistics

As at 31st December, 2013, the Group's total staff number is as follows:

| | |
|---|---|
| Hong Kong | 2,165 |
| Mainland China | 804 |
| Macau | 477 |
| | **3,446** |

## Employee Remuneration

The Group adopts a holistic approach towards rewarding and recognizing its employees for good performance. Remuneration incentives are performance driven where benchmarking with market practice and salary reviews are performed periodically to upkeep competitiveness and retain talent. Performance in relation to financial and nonfinancial factors such as adherence to risk management policies, compliance with regulatory requirements, code of conduct, ethical value and customer satisfaction also form a significant part of the overall performance measurement of our employees. The Group operates a discretionary bonus scheme to recognize performers for their exceptional contributions, with alignment to the Group's risk management framework and long-term financial soundness.

## Employee Care

In supporting employees to achieve a healthy work-life balance, the Group organised "Staff Caring Weeks" program each year with focus on health, family, leisure, continuous learning and social responsibility.

The Group continues to encourage its employees to participate in social services by offering social service leave, and to take care of their personal life and psychological well being through the service of an Employee Assistance Program. Workshops on healthy life style, stress management, family relationships and environmental protection were organized during the year.

## Employee Development

To sustain performance improvement and encourage personal development, the Group organised a wide range of training programs covering both technical and management aspects. Employees are also encouraged to pursue professional or academic qualifications through the Group's Education Subsidy Schemes.

Succession planning and trainee programs were organised to build a pool of future leaders to help sustain the Group's long-term competitiveness.

# Report of the Directors

## Retirement Schemes

Particulars of the retirement schemes of the Group are set out in note 38 to the financial statements.

## Corporate Governance

The Bank's corporate governance practices are set out in the Corporate Governance Report.

## Compliance with the Banking (Disclosure) Rules

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

## Public Float

As at the date of this report, the Bank has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Bank and within the knowledge of the Directors of the Bank.

## Auditors

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Bank is to be proposed at the AGM.

On behalf of the Board

**FUNG Yuk Bun Patrick**
*Chairman & Chief Executive*

Hong Kong, 6th March, 2014

# Corporate Governance Report

## Corporate Governance Practices

The Bank has applied the principles and complied with the code provisions and certain recommended best practices as set out in the Corporate Governance Code in Appendix 14 to the Listing Rules throughout the year ended 31st December, 2013, except for the deviation from code provision A.2.1. Considered reasons for the deviation are stated in the following relevant paragraphs.

The Bank has also complied with Supervisory Policy Manual CG-1 on Corporate Governance of Locally Incorporated Authorised Institutions issued by the Hong Kong Monetary Authority ("HKMA").

## Directors' Securities Transactions

The Bank has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code"), including amendments as effected from time to time, as its own code of conduct to be observed by Directors, Chief Executive and relevant employees who are likely to possess inside information in relation to the Bank.

Having made specific enquiry of all Directors, the Directors have confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 31st December, 2013.

## Board of Directors

### Board Composition

Throughout the year, the Board maintained a balanced composition of Executive and Non-executive Directors, including Independent Non-executive Directors. As at the date of this report, the Board comprises ten members, of whom three are Executive Directors. Amongst the seven Non-executive Directors, four are independent. The independent element on the Board is strong to facilitate independent judgement. Members of the Board are as follows:

#### Executive Directors

Dr FUNG Yuk Bun Patrick JP *(Chairman & Chief Executive)*
Mr Frank John WANG *(Deputy Chief Executive)*
Mr FUNG Yuk Sing Michael *(Senior General Manager)*

#### Non-executive Directors

Mr HO Chi Wai Louis
Mr Stephen Dubois LACKEY
Mr Brian Gerard ROGAN

#### Independent Non-executive Directors

Dr CHENG Hon Kwan GBS, JP
Mr LAU Hon Chuen Ambrose GBS, JP
Mr LI Sze Kuen Billy
Mr TSE Hau Yin Aloysius

During the year, Mr LI Sze Kuen Billy was appointed as Independent Non-executive Director and Mr TUNG Chee Chen retired as Independent Non-executive Director with effect from 9th May, 2013.

Save for that Dr FUNG Yuk Bun Patrick and Mr FUNG Yuk Sing Michael are brothers, and Mr HO Chi Wai Louis is their brother-in-law, all other Directors have no relationship with each other.

Each Director possesses skills and experiences appropriate to the business of the Group and their biographical details are set out on pages 7 to 8. The Bank also meets the requirements of Rule 3.10(2) of the Listing Rules with at least one of the Independent Non-executive Directors possessing appropriate professional qualifications or accounting or related financial management expertise. The Bank also appoints Independent Non-executive Directors representing at least one-third of the Board in accordance with the requirements of Rule 3.10A of the Listing Rules.

Each of the Independent Non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Board considers all Independent Non-executive Directors to be independent.

During the year, five board meetings were held. Dr FUNG Yuk Bun Patrick, Mr Frank John WANG, Mr FUNG Yuk Sing Michael, Mr HO Chi Wai Louis, Mr Stephen Dubois LACKEY, Dr CHENG Hon Kwan, Mr LAU Hon Chuen Ambrose and Mr TSE Hau Yin Aloysius attended all meetings. Mr Brian Gerard ROGAN attended four meetings. Mr LI Sze Kuen Billy attended all three meetings after joining the Board on 9th May, 2013 and Mr TUNG Chee Chen attended one meeting before his retirement on 9th May, 2013.

The 2013 Annual General Meeting of the Bank ("AGM") was held on 9th May, 2013. Dr FUNG Yuk Bun Patrick, Chairman of the Board, Mr Frank John WANG, Mr FUNG Yuk Sing Michael, Mr HO Chi Wai Louis (Member of Nomination Committee), Dr CHENG Hon Kwan (Chairman of Audit Committee and Remuneration Committee and Member of Nomination Committee), Mr LAU Hon Chuen Ambrose (Chairman of Nomination Committee and Member of Remuneration Committee) and Mr TSE Hau Yin Aloysius (Chairman of Risk Management Committee and Member of Audit Committee) attended the AGM.

### Chairman and Chief Executive

The Bank deviated from code provision A.2.1 that requires the roles of chairman and chief executive officer be segregated and not be performed by the same individual. Dr FUNG Yuk Bun Patrick is the Chairman and Chief Executive of the Bank. The Board considered that the non-segregation would not result in considerable concentration of power in one person not only because of the presence of Independent Non-executive Directors but also The Bank of New York Mellon Corporation, a substantial shareholder, is represented by two Non-executive Directors. There is a balance of power and authority such that no one individual has unfettered power of decision. Non-segregation has the advantage of a strong and consistent leadership which is conducive to making and implementing decisions quickly and consistently.

### Non-executive Directors

The Non-executive Directors and Independent Non-executive Directors were not appointed for a specific term or any proposed length of services but they are subject to retirement by rotation at least once every three years and shall be eligible for re-election at the annual general meetings of the Bank in accordance with the Bank's Articles of Association.

## Directors' Continuous Training and Development

Pursuant to the code provision A.6.5 of the Corporate Governance Code of the Listing Rules, all directors should participate in Continuous Professional Development to develop and refresh their knowledge and skills. This is to ensure that their contributions to the Board remain informed and relevant.

The Bank has put in place a training and development program for Directors which includes (i) a comprehensive, formal and tailored induction pack for newly appointed Directors; and (ii) on-going professional development training for directors.

During the year, all Directors of the Bank received regular briefings on economic updates, the Group's business, operations, risk management and corporate governance matters as well as rules and regulations applicable to the Group. The Directors also attended seminars and read materials on various relevant topics. All Directors have provided the Bank with their training records.

## Evaluation of Board Performance

In order to improve the performance of the Board, the Board conducted a formal performance evaluation in 2013. Each Director has completed a self evaluation questionnaire and results of the self evaluation were presented to the Board in January 2014. Based on the results of the evaluation and comments received from individual directors, the Board and senior management will take appropriate follow up actions to further improve the performance of the Board.

## Board Diversity Policy

Pursuant to the Corporate Governance Code relating to board diversity, the Bank has established a Board Diversity Policy (the "Policy") as follows:

### Purpose

The Policy sets out the approach to diversity on the appointment of Directors to the Board of the Bank.

### Scope of Application

The Policy applies to the Board. It does not apply to diversity in relation to employees of the Bank.

### Policy Statement

The Bank recognizes and embraces the benefits of having a diverse Board, and sees increasing diversity at Board level as an essential element in maintaining a competitive advantage. A diverse Board will include and make good use of differences in the skills, experiences, background, gender and other qualities of Directors. These differences will be considered in determining the optimum composition of the Board and when possible should be balanced appropriately. All Board appointments are made on merit, in the context of the skills and experience the Board as a whole requires in order to be effective.

The Nomination Committee reviews and assesses Board composition on behalf of the Board and recommends the appointment of new Directors. In addition to its terms of reference, which is publically available, the Nomination Committee will also take into account the following:

- in reviewing Board composition, the Nomination Committee will consider the balance of skills, experience and diversity of perspectives appropriate to the requirements of the Bank's business. To achieve diversity of Board members, the Nomination Committee will consider a number of factors, including but not limited to gender, age, cultural and educational background, or professional experience. The Nomination Committee shall also take into account the Bank's business model and specific needs, and shall disclose the rationale for the factors it uses for this purpose; and

- in identifying suitable candidates for appointment to the Board, the Nomination Committee will consider candidates on merit against objective criteria and with due regard for the benefits of diversity on the Board.

### Measurable Objectives
Selection of candidates will be based on a range of diversity perspectives. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

### Monitoring and Reporting
The Committee will report annually on the Board's composition under diversified perspectives. This Policy will also be published in the Corporate Governance Report and on the Bank's website for public information.

### Review of the Policy
The Nomination Committee will review the Policy as appropriate, which will include an assessment of the effectiveness of the Policy. The Committee will discuss any revisions that may be required and recommend any such revisions to the Board for approval.

## Corporate Strategy and Business Model
The Group is a leading financial service provider in Hong Kong, Macau and selected cities in the mainland. We aim to be the preferred choice of our customers for financial services and to increase shareholders' value by maintaining a consistent growth in return on equity.

### Strategic Direction
The Group is operating in three major geographical regions that are dynamic and competitive. To be successful, we need to be focused and responsive as business environments are challenging and ever changing. The Group's strategic objective is to continue to strengthen both business and operational aspects of the Group to ensure satisfactory returns to shareholders and to further improve the competitiveness of the Group. Based on its competitive position, the Group's strategy has two parts:

1. **Further strengthen our market position in Hong Kong and Macau**
   As our operating platform and customer base increase, we shall continue to strengthen our position in the Hong Kong and Macau markets by growing our core businesses as well as in those areas with high growth potential.

2. **Grow our China business**
   In light of the high growth potential in Mainland China where we have a strategic presence, we aim to expand our businesses in regions where we have core competence, with our main focus in the Pearl River Delta region.

### Core Values

All activities of the Group are conducted in the context of the following values:

- **Strong Credit Culture**
  All lending activities must conform to a prudent credit policy and all lending staff must be attuned to the Bank's professional and diligent credit environment and mentality.

- **Superior Customer Service and Trust**
  We must strive to win the trust of our customers by providing the highest quality and the most user-friendly services.

- **Teamwork and Professional Work Force**
  All staff should be coached to be a team worker and with a spirit of co-operation amongst a professional workforce that strives for excellence.

- **Product & Service Innovation**
  We must be proactive in product and service development by keeping in close touch with innovations in the market with a goal to quickly implement and meet the needs of our target customers.

- **Ethical and Professional Conduct**
  All our dealings with the public, our customers and staff must be conducted at the highest level of ethical and professional standards in order to maintain the trust of our customers and corporate reputation of the Bank.

## Board Committees

### Remuneration Committee

The Remuneration Committee was set up in 1995 with specific terms of reference and delegated with the authority and duties which include, amongst others, making recommendations to the Board on the Bank's policy and structure for remuneration of all Directors and senior management of the Bank, by reference to corporate goals and objectives as determined by the Board from time to time. The model for the Remuneration Committee described in code provision B.1.2(c)(ii) was adopted.

In determining the remuneration policy, the Remuneration Committee will take into account the Bank's business objectives, people strategy, short-term and long-term performance, business and economic conditions, and market practices in order to retain staff with relevant expertise for the Group's long term success. Factors such as business performance of the Bank and emoluments paid by comparable banks will be considered. No Director will be involved in deciding his own remuneration.

The terms of reference require that the Remuneration Committee shall comprise not less than two members and a majority of them shall be Independent Non-executive Directors. Currently, members of the Remuneration Committee are Dr CHENG Hon Kwan and Mr LAU Hon Chuen Ambrose. Both are Independent Non-executive Directors of the Bank. Dr CHENG Hon Kwan is Chairman of the Remuneration Committee.

In February 2013, the Remuneration Committee met to review and recommend to the Board for approval the bonus payments to Executive Directors, senior management and key personnel upon assessing each of their performances for the year ended 31st December, 2012 and the salary packages of the Chief Executive, Group Executives, General Manager and Head of Internal Audit Division for the year ended 31st December, 2013. Dr CHENG Hon Kwan and Mr LAU Hon Chuen Ambrose attended the meeting.

In May 2013, the Remuneration Committee passed a written resolution to review and recommend to the Board for approval the revised terms of reference of the Remuneration Committee.

Terms of reference of the Remuneration Committee are available on the Bank's website: www.whbhk.com.

### Remuneration of Directors, Senior Management and key personnel

The Bank's remuneration policy aims to ensure that the level of remuneration is sufficient and market competitive.

Pursuant to Supervisory Policy Manual CG-5 Guideline on a Sound Remuneration System issued by the HKMA, details of the remuneration for senior management and key personnel of the Group during the year are as follows:

| | **2013** | 2012 |
|---|---|---|
| No. of beneficiaries | **18** | 22 |
| | **HK$'000** | HK$'000 |
| Fixed remuneration | **59,346** | 63,463 |
| Variable remuneration | | |
| – Cash | **62,874** | 49,213 |
| – Shares based payment | **11,475** | 13,284 |
| | **74,349** | 62,497 |
| Deferred remuneration | | |
| – Unvested | | |
| – Cash | **23,943** | 21,375 |
| | **157,638** | 147,335 |
| Deferred remuneration | | |
| At 1st January | **31,661** | 29,839 |
| – Awarded | **23,943** | 21,375 |
| – Paid out | **(15,731)** | (5,494) |
| – Forfeited | **(5,244)** | (14,059) |
| At 31st December | **34,629** | 31,661 |

Details of Directors' emoluments are set out in note 10 to the financial statements.

Fixed remuneration included employee's annual salary, double pay and pension contributions.

Variable remuneration comprised cash bonus payment and share based payment under the Employee Incentive Plans. The award of variable remuneration shall depend on fulfillment of budgeted income, peer group performance comparison and risk control factors.

Deferred remuneration comprised cash bonus based on pre-defined vesting, service and/or performance conditions. If certain conditions are not fulfilled during the vested period, all or part of the unvested portion of the deferred remuneration would be foregone.

No sign-on or severance payment was made to senior management and key personnel in 2012 and 2013.

### Nomination Committee

The Nomination Committee of the Bank was formed in December 2002 with specific terms of reference and delegated with the duties that include, amongst others, reviewing and making recommendation to the Board for appointment of all new Directors, Chief Executive, Deputy Chief Executive, Group Executives and Company Secretary of the Bank. In reviewing and recommending a candidate to the Board, members of the Nomination Committee take into consideration, amongst other factors, the background, skills, knowledge and experience of the candidate.

The terms of reference require that the Nomination Committee shall comprise three Non-executive Directors. Currently, members of the Nomination Committee are Dr CHENG Hon Kwan, Mr LAU Hon Chuen Ambrose and Mr HO Chi Wai Louis. Dr CHENG Hon Kwan and Mr LAU Hon Chuen Ambrose are Independent Non-executive Directors. Mr HO Chi Wai Louis is a Non-executive Director. Mr LAU Hon Chuen Ambrose is Chairman of the Nomination Committee.

In February 2013, the Nomination Committee met to review and recommend to the Board for approval (i) the proposal for the appointment of Mr LI Sze Kuen Billy as director of the Bank, (ii) the Job descriptions for the Chairman, Chief Executive, Deputy Chief Executive and Group Executive, (iii) the review report on the structure, size and composition of the Board, (iv) the revised terms of reference of the Committee and (v) the Board Diversity Policy. Dr CHENG Hon Kwan, Mr LAU Hon Chuen Ambrose and Mr HO Chi Wai Louis attended the meeting.

Terms of reference of the Nomination Committee are available on the Bank's website: www.whbhk.com.

### Audit Committee

During 2013, there was no change in the composition of the Audit Committee of the Bank. The Audit Committee continued to comprise three members, including two Independent Non-executive Directors namely Dr CHENG Hon Kwan who acts as Chairman, Mr TSE Hau Yin Aloysius and one Non-executive Director Mr Stephen Dubois LACKEY.

The Audit Committee is delegated by the Board with written terms of reference which specify clearly its authority and duties. Four meetings were held in 2013. Dr CHENG Hon Kwan and Mr TSE Hau Yin Aloysius attended all four meetings, whilst Mr Stephen Dubois LACKEY attended three. An Executive Director, the Chief Auditor and the external auditors were invited to attend regular meetings of the Audit Committee. The Chief Financial Officer was also present in those meetings wherein the financial performance of the Group was reviewed and discussed.

The work of the Audit Committee during 2013 included review of the financial performance of the Group, consideration of the nature and scope of audit, and evaluation of the effectiveness of the systems of internal control, risk management and regulatory compliance. A meeting between the HKMA and the Audit Committee without the presence of the Bank Management was held on 6 December 2013 to exchange views on the major risks faced by the Bank and the key supervisory focus of the HKMA.

The Audit Committee reviewed the audit coverage and approved the 2014 internal audit plan and the audit support given by the Hong Kong Office to the subsidiaries, Wing Hang Bank (China) Limited in Mainland China, and Banco Weng Hang, S.A. in Macau. The Audit Committee is provided with sufficient resources, including the advice of external auditors and the support of Internal Audit Division, to discharge its duties.

The Audit Committee monitored the external auditors' independence, objectivity and effectiveness of the audit process in accordance with applicable standards. The Audit Committee reviewed and recommended to the Board the appointment of external auditors for 2013. The Board agreed with the Audit Committee's proposal for the appointment of KPMG as the Group's external auditors. Further, the issue of independence was carefully considered before the Audit Committee approved engagement of the external auditors for providing non-audit services to the Group.

The Audit Committee reviewed the work, findings and status of implementation of the recommendations of the internal auditors. Major investigation findings on internal control matters and management response to these findings were examined. The results of the credit examination performed by the Risk Management Division of the Bank were considered. The reportable cases for staff breaching Code of Conduct of the Bank were deliberated in the Audit Committee meetings. The Audit Committee also discussed issues raised by the external auditors and the regulators in Hong Kong, Macau and Mainland China, and ensured that recommendations were properly implemented. Matters raised by the Audit Committee members were duly addressed by the Executive Director present in the meeting. In respect of internal control and risk management, the Audit Committee reviewed the results of internal audit reports covering the independent review and verification of the assessment prepared by the group risk managers as documented in the Annual Review on Internal Control Report. The Audit Committee is accountable to the Board, and the work and findings of the Audit Committee have been reported to the Board. During the year, no issues brought to the attention of the Management and the Board were of sufficient importance to require disclosure in the Annual Report.

Minutes of Audit Committee meetings are kept by the Secretary to the Audit Committee, with a copy kept by the Company Secretary. Draft and final versions of minutes of the Audit Committee meetings are sent to all members of the Audit Committee for their comment and records respectively, in both cases within a reasonable time after the meeting.

Full Terms of Reference of the Audit Committee are available on the Bank's website: www.whbhk.com.

### Risk Management Committee

The Risk Management Committee was formed in 2013 and comprises two Independent Non-executive Directors and an Executive Director. It has specific terms of reference as approved by the Board. Currently, members of the Risk Management Committee are Mr TSE Hau Yin Aloysius, Mr LI Sze Kuen Billy and Mr Frank John WANG. Mr TSE Hau Yin Aloysius is Chairman of the Risk Management Committee. The Committee meets at least twice a year or on a need basis.

The Committee's key role is to oversee the risk management function of the Group with the mission to "Oversee bank-wide risks for a risk-return equation with Customer Preferred Bank and Increasing Shareholder Value as the ultimate goals". Its key functions include maintaining a high standard of risk management culture, advising the Board on risk appetite and tolerance, overseeing the risk exposures and effectiveness of risk management framework, reviewing and approving risk management policies, reviewing risk management reports and audit reports, monitoring regulatory changes significantly impacting on the risk appetite, strategy and exposure of the Group and ensuring timely actions are taken.

In August 2013, the Risk Management Committee met to review and recommend to the Board for approval (i) the revised terms of reference of the Committee and (ii) the 2013 Risk Appetite Statement. Messrs TSE Hau Yin Aloysius, LI Sze Kuen Billy and Frank John WANG attended the meeting.

Terms of reference of the Risk Management Committee are available on the Bank's website: www.whbhk.com.

## Corporate Governance Functions

The Board is responsible for performing the following corporate governance duties:

- develop and review the Bank's policies and practices on corporate governance;
- review and monitor the training and continuous professional development of Directors and senior management;
- review and monitor the Bank's policies and practices on compliance with legal and regulatory requirements;
- develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and
- review the Bank's compliance with Appendix 14 to the Listing Rules on Corporate Governance Code and Corporate Governance Report.

During 2013, the Board has approved the revised Corporate Governance Policy which sets out how the Board shall perform its corporate governance duties.

## Delegation by the Board

In addition to the Remuneration Committee, Nomination Committee, Audit Committee and Risk Management Committee described above, the Board has also set up an Executive Committee to review and approve all major matters relating to the operations, management and performance of the Group. The Executive Committee has established other committees, such as the Credit Committee, Management Committee and Asset and Liability Management Committee to oversee the day-to-day operations of the Bank. All committees have specific terms of reference in order to ensure that they discharge their functions properly and to report back to the Board, where appropriate, their decisions and recommendations. Information on these committees is set out below.

The Bank has formalised the functions reserved for the Board and those delegated to senior management. The Bank reviews these arrangements on a periodic basis to ensure that they remain appropriate to the needs of the Bank.

### Executive Committee

The Executive Committee meets regularly to review and approve all major matters relating to the operations, management and performance of the Group. It is granted powers and authorities necessary for conducting and managing the Group's normal banking and related business activities. The Executive Committee comprises the Chief Executive and two Executive Directors.

### Credit Committee

The Credit Committee is responsible for assisting the Board to formulate, approve and implement loan policies, guidelines and credit practices of the Group. It is responsible for the implementation and maintenance of the Group's credit risk management framework. It also participates in evaluating large credit applications and making credit decisions. The Credit Committee comprises the Chief Executive, Group Executives, and heads of the Risk Management Division and Credit Administration Division.

### Management Committee

The Management Committee meets regularly to manage the affairs of the Group encompassing all aspects including business, operational, strategy and planning. The Management Committee comprises the Chief Executive, Group Executives, the Chief Financial Officer, head of the Retail Banking Division, the Chief Information Officer and the Chief Operating Officer.

### Asset and Liability Management Committee

The Asset and Liability Management Committee is responsible for the implementation and maintenance of the overall risk management framework relating to balance sheet structure, market risk, trading, funding and liquidity risk management of the Group. It recommends policy and guidelines to the Board for approval. The Asset and Liability Management Committee comprises the Chief Executive, Group Executives, the Chief Financial Officer, and heads of the Treasury Division, Retail Banking Division and Risk Management Division.

## Internal Controls

The Directors are responsible for internal controls of the Bank and its subsidiaries and for reviewing its effectiveness.

Procedures have been designed for safeguarding assets against unauthorized use or disposition; for maintaining proper accounting records; and for ensuring the reliability of financial information used within the business or for publication. The procedures provide reasonable but not absolute assurance against material errors, losses or fraud. Procedures have also been designed to ensure compliance with applicable laws, rules and regulations.

Systems and procedures are in place to identify, control and report on major risks the Group faces. Risk management policies and major risk control limits are approved by the Board.

Business and functional units are responsible for the assessment of risks arising under their areas of responsibility and the management of such risks in accordance with the Group's risk management policies and procedures. The relevant risk management reports are submitted to the Management Committee, Credit Committee, Asset and Liability Management Committee, Audit Committee, Risk Management Committee and the Board for monitoring the respective risks.

More detailed discussions on the policies and procedures for management of major risks the Group faces, including credit, market, liquidity and operational risks as well as capital management, are included in note 37 to the financial statements.

A review of the effectiveness of the Bank's internal control system covering all key controls, including financial, operational, compliance and risk management controls, is conducted annually. The review at the end of 2013 was conducted with reference to the COSO (The Committee of Sponsoring Organisations) internal control framework, which assesses the Bank's internal control system against the five elements, namely control environment, risk assessment, control activities, information and communication, and monitoring. The result has been reported to the Risk Management Committee and the Board.

Internal audit plays an important role in the Bank's internal control framework. It monitors the effectiveness of internal control procedures and compliance with policies and standards across all business and operational units. Senior management is required to provide the internal audit function with written confirmation that it has acted fully on all recommendations made by external auditors and regulatory authorities. The internal audit function also advises senior management on operational efficiency and other risk management issues. The work of the internal audit function focuses on areas of greatest risk to the Group as determined by risk assessment. The Chief Internal Auditor reports to the Chairman and the Audit Committee. Minutes of Audit Committee meetings are submitted to the Board.

## Directors' Responsibility for the Preparation of the Financial Statements

The Directors acknowledge their responsibility for the preparation of the financial statements of the Group and ensure that the financial statements are in accordance with statutory requirements and applicable accounting standards. The statement of the Bank's auditors about their responsibility on the financial statements is included in the Independent Auditor's Report.

## Auditors' Remuneration

Details of auditors' remuneration are set out in note 5 to the financial statements.

## Company Secretary

The Company Secretary is a full time employee of the Bank and has day-to-day knowledge of the Bank's affairs. The Company Secretary reports to the Chairman and Chief Executive and is responsible for advising the Board on governance matters. For the year under review, the Company Secretary has confirmed that he has undertaken no less than 15 hours of relevant professional training.

## Constitutional Documents

During the year, there has been no significant change in the Bank's constitutional documents.

## Communications with Shareholders

The Bank attaches great importance to communication with shareholders. Various communication channels are maintained with its shareholders through the publication of annual and interim reports, circulars, notices and results of general meetings and press releases. Further, the Bank's website contains an investor relations section which offers timely access to the Bank's press releases, other business information and information on the Bank's corporate governance structure and practices.

The annual general meeting is an important forum for the Board to communicate with shareholders. The Chairman of the Board, Executive Directors, Chairman of Audit Committee, Chairman of Nomination Committee, Chairman of Remuneration Committee and Chairman of Risk Management Committee or members of such committees are available at annual general meetings to answer shareholders' questions.

### Calling a General Meeting

Pursuant to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), shareholders of the Bank representing at least 5 percent of the total voting rights of the Bank may request the Directors to call a General Meeting of the Bank.

The requisition must state the general nature of the business to be dealt with at the meeting, may include the text of a resolution that may properly be moved and is intended to be moved at the meeting and be authenticated by the requisitionist(s) and be deposited at the registered office of the Bank at 161 Queen's Road Central, Hong Kong or sent by email to enquiry@whbhk.com for the attention of the Company Secretary.

The requisition may consist of several documents in like form, each authenticated by one or more of the shareholders concerned. The requisition must also state the name(s) of the requisitionist(s), the contact details of the requisitionist(s) and the number of ordinary shares of the Bank held by the requisitionist(s).

The Directors must proceed to convene a General Meeting within 21 days after the date on which they become subject to the requirement. Such meeting should be held on a date not more than 28 days after the date of the notice convening the meeting is given.

If the Directors fail to convene the General Meeting as aforesaid, the requisitionist(s), or any of them representing more than one-half of the total voting rights of all of them, may themselves convene the meeting.

Any meeting so convened shall not be held after the expiration of 3 months after the date on which the Directors become subject to the requirement to convene a meeting.

A meeting so convened by the requisitionist(s) shall be convened in the same manner, as nearly as possible, as that in which meetings are to be convened by the Directors.

Any reasonable expenses incurred by the requisitionist(s) by reason of the failure of the Directors duly to convene a meeting shall be repaid to the requisitionist(s) by the Bank.

### Putting Forward Proposals at General Meetings

Pursuant to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), shareholders representing at least 2.5 percent of the total voting rights of the Bank having a right to vote or at least 50 shareholders who have a relevant right to vote may by requisition on writing to the Bank either put forward a proposal at a general meeting or circulate to other shareholders a written statement with respect to matter to be dealt with at a general meeting.

For further details on the shareholder qualifications, and the procedures and timeline in connection with the above, shareholders are requested to refer to Sections 580 and 615 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong).

Further, a shareholder may propose a person other than a retiring Director of the Bank for election as a Director of the Bank at a general meeting. For such purpose, the shareholder must send to the Bank's registered office (for the attention of the Bank's Company Secretary) a written notice which identifies the candidate and includes a notice in writing by that candidate of his/her willingness to be so elected. Such notice must be sent within a period of not less than 7 days commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than 7 days prior to the date of such meeting.

### Putting Enquiries to the Board

Shareholders may send their enquiries requiring the Board's attention to the Company Secretary at the Bank's registered office. Questions about the procedures for convening or putting forward proposals at an Annual General Meeting or Extraordinary General Meeting may also be put to the Company Secretary by the same means.

The Company Secretary shall forward the shareholders' enquiries and concerns to the Board and/or relevant board committees of the Bank, where appropriate, to answer shareholders' questions.

## Shareholders Communication Policy

The Bank has established a Shareholders Communication Policy to set out the Bank's process to provide shareholders and the investment community with ready, equal and timely information on the Bank for them to make informed assessment of the Bank's strategy, operations and financial performance, and to encourage them to take active interest in the Bank.

Full contents of the Shareholders Communication Policy are available on the Bank's website: www.whbhk.com.

Hong Kong, 6th March, 2014

# Corporate Social Responsibility Report

As a well-established financial institution with a long history in Hong Kong, we are reliable and trustworthy to our community. We have a responsibility to contribute to the development of our community and employees. Hence, corporate social responsibility ("CSR") is a core aspect of our business and we have a strong sense of commitment in fulfilling this responsibility and ensuring that it is part of our everyday operation.

It is in our interest to act upon our goals of CSR. We realise that the more harmonious the place in which we run our business, the greater the chance of success. Therefore, CSR has always been an integral part of the Group's corporate strategy. It is our belief that a responsible business creates a win-win situation for the Group, its shareholders, customers, employees, business partners, and the society at large.

At Wing Hang Bank, CSR represents our commitment to promote business activities that bring economic, social and environmental benefits to the society. We attain the targets by actively fulfilling our governance, environmental and community responsibilities.

## Governance Responsibility

Good governance enables us to manage risk and earn the trust of customers and stakeholders.

### CSR Management

To plan and manage our CSR activities in a systematic and coherent manner, we have a CSR Committee to develop strategies, policies and guidelines on CSR. The Committee also approves, supervises and monitors the implementation of all CSR initiatives. Our monitoring and review system on the CSR framework is on-going so that we continuously improve our CSR strategies.

**CSR in Wing Hang Bank**

**Governance Responsibility**
- CSR Management
- Risk Management
- Business Ethics

**Environmental Responsibility**
- Operational Efficiency
- Green Office Campaign
- Continual Support of Environmental Activities
- Eco-Friendly Customers and Suppliers

**Community Responsibility**
- Equal Opportunity
- Employee Enrichment
- Community Services

In collaboration with Hong Kong Family Welfare Society, volunteers of the Bank arranged new immigrant school students to participate in "Know Our City" program


Volunteers of the Bank led primary school students to participate in "Synergy in Science" program at Hong Kong Disneyland

# Corporate Social Responsibility Report

A CSR Working Team and various support teams working under the direction of the CSR Committee are responsible for the promotion, support and organization of CSR activities.

In an ever-changing business environment, the CSR Committee monitors the Group's corporate governance practices to ensure all our activities are conducted with professionalism, high ethical standards, integrity and honesty. Compliance, which governs our daily operations, is every colleague's responsibility. We organise on-going compliance training to uphold the Group's standard of business practices and services.

### Risk Management

Corporate governance in the Group includes a risk management framework to manage economic and social risks, to ensure business continuity and to serve the interests of our stakeholders.

### Business Ethics

We strongly believe that providing quality services with high ethical standards and practices to customers is a key element to maintain good relationship with our customers. This is essential to sustain growth in our business, and is definitely in the interests of our shareholders.

## Environmental Responsibility

Being environmentally responsible not only protects the environment when we use our natural resources more efficiently, it also helps us build a less polluting environment and improve our quality of life towards a green future. "Reduce, Reuse and Recycle" is the theme of the Bank's environmental responsibility.

### 2013 Highlights

- "Class of Excellence Wastewi$e Label"
- "Class of Excellence Energywi$e Label"
- CarbonSmart Low-Carbon Commitment Partner
- Saved 680,280 kg CO2 by recycling 141,725 kg of waste paper
- Saved 4.5%, 2.0% and 9.5% electricity in Hong Kong, Shenzhen and Zhuhai respectively
- Replaced main air conditioning system of Head Office in Macau with environmental refrigerant and energy saving features

### Operational Efficiency

Our energy efficiency and paper reduction initiatives show how effective resource management allows us to provide reliable service to our customers and protect the environment. Our achievements have been recognized with the award of "Class of Excellence Wastewi$e Label" and "Class of Excellence Energywi$e Label" under the Hong Kong Awards for Environmental Excellence organized by the Hong Kong Productivity Council, both are recognition of the Bank's commitment to protect the environment.

We have worked to increase enterprise-wide energy efficiency. We retrofitted 24kw lift drives that had operated over 30 years by 22.9kw energy efficiency lift drive system and reduced the chiller operating time by 30 minutes per day from Monday to Saturday in Head Office.

To help conserve natural resources, our paper reduction initiatives help employee make wise choice on paper use. In 2013, we reduced 71% of A3 computer form consumption in Macau. Meanwhile, we continue to educate our customers to make use of our electronic banking services, including e-statement to reduce paper usage in our Hong Kong, Macau and Mainland operation. We are one of the participating banks in the first phase of Electronic Bill Presentment and Payment Service, which was jointly launched by the HKMA and the banking sector in 2013 to provide multi-functional and paperless billing processing service.

### Green Office Campaign

With a firm belief that every bit of effort helps, all staff are encouraged to protect the environment. The Bank has also joined the Carbon Audit Pilot Fund and become a CarbonSmart Low-Carbon Commitment Partner in 2013. Carbon audit and reduction have become part of our daily operation to help lower carbon level in Hong Kong.

Internally, the Bank accomplished the following environmental protection initiatives in 2013,

- Reduced 5.3% of printer cartridges consumption
- Recycled 86% of printer cartridges

### Continual Support of Environmental Activities

Our Environmental Protection Committee continuously reviews and promotes various activities to educate and enhance the awareness of environmental lifestyle of our employees.

Making every effort to support green groups, the Bank has been a participant of the Green Power Hike for A Green Future organized by Green Power in Hong Kong for the last 7 years, with the funding raised for the use of environmental education in the community. We were the silver member of WWF Hong Kong in 2013. We also participated in Earth Hour 2013 at offices in Hong Kong and Macau.

Moreover, to reduce carbon footprint and improve our staff's health, our staff canteen has participated in "Green Monday" to provide meatless meal on the first Monday of each month.

### Eco-Friendly Customers and Suppliers

It is in the interest of our corporate customers to shoulder their environmental responsibility which helps lower operating costs and comply with official environmental standards. Some of our corporate customers have installed environment protection facilities and adopted environmental friendly practices in their daily operation.

Our Bank's major suppliers are environmentally conscious and most of them obtain licences or certifications to support their environmental protection standards. They include our paper suppliers, refrigerant of air conditioning system and lighting systems.

## Community Responsibility

We aspire to be the employer of choice for desired talents as our strong performance is driven by employees with passion and commitment. We also believe our business can only succeed if the society is prospering. Hence, it is our responsibility to further the development of our employees and support the community.

### 2013 Highlights

- Launched Banking Business Knowledge seminars for employees in China
- Organized trips for employees in China and Macau to share work experiences
- Corporate and employee donations over HK$1,675,000
- Employees contributed 15,785 hours of their personal time in volunteer services


Volunteers of the Bank sold over a thousand packets of Oxfam Rice for charity at Mei Foo MTR Station

### Equal Opportunity

The Group ensures equal opportunity in employment. We encourages breaking unnecessary barriers and building a harmonious working environment for all staff. Our workforce in the Bank includes disabled staff. The Group will continue to support equal opportunity in our employment practice.

"Wing Hang Bank 'V-Are-One' Program" Sharing and Awarding Ceremony held in July 2013

# Corporate Social Responsibility Report

## Employee Enrichment

Our staff is our greatest asset. Nurturing our staff and helping them relieve their stress can increase their efficiency and performance at work. We realize that consistent and excellent staff performance as well as strong commitment are important to the Group's success.

We treasure our employees by providing a safe and quality working environment as well as suitable and competitive remuneration to meet their needs.

### *Training and Further Studies*

We focus on nurturing our employees to be lifelong learners. Programs for teller trainees, business development trainees, management trainees and mini-MBA courses for senior management staff are held to develop talents and enable the Bank to stay competitive in a dynamic business environment. Education allowances are offered to employees to encourage them to further equip themselves to best serve the Bank and customers. As a considerate employer, examination leave is also granted to employees who need to take examinations.

### *Employee Assistance Program*

Our Employee Assistance Program offers a wide range of services including seminars, workshops, 24 hour telephone hotline, face-to-face consultation and counseling services. The program aims to provide confidential and professional services to help employees deal with work-related and personal problems.

### *Work-life Balance*

In 2013, the Bank continued to launch Staff Caring Weeks Program under the theme of "Balance Well to Reach High" to cultivate a strong sense of social responsibility and raise the importance of health, family, leisure and life-long learning amongst our workforce. Activities organized, include Book Fair in Hong Kong, Family Fishing day in China and Elderly Center Visit and participated in the "Macau Famine 2013" organized by World Vision of Macau Association in Macau.

In order to help employees relieve their stress and maintain good relationships with their families, various recreational and outdoor activities were organized during the year for our staff and their families.

The paid 5-day paternity leave and 1-day social service leave also show our support to accommodate life change and encourage employees to serve the community.

### *Support the Hong Kong economy*

The Bank has contributed to the Hong Kong economy in many ways. We participate in the SME Loan Guarantee Scheme as well as the SME Financing Guarantee Scheme (SFGS) operated by the Hong Kong Mortgage Corporation Limited. We believe that supporting SMEs is important to the economic development of Hong Kong.

## Community Services

We believe that by devoting resources and efforts to community services, the Group can contribute to the building of a harmonious society.

The Bank has been awarded the 5 Years + "Caring Company" Logo by the Hong Kong Council of Social Services in recognition of our relentless efforts in social responsibility.

In 2013, we continued to make significant progress in expanding our CSR activities.


Banco Weng Hang supported the fundraising program of ORBIS MACAU

Banco Weng Hang sponsored and participated in the 2013 Oxfam Rice Sale in Macau

*Donations and Sponsorships*

In 2013, the Bank was awarded the Gold Award in the Community Chest of Hong Kong's "Corporate & Employee Contribution Program". The Group provided more than HK$1,675,000 in donations and sponsorships for social initiatives, including The Community Chest of Hong Kong, St James' Settlement, Oxfam Hong Kong, Richmond Fellowship of Hong Kong. We are also one of the sponsors of The Hong Kong Philharmonic Orchestra – Community Concerts 2013-2014.

Apart from supporting the Food Bank of St James' Settlement, the Bank is also an enthusiastic supporter of the Grand-in-aid Brightens Children's Lives Charity Project organized by St James' Settlement. Since 2006, we have been the major sponsor of this project which aims to help underprivileged students by providing them with learning aids and sponsorships.

In Macau, Banco Weng Hang is one of the most active partners of ORBIS to support their mission to fight against preventable blindness worldwide. In 2013, we were a sponsor of ORBIS Donor Gathering 2013. We donated 0.3% of spending from each transaction of the ORBIS Charity Credit Card to ORBIS Macau.

In 2013, the Group supported 11 non-government organizations by providing them with free services in the form of mailing and message delivery services to promote their funding raising activities. In addition, our branch network was also used to support their activities by placing donation boxes in our branches.

*Brighten the Children's Future*

In Mainland China, Wing Hang Bank (China) Limited focused on brightening children's future in 2013. We launched educational and caring programmes to help improve learning conditions of underprivileged children. We carried out poverty reduction program in Qingyuan and Huizhou. We donated stationaries and supported the renovation of learning facilities. Our volunteers also visited the children and their families to understand their needs.

Our third phase of "Ai Ju Xing Dong" held activities to cultivate reading habit among children via storytelling, sharing and books donation during the year. We also held "Àixin Hu Miao"volunteer services to bring love and care to children in welfare houses by playing with them and donating books and necessities. Moreover, our volunteers also participated in "I Care Project of Stepping Stones" to raise awareness of eye care issues for children of migrant workers. In our cross border activities, colleagues in Hong Kong took part in "Sowers Action Challenging 12 Hours Charity Marathon 2013" to support Mainland students schooling.

*Volunteer Services*

The Bank gives more than just money.

In 2013, 2,101 of our volunteers devoted 15,785 community service hours for a number of worthy causes.

Our Volunteer Services Team has been awarded the "Gold Award for Volunteer Service" by the Social Welfare Department for 9 consecutive years. With senior management support and encouragement, our employees commit their time, energy and care to various segments of the society, including students, senior citizens, the disabled, low-income group and single parent families.

To encourage the youth to get a better understanding of the banking industry, we held 12 Banking Career-oriented General Education-Career Talks for 268 students from secondary schools and tertiary institutions.


Our colleagues in Mainland China participated in Ai Ju Xing Dong: community library project

Care for Left-behind children and Donation for a Safe Campus – visiting village school in rural Huidong by our colleagues in Mainland China

# Corporate Social Responsibility Report

Encouraging our younger generation to become active volunteers is an area the Bank always places emphasis on. For this reason, we initiated the Wing Hang "V-are-One Program" with the Hong Kong Professional Teachers' Union. In 2013, students from 35 schools participated in volunteer services projects sponsored by the Bank, which serviced 26,571 volunteer hours by 5,367 students. As a result 6,375 people benefited from the programme.

The Bank contributed beyond the border to the Mainland community. Our volunteers visited the elderly and low-income families to give warmth and love. Furthermore, we promoted financial knowledge, including identifying counterfeit bank notes and financial planning, to the society through exhibitions.

### Awards

Our fulfillment has qualified for the following recognitions and awards:

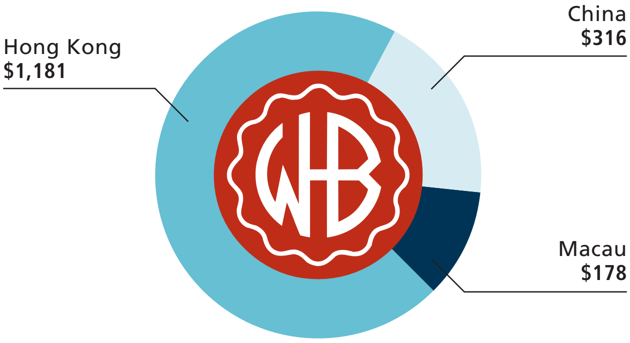
- 5 Years + "Caring Company" Logo awarded by the Hong Kong Council of Social Service
- Gold Award of Corporate and Employee Contribution Programme awarded by the Community Chest
- Gold Award of Volunteer Service awarded by the Social Welfare Department
- Award of 10,000 hours of Volunteer Service by the Social Welfare Department
- "Class of Excellence Wastewi$e Label" awarded by Hong Kong Productivity Council
- "Class of Excellence Energywi$e Label" awarded by Hong Kong Productivity Council
- Corporate Team Champion of 12km Short Route of the Hike for Hospice
- 10km Bank Cup Champion of "Green Power Hike For A Green Future"
- Corporate Cup – Team First Runner Up and Open Cup Men First Runner Up of Sowers Action Challenging 12 Hours Charity Marathon 2013
- Second Runner-up of Skechers X St. James' Settlement GOrun Together 2013
- The First Runner Up of "Oxfam Rice Sale 2013" Outstanding Rice Stall Fundraiser (Sponsor)
- Forth Runner-up of Dress Causal Day of the Community Chest of Hong Kong

### Future

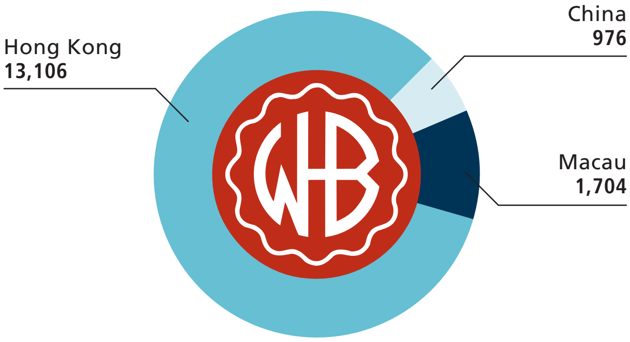
We are proud of our strong commitments in all CSR aspects. CSR practices in our Group are dynamic and on-going. Looking ahead, we will continue to identify opportunities to enhance our business practices from all CSR perspectives.

To spearhead this initiative, we shall devote additional efforts to develop environmental sustainability policies and process to minimize impact to the environment. The Group will also continue to support various non government organizations and participate in voluntary work projects and fund-raising activities to further support our community. In 2014, we will continue our commitment to embody CSR in our everyday business activities.

### Donations of the Group (HK$'000)




### Volunteer Services Hours of the Group



# Independent Auditor's Report

**To the shareholders of Wing Hang Bank, Limited**
*(Incorporated in Hong Kong with limited liability)*

We have audited the consolidated financial statements of Wing Hang Bank, Limited ("the Bank") and its subsidiaries (together "the Group") set out on pages 44 to 171, which comprise the consolidated and Bank balance sheets as at 31st 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 consolidated 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 policies 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 31st 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

6th March, 2014

# Consolidated Income Statement

*For the year ended 31st December, 2013*
*(Expressed in thousands of Hong Kong dollars unless otherwise stated)*

| | Notes | **2013** | 2012 |
|---|---|---|---|
| Interest income | 5(a) | **5,932,327** | 5,740,989 |
| Interest expense | 5(b) | **(2,593,856)** | (2,787,348) |
| Net interest income | | **3,338,471** | 2,953,641 |
| Other operating income | 5(c) | **845,592** | 812,356 |
| Net gains from trading and financial instruments designated at fair value through profit or loss | 5(d) | **116,686** | 124,873 |
| Non-interest income | | **962,278** | 937,229 |
| Operating income | | **4,300,749** | 3,890,870 |
| Operating expenses | 5(f) | **(2,236,245)** | (1,851,862) |
| Operating profit before impairment losses and allowances | | **2,064,504** | 2,039,008 |
| Impairment losses and allowances charged on loans and advances | 17(e) | **(86,347)** | (235,814) |
| Impairment losses and allowances released from available-for-sale financial assets | 19(b) | **–** | 3,626 |
| Operating profit | | **1,978,157** | 1,806,820 |
| Net gains on revaluation of properties and disposal of tangible fixed assets | 6(a) | **315,520** | 185,360 |
| Net gains on disposal of available-for-sale financial assets | 6(b) | **210,596** | 86,604 |
| Share of net gains of associated companies | 21 | **51,257** | 40,960 |
| Profit before taxation | | **2,555,530** | 2,119,744 |
| Taxation | 7(a) | **(368,407)** | (317,383) |
| Profit for the year attributable to equity shareholders of the Bank | 8 | **2,187,123** | 1,802,361 |
| Earnings per share | 12 | **HK$** | HK$ |
| Basic | | **7.17** | 6.00 |
| Diluted | | **7.12** | 5.96 |

The notes on pages 50 to 171 form part of these financial statements. Details of dividends payable to equity shareholders of the Bank are set out in note 9.

# Consolidated Statement of Comprehensive Income

*For the year ended 31st December, 2013*
*(Expressed in thousands of Hong Kong dollars unless otherwise stated)*

| | Notes | **2013** | 2012 |
|---|---|---|---|
| Profit for the year | | **2,187,123** | 1,802,361 |
| Other comprehensive income for the year (after tax and reclassification adjustments) | | | |
| Items that will not be reclassified to profit or loss | | | |
| – Surplus on revaluation of bank premises | 22 | **413,394** | 604,853 |
| – Deferred taxes | 7(d) | **(38,054)** | (41,782) |
| | | **375,340** | 563,071 |
| Items that will be reclassified subsequently to profit or loss | | | |
| – Exchange adjustments on translation of financial statements of subsidiaries | | **86,888** | (375) |
| | | **86,888** | (375) |
| Available-for-sale financial assets | | | |
| – Fair value changes to equity | | | |
| – on debt securities | | **(231,880)** | 278,291 |
| – on equity securities | | **46,654** | 27,171 |
| – Transfer to consolidated income statement | | | |
| – gains on disposal | 6(b) | **(83,121)** | (61,269) |
| – Deferred taxes | 7(d) | **46,255** | (38,010) |
| | | **(222,092)** | 206,183 |
| | | **(135,204)** | 205,808 |
| Other comprehensive income for the year, net of tax | | **240,136** | 768,879 |
| Total comprehensive income for the year attributable to equity shareholders of the Bank | | **2,427,259** | 2,571,240 |

The notes on pages 50 to 171 form part of these financial statements.

# Consolidated Balance Sheet

*As at 31st December, 2013*
*(Expressed in thousands of Hong Kong dollars unless otherwise stated)*

| | Notes | **2013** | 2012 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances with banks, central banks and other financial institutions | 13 | **7,564,466** | 7,211,390 |
| Placements with banks, central banks and other financial institutions | 14 | **19,216,094** | 16,832,550 |
| Trading assets | 15 | **2,440,744** | 8,417,553 |
| Financial assets designated at fair value through profit or loss | 16 | **8,221,040** | 9,879,170 |
| Advances to customers and other accounts | 17(a) | **142,356,699** | 120,919,211 |
| Held-to-maturity investments | 18 | **4,391,766** | 2,355,665 |
| Available-for-sale financial assets | 19 | **24,163,415** | 24,640,249 |
| Investments in associated companies | 21 | **252,554** | 229,723 |
| Tangible fixed assets | 22 | | |
| – Investment properties | | **163,100** | 899,342 |
| – Other properties, plants and equipment | | **4,263,426** | 4,633,905 |
| Goodwill | 23 | **1,306,430** | 1,306,430 |
| Current tax recoverable | 7(c) | **7,322** | 4,689 |
| Deferred tax assets | 7(d) | **28,833** | 33,992 |
| Total assets | | **214,375,889** | 197,363,869 |
| **EQUITY AND LIABILITIES** | | | |
| Deposits and balances of banks, central banks and other financial institutions | 24 | **3,258,322** | 1,091,462 |
| Deposits from customers | 25 | **177,909,960** | 165,935,458 |
| Certificates of deposit issued | 26 | **4,186,223** | 2,563,550 |
| Trading liabilities | 27 | **773,110** | 552,174 |
| Current tax payable | 7(c) | **207,753** | 152,588 |
| Deferred tax liabilities | 7(d) | **149,093** | 174,020 |
| Other accounts and provisions | 28 | **3,021,929** | 2,410,407 |
| Subordinated liabilities | 29 | **3,169,279** | 4,950,430 |
| Total liabilities | | **192,675,669** | 177,830,089 |
| Share capital | 31(a) | **307,425** | 302,163 |
| Reserves | | **21,392,795** | 19,231,617 |
| Total equity | | **21,700,220** | 19,533,780 |
| Total equity and liabilities | | **214,375,889** | 197,363,869 |

**Patrick Y B FUNG** *Chairman and Chief Executive*
**Frank J WANG** *Executive Director and Deputy Chief Executive*
**Michael Y S FUNG** *Executive Director and Senior General Manager*
**C W LEUNG** *Secretary*

The notes on pages 50 to 171 form part of these financial statements.

# Balance Sheet

*As at 31st December, 2013*
*(Expressed in thousands of Hong Kong dollars unless otherwise stated)*

| | Notes | **2013** | 2012 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances with banks, central banks and other financial institutions | 13 | **1,412,880** | 1,166,998 |
| Placements with banks, central banks and other financial institutions | 14 | **10,681,729** | 11,812,552 |
| Trading assets | 15 | **2,445,585** | 8,429,409 |
| Financial assets designated at fair value through profit or loss | 16 | **8,221,040** | 9,879,170 |
| Advances to customers and other accounts | 17(a) | **90,241,857** | 77,618,638 |
| Amounts due from subsidiaries | 36(b)(iii) | **16,453,343** | 12,173,019 |
| Held-to-maturity investments | 18 | **3,273,572** | 991,778 |
| Available-for-sale financial assets | 19 | **18,573,443** | 20,110,604 |
| Investments in subsidiaries | 20 | **2,977,375** | 3,032,126 |
| Investments in associated companies | 21 | **204,987** | 210,650 |
| Tangible fixed assets | 22 | | |
| – Other properties, plants and equipment | | **3,047,245** | 2,705,277 |
| Goodwill | 23 | **847,422** | 847,422 |
| Total assets | | **158,380,478** | 148,977,643 |
| **EQUITY AND LIABILITIES** | | | |
| Deposits and balances of banks, central banks and other financial institutions | 24 | **2,983,860** | 370,016 |
| Deposits from customers | 25 | **123,681,929** | 118,608,105 |
| Certificates of deposit issued | 26 | **4,186,223** | 2,563,550 |
| Trading liabilities | 27 | **776,248** | 552,911 |
| Current tax payable | 7(c) | **130,002** | 93,677 |
| Deferred tax liabilities | 7(d) | **64,256** | 103,111 |
| Other accounts and provisions | 28 | **1,814,614** | 1,448,200 |
| Amounts due to subsidiaries | 36(b)(iii) | **5,118,100** | 6,546,422 |
| Subordinated liabilities | 29 | **3,169,279** | 4,950,430 |
| Total liabilities | | **141,924,511** | 135,236,422 |
| Share capital | 31(a) | **307,425** | 302,163 |
| Reserves | 31(b) | **16,148,542** | 13,439,058 |
| Total equity | | **16,455,967** | 13,741,221 |
| Total equity and liabilities | | **158,380,478** | 148,977,643 |

| | |
|---|---|
| **Patrick Y B FUNG** | *Chairman and Chief Executive* |
| **Frank J WANG** | *Executive Director and Deputy Chief Executive* |
| **Michael Y S FUNG** | *Executive Director and Senior General Manager* |
| **C W LEUNG** | *Secretary* |

The notes on pages 50 to 171 form part of these financial statements.

# Consolidated Statement of Changes in Equity

*For the year ended 31st December, 2013*
*(Expressed in thousands of Hong Kong dollars unless otherwise stated)*

**2013**

| | At 1st January | Share issued and share premium under Share Option Scheme (Note 31(a)) | Share issued and share premium under Employee Incentive Plan (Note 5(f)) | Share issued and share premium in lieu of dividends | Dividends approved in respect of the previous year (Note 9(b)) | Dividends declared in respect of the current year (Note 9(a)) | Disposal of bank premises | Disposal of subsidiary | Share of changes in associated companies | Transfer to/(from) reserve | Total comprehensive income for the year | At 31st December |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Share capital | **302,163** | **25** | **262** | **4,975** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **307,425** |
| Share premium | **1,041,643** | **1,070** | **11,475** | **351,560** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **1,405,748** |
| Capital reserve | **295,705** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **3,371** | **–** | **299,076** |
| Statutory reserve | **286,407** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **27,617** | **–** | **314,024** |
| General reserve | **2,206,672** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **86,888** | **2,293,560** |
| Bank premises revaluation reserve | **2,492,275** | **–** | **–** | **–** | **–** | **–** | **(5,710)** | **(698,617)** | **–** | **(30,032)** | **375,340** | **2,133,256** |
| Investment revaluation reserve | **404,338** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **1,037** | **–** | **(222,092)** | **183,283** |
| Capital redemption reserve | **769** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **769** |
| Unappropriated profits | **12,503,808** | **–** | **–** | **–** | **(489,808)** | **(141,415)** | **5,710** | **698,617** | **–** | **(956)** | **2,187,123** | **14,763,079** |
| Total equity | **19,533,780** | **1,095** | **11,737** | **356,535** | **(489,808)** | **(141,415)** | **–** | **–** | **1,037** | **–** | **2,427,259** | **21,700,220** |

2012

| | As previously reported as at 1st January | Prior year adjustments in respect of deferred tax | As restated as at 1st January | Share issued and share premium under Share Option Scheme (Note 31(a)) | Share issued and share premium under Employee Incentive Plan (Note 5(f)) | Share issued and share premium in lieu of dividends | Dividends approved in respect of the previous year (Note 9(b)) | Dividends declared in respect of the current year (Note 9(a)) | Share of changes in associated companies | Transfer to/(from) reserve | Total comprehensive income for the year | At 31st December |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Share capital | 298,812 | – | 298,812 | 110 | 153 | 3,088 | – | – | – | – | – | 302,163 |
| Share premium | 800,412 | – | 800,412 | 2,777 | 13,284 | 225,170 | – | – | – | – | – | 1,041,643 |
| Capital reserve | 283,888 | – | 283,888 | – | – | – | – | – | – | 11,817 | – | 295,705 |
| Statutory reserve | 286,407 | – | 286,407 | – | – | – | – | – | – | – | – | 286,407 |
| General reserve | 2,207,047 | – | 2,207,047 | – | – | – | – | – | – | – | (375) | 2,206,672 |
| Bank premises revaluation reserve | 1,665,547 | 291,181 | 1,956,728 | – | – | – | – | – | – | (27,524) | 563,071 | 2,492,275 |
| Investment revaluation reserve | 197,499 | – | 197,499 | – | – | – | – | – | 752 | (96) | 206,183 | 404,338 |
| Capital redemption reserve | 769 | – | 769 | – | – | – | – | – | – | – | – | 769 |
| Unappropriated profits | 11,163,636 | 60,813 | 11,224,449 | – | – | – | (400,513) | (138,292) | – | 15,803 | 1,802,361 | 12,503,808 |
| Total equity | 16,904,017 | 351,994 | 17,256,011 | 2,887 | 13,437 | 228,258 | (400,513) | (138,292) | 752 | – | 2,571,240 | 19,533,780 |

The notes on pages 50 to 171 form part of these financial statements.

# Consolidated Cash Flow Statement

*For the year ended 31st December, 2013*
*(Expressed in thousands of Hong Kong dollars unless otherwise stated)*

| | Notes | 2013 | 2012 |
|---|---|---|---|
| Net cash inflow/(outflow) from operating activities | 34(a) | **2,061,928** | (11,585,986) |
| Investing activities | | | |
| Purchase of held-to-maturity and available-for-sale financial assets | | **(5,825,607)** | (11,276,566) |
| Sale and redemption of held-to-maturity and available-for-sale financial assets | | **5,648,751** | 10,547,511 |
| Loans repaid by an associated company | 21 | **5,663** | 46,521 |
| Disposal of subsidiary | 34(c) | **1,602,106** | – |
| Purchase of properties and equipment | | **(69,511)** | (141,424) |
| Sale of properties and equipment | | **73,455** | 56,042 |
| Net cash inflow/(outflow) from investing activities | | **1,434,857** | (767,916) |
| Financing activities | | | |
| Redemption of subordinated liabilities | | **(1,744,043)** | – |
| Issue of new shares under Share Option Scheme | 31(a) | **1,095** | 3,040 |
| Issue of new shares under Employee Incentive Plan | 31(a) | **262** | – |
| Dividends paid | | **(274,688)** | (310,547) |
| Dividends received from associated company | | **23,800** | 14,720 |
| Interest paid on subordinated liabilities | | **(302,820)** | (353,810) |
| Net cash outflow from financing activities | | **(2,296,394)** | (646,597) |
| Increase/(decrease) in cash and cash equivalents | | **1,200,391** | (13,000,499) |
| Cash and cash equivalents at 1st January | | **19,132,435** | 32,140,913 |
| Effects of foreign exchange rate changes | | **88,144** | (7,979) |
| Cash and cash equivalents at 31st December | 34(b) | **20,420,970** | 19,132,435 |
| Analysis of the balances of cash and cash equivalents | | | |
| Cash and balances with banks, central banks and other financial institutions | | **6,535,315** | 7,050,385 |
| Placements with banks, central banks and other financial institutions with an original maturity within three months | | **12,174,329** | 7,152,569 |
| Treasury bills with an original maturity within three months | | **1,711,326** | 4,929,481 |
| | | **20,420,970** | 19,132,435 |
| Cash flows from operating activities included: | | | |
| Interest received | | **5,915,277** | 5,665,512 |
| Interest paid | | **2,589,971** | 2,767,840 |
| Dividend received | | **9,126** | 8,379 |

The notes on pages 50 to 171 form part of these financial statements.

# Notes to the Financial Statements

*For the year ended 31st December, 2013*
*(Expressed in thousands of Hong Kong dollars unless otherwise stated)*

## 1. Principal activities

The Bank and its subsidiaries (together referred to as "the Group") are engaged in commercial banking and related financial services.

## 2. Principal accounting policies

### (a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs"), and 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. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules"). 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. The adoption of these new and revised HKFRSs do not result in significant changes to the Group's and the Bank's accounting policies applied in these financial statements for the year presented. Note 4 provides information on the changes in accounting policies resulting from 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 consolidated financial statements for the year ended 31st December, 2013 comprise the Bank and its subsidiaries and the Group's interest in associated companies. 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 (note 2(f)(ii));

– investment property (note 2(k));

– other freehold land and buildings (note 2(k)); and

– other leasehold land and buildings, for which the fair values cannot be measured separately at the inception of the lease and the entire lease is classified as finance lease (notes 2(k) and 2(l)).

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and 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.

## 2. Principal accounting policies *(continued)*

### (b) Basis of preparation of the financial statements *(continued)*

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 significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 3.

### (c) Subsidiaries and non-controlling interests

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.

Non-controlling interests (previously known as "minority interests") represent the equity in a subsidiary not attributable directly or indirectly to the Bank, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Bank. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Bank.

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 profit or loss. 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 financial assets (see note 2(f)) or, when appropriate, the cost on initial recognition of an investment in an associated company (see note 2(d)).

In the Bank's balance sheet, an investment in a subsidiary is stated at cost less impairment losses, if any (see note 2(o)).

## 2. Principal accounting policies *(continued)*

### (d) Associated companies

An associated company is an entity in which the Group or Bank has significant influence, but not control, or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associated company is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted for any excess of the Group's share of the acquisition-date fair values of the associated company's identifiable net assets over the cost of the investment (if any). Therefore, the investment is adjusted for the post acquisition change in the Group's share of the associated company's net assets and any impairment loss relating to the investment (see notes 2(e) and 2(o)). Any acquisition-date excess over cost, the Group's share of the post-acquisition post-tax results of the associated companies and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax results of the associated companies' other comprehensive income is recognised in the consolidated statement of comprehensive income.

Unrealised profits and losses resulting from transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated company, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in income statement.

When the Group ceases to have significant influence over an associated company, it is accounted for as a disposal of the entire interest in that associated company, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former associated company at the date when significant influence 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(f)).

In the Bank's balance sheet, its investments in associated companies are stated at cost less impairment losses, if any (note 2(o)).

### (e) Goodwill

Goodwill represents the excess of

**(i)** the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

**(ii)** the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (note 2(o)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

## 2. Principal accounting policies *(continued)*

### (f) 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, held-to-maturity investments, available-for-sale financial assets and other financial liabilities.

Financial instruments are measured initially at fair value, which normally will be equal to the transaction price plus, in 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.

#### (ii) Classification

*Fair value through profit or loss*

This category comprises financial assets and financial liabilities held for trading, and those designated at fair value through profit or loss upon initial recognition, but exclude 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 are accounted for as trading instruments.

The Group has the option to designate 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 an embedded derivative that significantly modifies 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.

## 2. Principal accounting policies *(continued)*

### (f) Financial instruments *(continued)*

#### (ii) Classification *(continued)*

*Fair value through profit or loss (continued)*

Financial assets and financial 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 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 (1) those that the Group intends to sell immediately or in the near term, which will be classified as held for trading; (2) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or (3) 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 banks, and placements with banks, central banks and other financial institutions.

Securities classified as loans and receivables typically comprise securities issued by the same customers with whom the Group has a lending relationship that are not quoted in an active market. Investment decisions for credit substitute securities are subject to the same credit approval processes as loans, and the Group bears the same customer risk as it does for loans extended to those customers. Additionally the yield and maturity terms are generally directly negotiated by the Group with the issuer. These securities include commercial paper, short term debentures and preference shares issued by the borrower.

Loans and receivables and securities classified as loans and receivables are carried at amortised cost using the effective interest method, less impairment losses, if any (note 2(o)).

*Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity which the Group has the positive intention and ability to hold to maturity, other than (1) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; and (2) those that meet the definition of loans and receivables.

Held-to-maturity investments are carried at amortised cost using the effective interest method less impairment losses, if any (note 2(o)).

If, as a result of a change in intention or ability, it is no longer appropriate to classify an investment as held-to-maturity, it shall be reclassified as available-for-sale and re-measured at fair value.

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other three 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.

## 2. Principal accounting policies *(continued)*

### (f) Financial instruments *(continued)*

**(ii) Classification** *(continued)*

*Available-for-sale financial assets (continued)*

Available-for-sale financial assets 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.

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 (note 2(o)). Interest income from debt securities calculated using the effective interest method and dividend income from equity securities are recognised in the income statement in accordance with the policies set out in notes 5(a) and 5(c) respectively.

When the available-for-sale financial assets 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 balance sheet date 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 or dealer for non-exchange-traded financial instruments, or if the market for it 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 balance sheet date applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on market data at the balance sheet date.

**(iv) Derecognition**

A financial asset is derecognised when the contractual rights to receive the cash flows from the financial asset expire, or where 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.

The Group uses the weighted average method to determine realised gains or losses to be recognised in profit or loss on derecognition.

## 2. Principal accounting policies *(continued)*

### (f) Financial instruments *(continued)*

**(v) Offsetting**

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet where there is a legally enforceable right to set off 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 (1) the economic characteristics and risks of the embedded derivative are not closely related to the host contract; and (2) 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 note (ii) above.

### (g) Repurchase and reverse repurchase transactions

Assets sold subject to a simultaneous agreement to repurchase these assets 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.

Assets purchased under agreements to resell (reverse repurchase agreements) are reported not as purchases of the assets, but as receivables and are carried in the balance sheet at amortised cost.

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

### (h) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that 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 accrual 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 and points 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.

## 2. Principal accounting policies *(continued)*

### (h) Revenue recognition *(continued)*

#### (i) Interest income *(continued)*

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

#### (ii) Fees and commission income

Fees and commission income is recognised in the income statement 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 costs 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 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. Contingent rentals receivable are recognised as income in the accounting period in which they are earned. Commission paid to dealers for 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 as other operating income in equal instalments over the periods covered by the lease term, except where an alterative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognised in the income statement as an integral part of the aggregate net lease payments receivable. Contingent rentals receivable are recognised as income in the accounting period in which they are earned.

#### (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.

### (i) 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 balance sheet date, and any adjustment to tax payable in respect of prior years.

## 2. Principal accounting policies *(continued)*

### (i) Income tax *(continued)*

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.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 2(k), the amount of deferred tax recognized is measured using the tax rates that would apply on sale of those assets at their carrying value at the balance sheet 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 balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits 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 profits will be available.

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

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 the Bank or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met.

## 2. Principal accounting policies *(continued)*

### (i) Income tax *(continued)*

In the case of current tax assets and liabilities, the Bank and 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.

### (j) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the closing foreign exchange rates ruling at the balance sheet date. 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.

The results of overseas operation are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the reserve.

On disposal of an overseas 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.

### (k) Tangible fixed assets and depreciation

**(i)** Bank premises that are held for the Group's administrative use are stated in the balance sheet at their revalued amount, being their fair values at the date of revaluation less any subsequent accumulated depreciation. Revaluations are performed with sufficient regularity by professional qualified valuers, or at directors' valuation by reference to open market value to ensure that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date. Changes arising on the revaluation are generally dealt with in other comprehensive income and are accumulated separately in equity in the bank premises revaluation reserve. The only exceptions are as follows:

- when a deficit arises on revaluation, it will be charged to the income statement to the extent that it exceeds the amount held in the reserve in respect of that same asset immediately prior to the revaluation; and
- when a surplus arises on revaluation, it will be credited to the income statement to the extent that a deficit on revaluation in respect of that same asset had previously been charged to the income statement.

## 2. Principal accounting policies *(continued)*

### (k) Tangible fixed assets and depreciation *(continued)*

**(ii)** Bank premises that are not held for the Group's administrative use are stated in the balance sheet at cost or at directors' valuation, by reference to an independent professional valuation, less accumulated depreciation and impairment losses. 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 bank premises that are not held for administrative use have not been revalued to fair value at the balance sheet date.

**(iii)** Gains or losses arising from the retirement or disposal of bank premises 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.

**(iv)** Equipment, comprising furniture, plant and other equipment, is stated at cost less depreciation calculated on a straight-line basis to write off the assets over their estimated useful lives, which are generally between three to ten years.

**(v)** No amortisation is provided on freehold land. Leasehold land (note 2(l)) is amortised in equal annual instalments over the remaining term of the lease. Buildings are depreciated by equal instalments over the estimated useful lives which in no case exceed fifty years.

**(vi)** Investment properties are land and/or buildings which are owned and/or held under a leasehold interest (note 2(l)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use, which are stated in the balance sheet at their open market values which are assessed annually by professional qualified valuers. Any gain or loss arising from a change in fair value or from the retirement or disposal of investment properties is recognised in the income statement.

### (l) Finance and operating leases

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 is regardless of whether the arrangement takes the legal form of a lease.

**(i) Classification of assets leased to the Group**

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group 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 balance sheet as "Advances to customers". Hire purchase contracts having 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(o).

## 2. Principal accounting policies *(continued)*

### (l) Finance and operating leases *(continued)*

#### (iii) Operating leases

Where the Group leases out assets under operating leases, the assets are included in the balance sheet according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in note 2(k)(ii) except where the asset is classified as an investment property. Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(o). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 2(h)(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. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property (note 2(k)(vi)).

### (m) Repossessed assets

In the recovery of impaired loans and advances, the Group may take possession of the collateral assets through court proceedings or voluntary delivery of possession by the borrowers. In accordance with the Group's accounting policy set out in note 2(o), impairment allowances for impaired loans and advances are maintained after taking into account the net realisable value of the repossessed assets. Repossessed assets continue to be treated as securities for loans and advances. The Group does not hold the repossessed assets for its own use.

Repossessed assets are recorded at the lower of their 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.

### (n) 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 accounts and provisions".

## 2. Principal accounting policies *(continued)*

### (n) Financial guarantees issued, provisions and contingent liabilities *(continued)*

**(i) Financial guarantees issued** *(continued)*

The amount of the guarantee initially recognised as 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(n)(ii) if and when (1) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee; and (2) 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, complaint or legal claim, 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.

### (o) Impairment of assets

The carrying amounts of the Group's assets are reviewed at each balance sheet date 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 on 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;

– disappearance of an active market for financial assets because of financial difficulties; and

– 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.

## 2. Principal accounting policies *(continued)*

### (o) Impairment of assets *(continued)*

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of loans and receivables and held-to-maturity investments, which are measured at amortised cost, 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 or held-to-maturity investments directly and any amounts held in the allowance account relating to that borrower 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.

In assessing the need for collective loan loss 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 advances to customers are reasonable and supportable.

## 2. Principal accounting policies *(continued)*

### (o) Impairment of assets *(continued)*

**(i) Loans and receivables** *(continued)*

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 advances 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 overdue.

**(ii) Held-to-maturity investments**

Impairment on held-to-maturity investments is considered at both individual and collective level. The individual impairment allowance is 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, where the effect of discounting is material.

All significant assets found not to be individually impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets with similar risk characteristics.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement. A reversal of impairment losses shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

**(iii) Available-for-sale financial assets**

When there is objective evidence that an available-for-sale financial asset is impaired, the cumulative loss that had been recognised in the investment revaluation 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.

## 2. Principal accounting policies *(continued)*

### (o) Impairment of assets *(continued)*

#### (iv) Other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- tangible fixed assets (other than properties carried at revalued amounts);
- investments in subsidiaries and associated companies; and
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- *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).

- *Reversals of impairment losses*
  In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

  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.

#### (v) Interim financial reporting and impairment

Under the Listing Rules, the Group is required to prepare 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 (notes 2(o)(i) to (iv)).

## 2. Principal accounting policies *(continued)*

### (o) Impairment of assets *(continued)*

**(v) Interim financial reporting and impairment** *(continued)*

Impairment losses recognised in an interim period in respect of goodwill and available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the year to which the interim period relates. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not the income statement.

### (p) Related parties

**(i)** A person, or a close member of that person's family, is related to the Group if that person:

*(1)* has control or joint control over the Group;

*(2)* has significant influence over the Group; or

*(3)* is a member of the key management personnel of the Group or the Group's parent.

**(ii)** An entity is related to the Group if any of the following conditions applies:

*(1)* 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);

*(2)* 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);

*(3)* both entities are joint ventures of the same third party;

*(4)* one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

*(5)* the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

*(6)* the entity is controlled or jointly controlled by a person identified in note 2(p)(i); or

*(7)* a person identified in note 2(p)(i)(1) 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.

### (q) 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 chief operating decision maker 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.

## 2. Principal accounting policies *(continued)*

### (r) Cash and cash equivalents

Cash and cash equivalents comprise cash and balances with banks, central banks and other financial institutions, and short-term, highly liquid inter-bank placements and 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. Balances of banks, central banks and other financial institutions that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purposes of the cash flow statement.

### (s) Employee benefits

**(i)** Salaries, annual bonuses, paid annual leave and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group.

**(ii)** Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Funds Scheme Ordinance are recognised as an expense in the income statement when incurred.

**(iii)** When the Group grants employees options to acquire shares of the Bank, the considerations received are recognised in the balance sheet as "Other accounts and provisions" at the date of grant. The fair value of the options is measured at the grant date and is charged to the income statement and credited to shareholders' funds between the grant date and the vesting date. When the options are exercised, shareholders' funds are increased by the amount of the proceeds and consideration received.

**(iv)** When the Group grants employees awards to acquire shares of the Bank under the Employee Incentive Plan ("EIP"), the fair value of the awards is measured at the grant date and is charged to the income statement and credited to shareholders' funds between the grant date and the vesting date. The cash amount equal to the dividend that would have been paid during the period up to vesting will be charged to the income statement as bonus expenses on an accruals basis.

## 3. Accounting estimates and judgements

Notes 22, 23, 38 and 39 contain information about the assumptions and their risk factors relating to valuation of investment property, goodwill impairment, fair value of share options granted and fair value of financial instruments. Other key sources of estimation uncertainty are as follows:

### (a) Key sources of estimation uncertainty

**Impairment losses**

**(i) 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 accounting policy (note 2(o)). 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 reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual loss experience.

## 3. Accounting estimates and judgements *(continued)*

### (a) Key sources of estimation uncertainty *(continued)*

**(ii) Available-for-sale equity 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 judgmental by nature, so profit and loss could be affected by differences in this judgement.

### (b) Critical accounting judgements in applying the Group's accounting policies

Certain critical accounting judgements in applying the Group's accounting policies are described below:

**(i) Held-to-maturity investments**

The Group classifies non-derivative financial assets with fixed or determinable payments and fixed maturity and where the Group has a positive intention and ability to hold to maturity as held-to-maturity investments. In making this judgement, the Group evaluates its intention and ability to hold such investments till maturity.

**(ii) Investment property**

The Group has temporarily sub-let certain vacant properties but has decided not to treat the properties as investment properties because it is not the Group's intention to hold the properties in the long-term for capital appreciation or rental income. Accordingly, the properties has still been treated as a building held for own use.

## 4. Changes in accounting policies

The HKICPA has issued a few 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 10, *Consolidated financial statements*
- HKFRS 12, *Disclosure of interests in other entities*
- HKFRS 13, *Fair value measurement*
- Annual improvements to HKFRSs 2009-2011 Cycle
- 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 other new or amended HKFRSs, are as follows:

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

The amendments to HKAS 1 require entities to present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The Group's presentation of other comprehensive income in these financial statements has been modified accordingly.

## 4. Changes in accounting policies *(continued)*

### HKFRS 10, *Consolidated financial statements*

HKFRS 10 replaces the requirements in HKAS 27, *Consolidated and separate financial statements* relating to the preparation of consolidated financial statements and HK-SIC 12, *Consolidation – Special purpose entities*. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1st January, 2013.

### HKFRS 12, *Disclosure of interests in other entities*

HKFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by HKFRS 12 are generally more extensive than those previously required by the respective standards. To the extent that the requirements are applicable to the Group, the Group has provided those disclosures in notes 20 and 21.

### HKFRS 13, *Fair value measurement*

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. 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 22 and 39. The adoption of HKFRS 13 does not have any material impact on the fair value measurements of the Group's assets and liabilities.

### Annual improvements to HKFRSs 2009-2011 Cycle

This cycle of annual improvements contains amendments to five standards with consequential amendments to other standards and interpretations. Among them, HKAS 34 has been amended to clarify that total assets for a particular reportable segment are required to be disclosed only if the amount are regularly provided to the chief operating decision maker ("CODM") and only if there has been a material change in the total assets for that segment from the amount disclosed in the last annual financial statements. The amendment also requires the disclosure of segment liabilities if the amounts are regularly provided to the CODM and there has been a material change in the amounts compared with the last annual financial statements. The amendment does not have any impact on the segment disclosure of the Group because the Group does not have any reportable segments with total assets or total liabilities materially different from the amounts reported in the last annual financial statements.

### 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. 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 37(a).

## 5. Operating profit

### (a) Interest income

| | **2013** | 2012 |
|---|---|---|
| Interest income arising from: | | |
| – financial assets not measured at fair value through profit or loss | **5,408,582** | 5,079,211 |
| – trading assets | **265,594** | 394,057 |
| – financial assets designated at fair value through profit or loss | **258,151** | 267,721 |
| | **5,932,327** | 5,740,989 |
| of which: | | |
| – interest income from listed investments | **496,500** | 514,591 |
| – interest income from unlisted investments | **450,099** | 450,115 |
| – interest income from impaired financial assets | **25,289** | 11,165 |

The above interest income from impaired financial assets includes interest income on unwinding of discount on loan impairment loss of HK$12,384,000 (2012: HK$7,129,000) (note 17(e)) for the year ended 31st December, 2013.

### (b) Interest expense

| | **2013** | 2012 |
|---|---|---|
| Interest expense arising from: | | |
| – financial liabilities not measured at fair value through profit or loss | **2,180,862** | 2,363,640 |
| – trading liabilities | **226,468** | 236,747 |
| – financial liabilities designated at fair value through profit or loss | **186,526** | 186,961 |
| | **2,593,856** | 2,787,348 |
| of which: | | |
| – interest expense for certificates of deposit issued repayable within 5 years | **53,243** | 45,656 |
| – interest expense for deposits from customers | **1,991,136** | 2,134,802 |
| – interest expense for deposits and balances of banks, central banks and other financial institutions | **20,190** | 16,331 |
| – interest expense for subordinated liabilities (note 34(a)) | **302,820** | 353,810 |

## 5. Operating profit *(continued)*

### (c) Other operating income

| | **2013** | 2012 |
|---|---|---|
| Fees and commission | | |
| Credit commission and fees | **174,051** | 175,685 |
| Credit card related fees | **173,442** | 155,400 |
| Trade related fees | **66,323** | 60,662 |
| Insurance commission | **94,058** | 83,925 |
| Stockbroking fees | **120,744** | 102,015 |
| Trust fees | **41** | 41 |
| Wealth management fees | **22,410** | 21,893 |
| Other fees and commission income | **100,551** | 112,291 |
| Less: Fees and commission expenses | **(90,232)** | (82,037) |
| | **661,388** | 629,875 |
| Gains arising from dealing in foreign currencies (note 5(e)) | **136,336** | 140,908 |
| Gains on other dealing activities (note 5(e)) | **4,098** | 2,105 |
| Dividend income from unlisted available-for-sale financial assets | **8,081** | 7,693 |
| Dividend income from listed available-for-sale financial assets | **736** | 587 |
| Dividend income from listed trading investments | **238** | 164 |
| Rental income from investment properties less direct outgoings of HK$1,898,000 (2012: HK$1,246,000) | **16,393** | 16,460 |
| Others | **18,322** | 14,564 |
| | **845,592** | 812,356 |
| of which: | | |
| Net fees and commission, other than amounts included in determining the effective interest rate, arising from financial instruments that are not held for trading nor designated at fair value through profit or loss | | |
| – fees and commission income | **260,465** | 256,381 |
| – fees and commission expenses | **(8)** | (8) |
| | **260,457** | 256,373 |

## 5. Operating profit *(continued)*

### (d) Net gains from trading and financial instruments designated at fair value through profit or loss

| | **2013** | 2012 |
|---|---|---|
| Net realised and unrealised gains on trading financial instruments (note 5(e)) | **275,918** | 4,901 |
| Net realised and unrealised (losses)/gains on financial instruments designated at fair value through profit or loss: | | |
| – unrealised gains/(losses) on subordinated liabilities | **38,160** | (274,130) |
| – realised and unrealised gains on collateralised debt obligations ("CDO") | **14,237** | 50,297 |
| – realised and unrealised gains on debt securities issued by bank in Iceland (note 19(b)) | **–** | 3,512 |
| – realised and unrealised (losses)/gains on other financial instruments | **(211,629)** | 340,293 |
| | **(159,232)** | 119,972 |
| | **116,686** | 124,873 |

### (e) Net trading income

| | **2013** | 2012 |
|---|---|---|
| Gains arising from dealing in foreign currencies (note 5(c)) | **136,336** | 140,908 |
| Gains on other dealing activities (note 5(c)) | **4,098** | 2,105 |
| Net realised and unrealised gains on trading financial instruments (note 5(d)) | **275,918** | 4,901 |
| | **416,352** | 147,914 |

### (f) Operating expenses

| | **2013** | 2012 |
|---|---|---|
| Staff costs | | |
| Salaries and other staff costs | **1,279,744** | 1,124,275 |
| Retirement benefit costs (note 38(a)) | **72,274** | 70,521 |
| EIP – fair value of awards (note 34(a)) | **11,475** | 13,284 |
| EIP – bonus | **3,928** | 3,832 |
| | **1,367,421** | 1,211,912 |
| Premises and equipment expenses, excluding depreciation | **270,733** | 241,104 |
| Depreciation (notes 22 & 34(a)) | **214,360** | 210,417 |
| Other expenses | | |
| Auditor's remuneration | | |
| Audit services | **5,135** | 5,003 |
| Other services | **2,077** | 3,631 |
| Others | **376,519** | 179,795 |
| | **383,731** | 188,429 |
| | **2,236,245** | 1,851,862 |

## 6. (a) Net gains on revaluation of properties and disposal of tangible fixed assets

| | **2013** | 2012 |
|---|---|---|
| Net gains on disposal of subsidiary | **250,314** | – |
| Unrealised revaluation gains of investment properties (note 22) | **11,900** | 158,676 |
| Net gains on disposal of tangible fixed assets | **53,306** | 26,684 |
| | **315,520** | 185,360 |

### (b) Net gains on disposal of available-for-sale financial assets

| | **2013** | 2012 |
|---|---|---|
| Net unrealised gains transferred from investment revaluation reserve upon disposal | **83,121** | 61,269 |
| Net gains on disposal of available-for-sale financial assets | **127,475** | 25,335 |
| | **210,596** | 86,604 |

## 7. Taxation

### (a) Taxation in the consolidated income statement represents:

| | **2013** | 2012 |
|---|---|---|
| Current tax – Provision for Hong Kong profits tax | | |
| Provision for the year | **311,086** | 263,136 |
| (Overprovision)/underprovision in respect of prior years | **(15,971)** | 2,486 |
| | **295,115** | 265,622 |
| Current tax – Provision for tax outside Hong Kong | | |
| Provision for the year | **88,123** | 119,854 |
| Overprovision in respect of prior years | **(6,517)** | (6,330) |
| | **81,606** | 113,524 |
| Deferred taxation | | |
| Origination and reversal of temporary differences | **(8,314)** | (61,763) |
| | **368,407** | 317,383 |

The provision for Hong Kong profits tax for 2013 is calculated at 16.5% (2012: 16.5%) of the Group's estimated assessable profits for the year. The provision for taxation outside Hong Kong is provided at the appropriate current rates of taxation ruling in the region in which the relevant units of the Group operate.

## 7. Taxation *(continued)*

### (b) Reconciliation between tax expenses and accounting profit at applicable tax rates:

| | 2013 | % | 2012 | % |
|---|---|---|---|---|
| Profit before tax | **2,555,530** | **100.00** | 2,119,744 | 100.00 |
| Notional tax on profit before tax, calculated at the rates applicable to profits in the region concerned | **418,373** | **16.37** | 345,445 | 16.30 |
| Tax effect of non-deductible expenses | **23,523** | **0.92** | 6,986 | 0.33 |
| Tax effect of non-taxable revenue | **(94,079)** | **(3.68)** | (33,040) | (1.56) |
| Tax effect of unused tax losses not recognised | **37** | **–** | 32 | – |
| Tax effect of unused tax losses recognised | **(5)** | **–** | – | – |
| Overprovision in respect of prior years | **(22,489)** | **(0.88)** | (3,844) | (0.18) |
| Others | **43,047** | **1.68** | 1,804 | 0.08 |
| Actual tax expense | **368,407** | **14.41** | 317,383 | 14.97 |

### (c) Current tax recoverable and payable

The components of current tax recoverable and payable in the balance sheets are as follows:

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| Current tax recoverable | | | | |
| Provision for Hong Kong profits tax | **5,490** | 8,245 | **–** | – |
| Provisional profits tax paid | **(12,812)** | (12,920) | **–** | – |
| | **(7,322)** | (4,675) | **–** | – |
| Provision for tax outside Hong Kong | **–** | (14) | **–** | – |
| | **(7,322)** | (4,689) | **–** | – |
| Current tax payable | | | | |
| Provision for Hong Kong profits tax | **299,016** | 254,891 | **289,157** | 227,178 |
| Provisional profits tax paid | **(169,406)** | (160,173) | **(162,606)** | (137,511) |
| | **129,610** | 94,718 | **126,551** | 89,667 |
| Provision for tax outside Hong Kong | **78,143** | 57,870 | **3,451** | 4,010 |
| | **207,753** | 152,588 | **130,002** | 93,677 |

All current tax recoverable and payable are expected to be settled within one year.

## 7. Taxation *(continued)*

### (d) Deferred tax assets and liabilities recognised

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

| | The Group 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Depreciation allowances in excess of related depreciation | Revaluation of properties | Revaluation of available-for-sale financial assets | Collective impairment allowances for loans and advances | Others | Total |
| At 1st January | **10,622** | **105,522** | **76,603** | **(5,872)** | **(46,847)** | **140,028** |
| Through disposal of subsidiary | **(3,253)** | **–** | **–** | **–** | **–** | **(3,253)** |
| (Credited)/charged to consolidated income statement | **(1,506)** | **–** | **–** | **24,058** | **(30,866)** | **(8,314)** |
| (Credited)/charged to reserves | **–** | **38,054** | **(46,255)** | **–** | **–** | **(8,201)** |
| At 31st December | **5,863** | **143,576** | **30,348** | **18,186** | **(77,713)** | **120,260** |

| | The Group 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Depreciation allowances in excess of related depreciation | Revaluation of properties | Revaluation of available-for-sale financial assets | Collective impairment allowances for loans and advances | Others | Total |
| At 1st January | 15,422 | 63,740 | 38,593 | 34,145 | (29,901) | 121,999 |
| Credited to consolidated income statement | (4,800) | – | – | (40,017) | (16,946) | (61,763) |
| Charged to reserves | – | 41,782 | 38,010 | – | – | 79,792 |
| At 31st December | 10,622 | 105,522 | 76,603 | (5,872) | (46,847) | 140,028 |

## 7. Taxation *(continued)*

### (d) Deferred tax assets and liabilities recognised *(continued)*

| | The Bank | | | | | |
|---|---|---|---|---|---|---|
| | **2013** | | | | | |
| | Depreciation allowances in excess of related depreciation | Revaluation of properties | Revaluation of available-for-sale financial assets | Collective impairment allowances for loans and advances | Others | Total |
| At 1st January | **34,680** | **16,137** | **69,251** | **(12,396)** | **(4,561)** | **103,111** |
| (Credited)/charged to income statement | **(5,162)** | **–** | **–** | **706** | **707** | **(3,749)** |
| (Credited)/charged to reserves | **–** | **2,486** | **(37,592)** | **–** | **–** | **(35,106)** |
| At 31st December | **29,518** | **18,623** | **31,659** | **(11,690)** | **(3,854)** | **64,256** |

| | The Bank | | | | | |
|---|---|---|---|---|---|---|
| | 2012 | | | | | |
| | Depreciation allowances in excess of related depreciation | Revaluation of properties | Revaluation of available-for-sale financial assets | Collective impairment allowances for loans and advances | Others | Total |
| At 1st January | 37,971 | 14,389 | 33,983 | (13,293) | (5,937) | 67,113 |
| (Credited)/charged to income statement | (3,291) | – | – | 897 | 1,376 | (1,018) |
| Charged to reserves | – | 1,748 | 35,268 | – | – | 37,016 |
| At 31st December | 34,680 | 16,137 | 69,251 | (12,396) | (4,561) | 103,111 |

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| Net deferred tax assets recognised on the balance sheets | **(28,833)** | (33,992) | **–** | – |
| Net deferred tax liabilities recognised on the balance sheets | **149,093** | 174,020 | **64,256** | 103,111 |
| | **120,260** | 140,028 | **64,256** | 103,111 |

## 8. Profit attributable to the shareholders of the Bank

The profit attributable to the shareholders of the Bank includes an amount of HK$2,968,426,000 (2012: HK$1,279,294,000) which has been dealt with in the financial statements of the Bank.

Details of dividends paid and payable to equity shareholders of the Bank are set out in note 9.

## 9. Dividends

### (a) Dividends attributable to the year

| | **2013** | 2012 |
|---|---|---|
| Interim dividend declared and paid of HK$0.46 (2012: HK$0.46) per ordinary share on 307,424,722 shares (2012: 300,635,592 shares) | **141,415** | 138,292 |
| Final dividend proposed in respect of the prior year after the balance sheet date of HK$1.62 (2012: HK$1.62) per ordinary share on 307,424,722 shares (2012: 302,162,900 shares) | **498,028** | 489,504 |
| | **639,443** | 627,796 |

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

### (b) Dividends attributable to the previous year, approved and paid during the year

| | **2013** | 2012 |
|---|---|---|
| Underprovision of final dividend in respect of the prior year | **304** | 105 |
| Final dividend in respect of the prior year, approved and paid during the year, of HK$1.62 (2012: HK$1.34) per ordinary share on 302,162,900 shares (2012: 298,812,308 shares) | **489,504** | 400,408 |
| | **489,808** | 400,513 |

## 10. Directors' emoluments

Directors' emoluments disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance are as follows:

| | **2013** | | | | | | |
|---|---|---|---|---|---|---|---|
| | Directors' fee | Salaries and other emoluments | Pension contributions | Performance bonuses | Sub-total | Share-based payments | Total |
| *Chairman* | | | | | | | |
| Patrick Y B FUNG | **629** | **11,504** | **1,104** | **14,796** | **28,033** | **2,792** | **30,825** |
| *Executive directors* | | | | | | | |
| Frank J WANG | **315** | **7,915** | **751** | **11,282** | **20,263** | **1,688** | **21,951** |
| Michael Y S FUNG | **315** | **6,029** | **619** | **7,916** | **14,879** | **1,396** | **16,275** |
| *Non-executive directors* | | | | | | | |
| Aloysius H Y TSE | **397** | **905** | **–** | **–** | **1,302** | **–** | **1,302** |
| Ambrose H C LAU | **300** | **623** | **–** | **–** | **923** | **–** | **923** |
| Brian Gerard ROGAN | **300** | **–** | **–** | **–** | **300** | **–** | **300** |
| CHENG Hon Kwan | **300** | **320** | **–** | **–** | **620** | **–** | **620** |
| Louis C W HO | **315** | **50** | **–** | **–** | **365** | **25** | **390** |
| Stephen Dubois LACKEY | **300** | **200** | **–** | **–** | **500** | **–** | **500** |
| TUNG Chee Chen | **105** | **–** | **–** | **–** | **105** | **–** | **105** |
| Billy S K LI | **195** | **553** | **–** | **–** | **748** | **–** | **748** |
| | **3,471** | **28,099** | **2,474** | **33,994** | **68,038** | **5,901** | **73,939** |

## 10. Directors' emoluments *(continued)*

| | 2012 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Directors' fee | Salaries and other emoluments | Pension contributions | Performance bonuses | Sub-total | Share-based payments | Total |
| *Chairman* | | | | | | | |
| Patrick Y B FUNG | 629 | 9,194 | 1,061 | 10,729 | 21,613 | 3,286 | 24,899 |
| *Executive directors* | | | | | | | |
| Frank J WANG | 315 | 6,259 | 721 | 7,703 | 14,998 | 1,947 | 16,945 |
| Michael Y S FUNG | 315 | 5,160 | 595 | 5,720 | 11,790 | 1,643 | 13,433 |
| *Non-executive directors* | | | | | | | |
| Aloysius H Y TSE | 397 | 801 | – | – | 1,198 | – | 1,198 |
| Ambrose H C LAU | 300 | 613 | – | – | 913 | – | 913 |
| Brian Gerard ROGAN | 300 | – | – | – | 300 | – | 300 |
| CHENG Hon Kwan | 300 | 320 | – | – | 620 | – | 620 |
| Louis C W HO | 314 | 55 | – | – | 369 | 31 | 400 |
| Stephen Dubois LACKEY | 300 | 200 | – | – | 500 | – | 500 |
| TUNG Chee Chen | 300 | – | – | – | 300 | – | 300 |
| | 3,470 | 22,602 | 2,377 | 24,152 | 52,601 | 6,907 | 59,508 |

The above share-based payments are fair value of awards granted under the Group's EIP. The details of these benefits in kind are disclosed under "Employee Incentive Plan" in the "Report of the Directors".

## 11. Executives' emoluments

The five highest paid individuals include three (2012: three) directors, details of whose emoluments are set out in note 10. The emoluments of the remaining two (2012: two) individuals are as follows:

| | **2013** | 2012 |
|---|---|---|
| Salaries and other emoluments | **6,851** | 5,921 |
| Pension contributions | **772** | 682 |
| Performance bonuses | **12,699** | 11,472 |
| Share-based payments | **662** | 430 |
| | **20,984** | 18,505 |

## 11. Executives' emoluments *(continued)*

The emoluments of the two (2012: two) executives are within the following band:

| | **2013** Number of executives | 2012 Number of executives |
|---|---|---|
| HK$ 11,000,001 – HK$ 11,500,000 | **1** | – |
| HK$ 10,000,001 – HK$ 10,500,000 | **–** | 1 |
| HK$ 9,500,001 – HK$ 10,000,000 | **1** | – |
| HK$ 8,000,001 – HK$ 8,500,000 | **–** | 1 |
| | **2** | 2 |

## 12. Earnings per share

The calculation of basic earnings per share is based on profit attributable to the Bank's shareholders of HK$2,187,123,000 (2012: HK$1,802,361,000) and on the weighted average number of ordinary shares of 304,947,637 shares (2012: 300,212,010 shares) in issue during the year.

| | **2013** Number of shares of HK$1.00 each | 2012 Number of shares of HK$1.00 each |
|---|---|---|
| Issued ordinary shares at 1st January | **302,162,900** | 298,812,308 |
| Effect of shares issued in lieu of dividends | **2,589,633** | 1,293,612 |
| Effect of share option exercised | **15,959** | 6,312 |
| Effect of EIP exercised | **179,145** | 99,778 |
| Weighted average number of ordinary shares used in calculating basic earnings per share | **304,947,637** | 300,212,010 |

The calculation of diluted earnings per share is based on profit attributable to the Bank's shareholders of HK$2,187,123,000 (2012: HK$1,802,361,000) and on the weighted average number of ordinary shares of 307,032,590 shares (2012: 302,552,293 shares) in issue during the year after adjustment for the effects of all dilutive potential ordinary shares of 2,084,953 shares (2012: 2,340,283 shares).

| | **2013** Number of shares of HK$1.00 each | 2012 Number of shares of HK$1.00 each |
|---|---|---|
| Weighted average number of ordinary shares used in calculating basic earnings per share | **304,947,637** | 300,212,010 |
| Deemed exercise of Share Option Scheme | **213,325** | 244,763 |
| Deemed exercise of EIP | **1,871,628** | 2,095,520 |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | **307,032,590** | 302,552,293 |

## 13. Cash and balances with banks, central banks and other financial institutions

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| Cash balances | **954,066** | 803,608 | **543,232** | 412,765 |
| Balances with central banks | **5,233,050** | 5,346,490 | **35,764** | 165,552 |
| Balances with banks | **1,377,350** | 1,061,292 | **833,884** | 588,681 |
| | **7,564,466** | 7,211,390 | **1,412,880** | 1,166,998 |

## 14. Placements with banks, central banks and other financial institutions

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| Placements with banks | **19,216,094** | 16,832,550 | **10,681,729** | 11,812,552 |

## 15. Trading assets

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| Debt securities: | | | | |
| Listed in Hong Kong | **348,299** | 240,792 | **348,299** | 240,792 |
| Listed outside Hong Kong | **98,466** | 91,671 | **98,466** | 91,671 |
| | **446,765** | 332,463 | **446,765** | 332,463 |
| Unlisted | **1,018,831** | 7,257,380 | **1,018,831** | 7,257,380 |
| | **1,465,596** | 7,589,843 | **1,465,596** | 7,589,843 |
| Equity securities listed in Hong Kong | **7,639** | 1,346 | **7,085** | 943 |
| Total trading securities | **1,473,235** | 7,591,189 | **1,472,681** | 7,590,786 |
| Positive fair values of derivative financial instruments held for trading (note 33(a)) | **967,509** | 826,364 | **972,904** | 838,623 |
| | **2,440,744** | 8,417,553 | **2,445,585** | 8,429,409 |
| Trading debt securities include: | | | | |
| Treasury bills | **1,101,294** | 6,888,084 | **1,101,294** | 6,888,084 |
| Certificates of deposit held | **–** | 111,765 | **–** | 111,765 |
| Other trading debt securities | **364,302** | 589,994 | **364,302** | 589,994 |
| | **1,465,596** | 7,589,843 | **1,465,596** | 7,589,843 |

## 15. Trading assets *(continued)*

Trading assets of the Bank include positive fair values of derivative financial instruments transacted with a subsidiary amounting to HK$9,083,000 (2012: HK$17,424,000).

Trading securities analysed by counterparty are as follows:

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| Issued by: | | | | |
| Sovereigns | **1,101,294** | 7,037,133 | **1,101,294** | 7,037,133 |
| Public sector entities | **4** | 12 | **–** | – |
| Banks | **143,435** | 228,619 | **143,360** | 228,595 |
| Corporates | **228,502** | 325,425 | **228,027** | 325,058 |
| | **1,473,235** | 7,591,189 | **1,472,681** | 7,590,786 |

## 16. Financial assets designated at fair value through profit or loss

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| Debt securities: | | | | |
| Listed in Hong Kong | **3,072,464** | 3,550,532 | **3,072,464** | 3,550,532 |
| Listed outside Hong Kong | **4,146,761** | 5,067,849 | **4,146,761** | 5,067,849 |
| | **7,219,225** | 8,618,381 | **7,219,225** | 8,618,381 |
| Unlisted | **1,001,815** | 1,260,789 | **1,001,815** | 1,260,789 |
| | **8,221,040** | 9,879,170 | **8,221,040** | 9,879,170 |
| Debt securities designated at fair value through profit or loss include: | | | | |
| Treasury bills | **67,133** | 148,513 | **67,133** | 148,513 |
| Other debt securities designated at fair value through profit or loss | **8,153,907** | 9,730,657 | **8,153,907** | 9,730,657 |
| | **8,221,040** | 9,879,170 | **8,221,040** | 9,879,170 |

## 16. Financial assets designated at fair value through profit or loss *(continued)*

Financial assets designated at fair value through profit or loss analysed by counterparty are as follows:

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| Issued by: | | | | |
| Sovereigns | **67,133** | 148,513 | **67,133** | 148,513 |
| Public sector entities | **816,776** | 865,443 | **816,776** | 865,443 |
| Banks | **2,256,086** | 2,718,359 | **2,256,086** | 2,718,359 |
| Corporates | **5,081,045** | 6,146,855 | **5,081,045** | 6,146,855 |
| | **8,221,040** | 9,879,170 | **8,221,040** | 9,879,170 |

## 17. Advances to customers and other accounts

### (a) Advances to customers and other accounts

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| Gross advances to customers | **135,323,268** | 114,053,811 | **83,998,129** | 69,554,148 |
| Individual impairment allowances for impaired loans and advances (note 17(e)) | **(57,597)** | (81,802) | **(34,885)** | (25,275) |
| Collective impairment allowances for loans and advances (note 17(e)) | **(223,602)** | (256,262) | **(62,806)** | (74,041) |
| Net advances to customers | **135,042,069** | 113,715,747 | **83,900,438** | 69,454,832 |
| Gross trade bills | **4,870,221** | 4,294,629 | **4,639,512** | 6,640,846 |
| Individual impairment allowances for impaired trade bills (note 17(e)) | **(1,102)** | (791) | **(1,102)** | (791) |
| Collective impairment allowances for trade bills (note 17(e)) | **(64)** | (62) | **(40)** | (56) |
| Net trade bills | **4,869,055** | 4,293,776 | **4,638,370** | 6,639,999 |
| Advances to banks | **–** | 765,609 | **–** | 29,780 |
| Customer liability under acceptances | **295,398** | 337,925 | **248,113** | 287,580 |
| Interest receivable | **598,366** | 581,316 | **319,661** | 355,244 |
| Amount receivable for sale of debt securities | **150,000** | – | **150,000** | – |
| Other accounts | **1,401,811** | 1,224,838 | **985,275** | 851,203 |
| | **142,356,699** | 120,919,211 | **90,241,857** | 77,618,638 |

## 17. Advances to customers and other accounts *(continued)*

### (b) Advances to customers analysed by industry sectors

The information concerning advances to customers by industry sectors is prepared by classifying the advances according to the usage of the advances and is stated gross of any impairment allowances.

| | The Group | | | | | |
|---|---|---|---|---|---|---|
| | **2013** | | | 2012 | | |
| | Gross advances to customers | % of gross advances covered by collateral | Impaired advances to customers | Gross advances to customers | % of gross advances covered by collateral | Impaired advances to customers |
| **Advances for use in Hong Kong** | | | | | | |
| Industrial, commercial and financial | | | | | | |
| – Property development | **2,322,289** | **38.2** | **–** | 2,291,326 | 55.6 | – |
| – Property investment | **20,319,089** | **98.4** | **535** | 19,245,115 | 99.4 | 535 |
| – Financial concerns | **2,646,191** | **18.5** | **–** | 1,736,464 | 16.3 | – |
| – Stockbrokers | **972,169** | **88.2** | **–** | 360,558 | 88.9 | – |
| – Wholesale and retail trade | **4,482,444** | **36.1** | **3,843** | 2,149,660 | 47.7 | 1,960 |
| – Manufacturing | **2,566,710** | **49.5** | **27,196** | 1,955,481 | 56.5 | 32,151 |
| – Transport and transport equipment | **8,595,709** | **87.0** | **16,749** | 7,498,540 | 92.0 | 17,878 |
| – Information technology | **11,737** | **28.5** | **–** | 90,748 | 4.3 | – |
| – Share financing | **271,927** | **99.1** | **5,020** | 259,520 | 99.6 | 6,124 |
| – Recreational activities | **52,313** | **–** | **–** | 57,037 | – | – |
| – Others | **4,449,946** | **54.7** | **11,065** | 3,495,397 | 53.7 | 16,810 |
| Individuals | | | | | | |
| – Advances for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme or their respective successor schemes | **2,453,155** | **100.0** | **345** | 2,503,849 | 100.0 | 475 |
| – Advances for the purchase of other residential properties | **23,287,360** | **99.9** | **2,930** | 20,034,184 | 100.0 | 4,975 |
| – Credit card advances | **256,959** | **0.7** | **3,014** | 288,353 | 0.8 | 2,078 |
| – Others | **7,824,778** | **68.6** | **63,530** | 6,709,165 | 69.9 | 65,319 |
| | **80,512,776** | **82.5** | **134,227** | 68,675,397 | 86.5 | 148,305 |
| **Trade finance** | **9,446,963** | **72.1** | **11,768** | 8,281,776 | 65.0 | 18,642 |
| **Advances for use outside Hong Kong** | | | | | | |
| – Mainland China | **25,900,373** | **58.5** | **397,944** | 21,574,823 | 69.9 | 321,115 |
| – Macau | **18,483,267** | **91.3** | **50,650** | 15,187,321 | 92.8 | 23,721 |
| – Others | **979,889** | **25.9** | **–** | 334,494 | 75.7 | – |
| | **45,363,529** | **71.1** | **448,594** | 37,096,638 | 79.3 | 344,836 |
| | **135,323,268** | **78.0** | **594,589** | 114,053,811 | 82.6 | 511,783 |

## 17. Advances to customers and other accounts *(continued)*

### (b) Advances to customers analysed by industry sectors *(continued)*

| | The Bank | | | | | |
|---|---|---|---|---|---|---|
| | **2013** | | | 2012 | | |
| | Gross advances to customers | % of gross advances covered by collateral | Impaired advances to customers | Gross advances to customers | % of gross advances covered by collateral | Impaired advances to customers |
| **Advances for use in Hong Kong** | | | | | | |
| Industrial, commercial and financial | | | | | | |
| – Property development | **2,322,289** | **38.2** | **–** | 2,291,326 | 55.6 | – |
| – Property investment | **17,183,969** | **98.1** | **535** | 17,215,028 | 99.3 | 535 |
| – Financial concerns | **2,646,191** | **18.5** | **–** | 1,725,550 | 15.8 | – |
| – Stockbrokers | **972,169** | **88.2** | **–** | 360,558 | 88.9 | – |
| – Wholesale and retail trade | **4,477,845** | **36.0** | **3,843** | 2,144,416 | 47.6 | 1,960 |
| – Manufacturing | **2,548,036** | **49.9** | **27,196** | 1,955,370 | 56.5 | 32,151 |
| – Transport and transport equipment | **8,556,213** | **87.0** | **16,548** | 7,329,327 | 92.1 | 17,223 |
| – Information technology | **11,737** | **28.5** | **–** | 90,748 | 4.3 | – |
| – Share financing | **271,927** | **99.1** | **5,020** | 259,520 | 99.6 | 6,124 |
| – Recreational activities | **52,313** | **–** | **–** | 57,037 | – | – |
| – Others | **4,239,853** | **53.6** | **10,678** | 3,284,221 | 50.9 | 16,810 |
| Individuals | | | | | | |
| – Advances for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme or their respective successor schemes | **2,453,155** | **100.0** | **345** | 2,503,849 | 100.0 | 475 |
| – Advances for the purchase of other residential properties | **15,444,893** | **100.0** | **2,069** | 14,382,203 | 100.0 | 3,471 |
| – Credit card advances | **256,959** | **0.7** | **3,014** | 288,353 | 0.8 | 2,078 |
| – Others | **5,129,412** | **95.3** | **55,304** | 4,349,690 | 95.0 | 57,232 |
| | **66,566,961** | **82.3** | **124,552** | 58,237,196 | 87.2 | 138,059 |
| **Trade finance** | **7,016,618** | **64.0** | **11,768** | 4,417,595 | 61.5 | 18,642 |
| **Advances for use outside Hong Kong** | | | | | | |
| – Mainland China | **9,518,390** | **23.7** | **111,013** | 6,644,641 | 35.3 | 94,667 |
| – Macau | **26,101** | **100.0** | **26,101** | 26,101 | 100.0 | – |
| – Others | **870,059** | **16.5** | **–** | 228,615 | 64.4 | – |
| | **10,414,550** | **23.3** | **137,114** | 6,899,357 | 36.5 | 94,667 |
| | **83,998,129** | **73.4** | **273,434** | 69,554,148 | 80.5 | 251,368 |

## 17. Advances to customers and other accounts *(continued)*

### (c) Impaired advances to customers

The gross impaired advances to customers, market value of collateral held with respect to such advances and individual impairment allowances are as follows:

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| Gross impaired advances to customers | **594,589** | 511,783 | **273,434** | 251,368 |
| Gross impaired advances to customers as a percentage of total advances to customers | **0.44%** | 0.45% | **0.33%** | 0.36% |
| Market value of collateral held with respect to impaired advances to customers | **536,675** | 435,205 | **238,369** | 224,532 |
| Individual impairment allowances | **57,597** | 81,802 | **34,885** | 25,275 |

Impaired advances to customers are individually assessed loans with objective evidence of impairment on an individual basis. Individually assessed impairment allowances were made after taking into account the net present value of future recoverable amounts in respect of such loans and advances, and the collateral held mainly comprised properties and vehicles.

There are no impaired advances to banks nor individual impairment allowances made on advances to banks as at 31st December, 2013 and 31st December, 2012.

## 17. Advances to customers and other accounts *(continued)*

### (d) Net investments in finance leases and hire purchase contracts

Advances to customers include net investment in equipment leased to customers under finance leases and hire purchase contracts having the characteristics of finance leases. The total minimum lease payments receivable under finance leases and hire purchase contracts, and their present values are as follows:

| | The Group | | | |
|---|---|---|---|---|
| | **2013** | | 2012 | |
| | Present value of the minimum lease payments | Total minimum lease payments | Present value of the minimum lease payments | Total minimum lease payments |
| Amount receivable: | | | | |
| Within 1 year | **4,877,412** | **5,457,312** | 4,430,994 | 5,008,801 |
| After 1 year but within 5 years | **7,005,021** | **7,476,250** | 6,443,032 | 6,912,167 |
| After 5 years | **8,396** | **8,586** | 16,102 | 17,016 |
| | **11,890,829** | **12,942,148** | 10,890,128 | 11,937,984 |
| Unearned future income on finance lease | **–** | **(1,051,319)** | – | (1,047,856) |
| | **11,890,829** | **11,890,829** | 10,890,128 | 10,890,128 |
| Individual impairment allowances for impaired loans and advances | **(22,537)** | | (12,459) | |
| Collective impairment allowances for loans and advances | **(9,271)** | | (12,045) | |
| Net investment in finance leases and hire purchase contracts | **11,859,021** | | 10,865,624 | |

## 17. Advances to customers and other accounts *(continued)*

### (d) Net investments in finance leases and hire purchase contracts *(continued)*

| | The Bank | | | |
|---|---|---|---|---|
| | **2013** | | 2012 | |
| | Present value of the minimum lease payments | Total minimum lease payments | Present value of the minimum lease payments | Total minimum lease payments |
| Amount receivable: | | | | |
| Within 1 year | **4,806,739** | **5,378,179** | 4,234,951 | 4,798,822 |
| After 1 year but within 5 years | **6,902,214** | **7,364,769** | 6,321,220 | 6,779,280 |
| After 5 years | **450** | **455** | 115 | 117 |
| | **11,709,403** | **12,743,403** | 10,556,286 | 11,578,219 |
| Unearned future income on finance lease | **–** | **(1,034,000)** | – | (1,021,933) |
| | **11,709,403** | **11,709,403** | 10,556,286 | 10,556,286 |
| Individual impairment allowances for impaired loans and advances | **(22,375)** | | (10,876) | |
| Collective impairment allowances for loans and advances | **(8,761)** | | (11,022) | |
| Net investment in finance leases and hire purchase contracts | **11,678,267** | | 10,534,388 | |

### (e) Impairment allowances for loans and advances

| | The Group | | |
|---|---|---|---|
| | | **2013** | |
| | Individual | Collective | Total |
| At 1st January | **82,593** | **256,324** | **338,917** |
| Additions | **140,744** | **–** | **140,744** |
| Releases | **(21,739)** | **(32,658)** | **(54,397)** |
| Net charges/(releases) to consolidated income statement | **119,005** | **(32,658)** | **86,347** |
| Unwind of discount of loan impairment losses (note 5(a)) | **(12,384)** | **–** | **(12,384)** |
| Recoveries of advances written off in prior years | **19,413** | **–** | **19,413** |
| Amounts written off | **(149,928)** | **–** | **(149,928)** |
| At 31st December | **58,699** | **223,666** | **282,365** |
| Representing impairment allowances for: | | | |
| Trade bills (note 17(a)) | **1,102** | **64** | **1,166** |
| Advances to customers (note 17(a)) | **57,597** | **223,602** | **281,199** |
| | **58,699** | **223,666** | **282,365** |

## 17. Advances to customers and other accounts *(continued)*

### (e) Impairment allowances for loans and advances *(continued)*

| | The Group 2012 Individual | Collective | Total |
|---|---|---|---|
| At 1st January | 55,144 | 138,332 | 193,476 |
| Additions | 165,336 | 117,992 | 283,328 |
| Releases | (47,514) | – | (47,514) |
| Net charges to consolidated income statement | 117,822 | 117,992 | 235,814 |
| Unwind of discount of loan impairment losses (note 5(a)) | (7,129) | – | (7,129) |
| Recoveries of advances written off in prior years | 40,367 | – | 40,367 |
| Amounts written off | (123,611) | – | (123,611) |
| At 31st December | 82,593 | 256,324 | 338,917 |
| Representing impairment allowances for: | | | |
| Trade bills (note 17(a)) | 791 | 62 | 853 |
| Advances to customers (note 17(a)) | 81,802 | 256,262 | 338,064 |
| | 82,593 | 256,324 | 338,917 |

| | The Bank **2013** Individual | Collective | Total |
|---|---|---|---|
| At 1st January | **26,066** | **74,097** | **100,163** |
| Additions | **33,869** | **–** | **33,869** |
| Releases | **(17,276)** | **(11,251)** | **(28,527)** |
| Net charges/(releases) to income statement | **16,593** | **(11,251)** | **5,342** |
| Unwind of discount of loan impairment losses | **(1,312)** | **–** | **(1,312)** |
| Recoveries of advances written off in prior years | **13,126** | **–** | **13,126** |
| Amounts written off | **(18,486)** | **–** | **(18,486)** |
| At 31st December | **35,987** | **62,846** | **98,833** |
| Representing impairment allowances for: | | | |
| Trade bills (note 17(a)) | **1,102** | **40** | **1,142** |
| Advances to customers (note 17(a)) | **34,885** | **62,806** | **97,691** |
| | **35,987** | **62,846** | **98,833** |

## 17. Advances to customers and other accounts *(continued)*

### (e) Impairment allowances for loans and advances *(continued)*

| | The Bank | | |
|---|---|---|---|
| | 2012 | | |
| | Individual | Collective | Total |
| At 1st January | 19,177 | 99,643 | 118,820 |
| Additions | 22,295 | – | 22,295 |
| Releases | (21,249) | (25,546) | (46,795) |
| Net (releases)/charges to income statement | 1,046 | (25,546) | (24,500) |
| Unwind of discount of loan impairment losses | (2,202) | – | (2,202) |
| Recoveries of advances written off in prior years | 18,795 | – | 18,795 |
| Amounts written off | (10,750) | – | (10,750) |
| At 31st December | 26,066 | 74,097 | 100,163 |
| Representing impairment allowances for: | | | |
| Trade bills (note 17(a)) | 791 | 56 | 847 |
| Advances to customers (note 17(a)) | 25,275 | 74,041 | 99,316 |
| | 26,066 | 74,097 | 100,163 |

### (f) Repossessed assets

During the year ended 31st December, 2013, the Group has taken possession of collateral it holds as security as follows:

| **Nature** | The Group | | The Bank | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| Properties | **343,200** | 38,882 | **343,200** | 27,832 |
| Vehicles | **22,001** | 14,124 | **21,880** | 13,266 |
| Others | **8,746** | 24,939 | **6,200** | 15,200 |
| | **373,947** | 77,945 | **371,280** | 56,298 |

The amount represents the market value of the repossessed assets.

Repossessed assets obtained are intended to be realised in an orderly fashion to repay the impaired advances to customers and are not held for the own use of the Group.

At 31st December, 2013, repossessed assets obtained as securities for impaired advances to customers totalled HK$350,168,000 (2012: HK$19,421,000) and HK$349,748,000 (2012: HK$19,421,000) for the Group and the Bank respectively.

## 18. Held-to-maturity investments

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| Held-to-maturity debt securities: | | | | |
| Listed in Hong Kong | **1,548,050** | 701,749 | **1,548,050** | 701,749 |
| Listed outside Hong Kong | **725,427** | 140,869 | **725,427** | 140,869 |
| | **2,273,477** | 842,618 | **2,273,477** | 842,618 |
| Unlisted | **2,118,289** | 1,513,047 | **1,000,095** | 149,160 |
| | **4,391,766** | 2,355,665 | **3,273,572** | 991,778 |
| Held-to-maturity debt securities include: | | | | |
| Treasury bills | **941,232** | 1,363,887 | **–** | – |
| Certificates of deposit held | **518,782** | – | **518,782** | – |
| Other held-to-maturity debt securities | **2,931,752** | 991,778 | **2,754,790** | 991,778 |
| | **4,391,766** | 2,355,665 | **3,273,572** | 991,778 |

Held-to-maturity investments analysed by counterparty are as follows:

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| Issued by: | | | | |
| Sovereigns | **941,232** | 1,363,887 | **–** | – |
| Public sector entities | **150,344** | – | **150,344** | – |
| Banks | **999,976** | – | **949,976** | – |
| Corporates | **2,300,214** | 991,778 | **2,173,252** | 991,778 |
| | **4,391,766** | 2,355,665 | **3,273,572** | 991,778 |
| Market value of listed held-to-maturity debt securities | **2,276,745** | 896,988 | **2,276,745** | 896,988 |
| Fair value of unlisted held-to-maturity debt securities | **2,103,257** | 1,503,073 | **997,035** | 152,909 |

## 19. Available-for-sale financial assets

### (a) Available-for-sale financial assets

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| Available-for-sale debt securities: | | | | |
| Listed in Hong Kong | **2,382,540** | 3,244,125 | **2,026,594** | 2,866,338 |
| Listed outside Hong Kong | **3,755,463** | 3,850,973 | **3,462,092** | 3,592,852 |
| | **6,138,003** | 7,095,098 | **5,488,686** | 6,459,190 |
| Unlisted | **17,809,373** | 17,293,538 | **12,945,485** | 13,465,691 |
| | **23,947,376** | 24,388,636 | **18,434,171** | 19,924,881 |
| Available-for-sale equity securities: | | | | |
| Listed in Hong Kong | **3,760** | 3,870 | **3,760** | 3,870 |
| Listed outside Hong Kong | **126,085** | 82,644 | **94,552** | 61,988 |
| | **129,845** | 86,514 | **98,312** | 65,858 |
| Unlisted | **86,194** | 165,099 | **40,960** | 119,865 |
| | **216,039** | 251,613 | **139,272** | 185,723 |
| | **24,163,415** | 24,640,249 | **18,573,443** | 20,110,604 |
| Available-for-sale debt securities include: | | | | |
| Treasury bills | **12,235,048** | 10,385,938 | **8,039,431** | 6,694,157 |
| Certificates of deposit held | **868,532** | 1,373,608 | **834,021** | 1,373,608 |
| Other available-for-sale debt securities | **10,843,796** | 12,629,090 | **9,560,719** | 11,857,116 |
| | **23,947,376** | 24,388,636 | **18,434,171** | 19,924,881 |

Available-for-sale financial assets analysed by counterparty are as follows:

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| Issued by: | | | | |
| Sovereigns | **12,235,048** | 10,466,899 | **8,039,431** | 6,694,157 |
| Public sector entities | **1,281,575** | 1,816,570 | **1,238,603** | 1,771,426 |
| Banks | **7,119,696** | 8,261,228 | **6,626,274** | 8,236,174 |
| Corporates | **3,527,096** | 4,095,552 | **2,669,135** | 3,408,847 |
| | **24,163,415** | 24,640,249 | **18,573,443** | 20,110,604 |

## 19. Available-for-sale financial assets *(continued)*

### (b) Impairment losses and allowances released from available-for-sale financial assets in the consolidated income statement represent:

| | The Group and the Bank | |
|---|---|---|
| | **2013** | 2012 |
| Released from debt securities | – | 3,626 |
| | – | 3,626 |

The Bank has exposure to bonds issued by two banks in Iceland which are categorised as available-for-sale. As a result of the global financial turmoil and the grant of moratorium order on the two banks in Iceland, the carrying values of the bonds have been substantially impaired, and provisions were made accordingly. Those debt securities were sold in 2012.

## 20. Investments in subsidiaries

| | The Bank | |
|---|---|---|
| | **2013** | 2012 |
| Unlisted shares, at cost | **2,977,375** | 3,032,126 |

The following list contains only the particulars of principal subsidiaries:

| Name of company | Place of incorporation and operation | Nominal value of issued ordinary shares | Group's effective interest | Percentage held by the Bank | Principal activities |
|---|---|---|---|---|---|
| Banco Weng Hang, S.A. | Macau | MOP120,000,000 | 100% | 100% | Banking |
| Wing Hang Bank (Cayman) Limited | Cayman Islands | US$25,000,000 | 100% | 100% | Banking |
| Wing Hang Bank (China) Limited | People's Republic of China | RMB1,500,000,000 | 100% | 100% | Banking |
| Inchroy Credit Corporation Limited | Hong Kong | HK$25,000,000 | 100% | 100% | Deposit Taking and Hire Purchase |
| Wing Hang Finance Company Limited | Hong Kong | HK$130,000,000 | 100% | 100% | Deposit Taking and Hire Purchase |
| Wing Hang Credit Limited | Hong Kong | HK$20,000,000 | 100% | 100% | Consumer Lending |
| Wing Hang Insurance Brokers Limited | Hong Kong | HK$100,000 | 100% | 100% | Insurance Broker |
| Wing Hang Insurance Agency Limited | Hong Kong | HK$50,000 | 100% | 100% | Insurance Agency |

## 20. Investments in subsidiaries *(continued)*

| Name of company | Place of incorporation and operation | Nominal value of issued ordinary shares | Group's effective interest | Percentage held by the Bank | Principal activities |
|---|---|---|---|---|---|
| Wing Hang Shares Brokerage Company Limited | Hong Kong | HK$10,000,000 | 100% | 100% | Securities Dealing |
| Wing Hang Bank (Trustee) Limited | Hong Kong | HK$3,000,000 | 100% | 100% | Trustee Services |
| Wing Hang Bank (Nominees) Limited | Hong Kong | HK$10,000 | 100% | 100% | Nominee Services |
| Cheuk Woo Enterprises Company Limited | Hong Kong | HK$10,000 | 100% | 100% | Property Investment |

## 21. Investments in associated companies

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| Unlisted shares, at cost | **–** | – | **182,000** | 182,000 |
| Share of net assets | **229,567** | 201,073 | **–** | – |
| Loans to associated companies | **22,987** | 28,650 | **22,987** | 28,650 |
| | **252,554** | 229,723 | **204,987** | 210,650 |

At 31st December, 2013, the outstanding balance of the loans to associated companies included secured loans totalling HK$22,987,000 (2012: HK$28,650,000) which bear interest rate at 0.55% per annum over HIBOR and are repayable by 2012 with an option to extend the repayment period to 2017. At 14th September, 2012, the loan to one of associated companies was extended to 28th September, 2017 with the interest rate at 2.60%. For details, please refer to note 36(c).

There are no impaired loans to associated companies nor individual impairment allowances made on loans to associated companies at 31st December, 2013 and 31st December, 2012.

The following list contains only the particulars of material associated companies:

| Name of company | Form of business structure | Place of incorporation and operation | Nominal value of issued ordinary shares | Group's effective interest | Percentage held by the Bank | Voting power | Principal activities |
|---|---|---|---|---|---|---|---|
| Bank Consortium Holding Limited | Incorporated | Hong Kong | HK$150,000,000 | 27% | 27% | 2 out of 7* | Services for Retirement Schemes |
| Hong Kong Life Insurance Limited | Incorporated | Hong Kong | HK$420,000,000 | 33% | 33% | 1 out of 3* | Insurance |

* Representing the Group's number of votes on the board of directors of the respective associated companies.

## 21. Investments in associated companies *(continued)*

Note 1: Bank Consortium Holding Limited, a major provider of retirement plans and pension fund services in Hong Kong, enables the Group to enhance its Mandatory Provident Fund services.

Note 2: Hong Kong Life Insurance Limited, a major insurance company in Hong Kong, enables the Group to expand the customer base for its insurance services.

All of the above associated companies are accounted for using the equity method in the consolidated financial statements.

In respect of the year ended 31st December, 2013 and 31st December, 2012, the share of the results of Bank Consortium Holding Limited and Hong Kong Life Insurance Limited was included in these financial statements based on accounts drawn up to 31st December, 2013 and 30th November, 2012 respectively. The Group has taken advantage of the provision contained in HKAS 28, *Investments in Associates,* whereby it is permitted to include the attributable share of associates' results based on accounts drawn up to a non-coterminous period and where the difference is not greater than three months.

Summarised financial information of the material associated companies, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

| | Bank Consortium Holding Limited | | Hong Kong Life Insurance Limited | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| Gross amounts of the associated companies | | | | |
| Assets | **503,155** | 509,409 | **7,579,210** | 6,726,103 |
| Liabilities | **55,556** | 107,302 | **7,087,730** | 6,278,454 |
| Net assets | **447,599** | 402,107 | **491,480** | 447,649 |
| Total operating income | **452,154** | 360,176 | **1,396,596** | 1,158,483 |
| Profit after tax | **129,836** | 95,269 | **46,249** | 46,666 |
| Other comprehensive income | **56** | 288 | **2,737** | 2,025 |
| Total comprehensive income | **129,892** | 95,557 | **48,986** | 48,691 |
| Dividends received from the associated companies | **23,800** | 14,720 | **–** | – |
| Reconciled to the Group's interests in the associated companies | | | | |
| Gross amounts of net assets of the associated companies | **447,599** | 402,107 | **491,480** | 447,649 |
| Group's effective interest | **27%** | 27% | **33%** | 33% |
| Group's share of net assets of the associated companies | **119,360** | 107,229 | **163,827** | 149,216 |
| Elimination of unrealised gain on transfer of bank premises to the associated companies | **(37,610)** | (37,610) | **(26,368)** | (26,368) |
| Carrying amount in the consolidated financial statements | **81,750** | 69,619 | **137,459** | 122,848 |

## 21. Investments in associated companies *(continued)*

Aggregate information of an associated company that is not individually material:

| | **2013** | 2012 |
|---|---|---|
| Aggregate carrying amount of individually immaterial associated company in the consolidated financial statements | **10,358** | 8,606 |
| Aggregate amounts of the Group's share of net assets of the associated company | **10,358** | 8,606 |
| Total operating income | **74,256** | 73,040 |
| Profit after tax | **24,545** | 26,834 |
| Other comprehensive income | **–** | – |
| Total comprehensive income | **24,545** | 26,834 |
| Reconciliation of carrying amounts to the Group's total interests in the associated companies | | |
| Carrying amount of material associated companies | | |
| Bank Consortium Holding Limited | **81,750** | 69,619 |
| Hong Kong Life Insurance Limited | **137,459** | 122,848 |
| Carrying amount of the individually immaterial associated company | **10,358** | 8,606 |
| Investment in associated companies in the consolidated financial statements | **229,567** | 201,073 |

## 22. Tangible fixed assets

| | The Group 2013 | | | | |
|---|---|---|---|---|---|
| | Investment properties | Bank premises | Equipment | Bank premises and equipment | Total |
| Cost or valuation | | | | | |
| At 1st January | **899,342** | **4,466,400** | **1,144,750** | **5,611,150** | **6,510,492** |
| Additions | – | **777** | **68,734** | **69,511** | **69,511** |
| Disposals | **(748,142)** | **(637,057)** | **(57,323)** | **(694,380)** | **(1,442,522)** |
| Transfers from bank premises to investment properties | – | – | – | – | – |
| Surplus on revaluation | | | | | |
| – credited to bank premises revaluation reserve | – | **413,394** | – | **413,394** | **413,394** |
| – credited to consolidated income statement (note 6(a)) | **11,900** | – | – | – | **11,900** |
| Elimination of accumulated depreciation on revalued bank premises | – | **(52,180)** | – | **(52,180)** | **(52,180)** |
| Exchange adjustment | – | **1,801** | **1,252** | **3,053** | **3,053** |
| At 31st December | **163,100** | **4,193,135** | **1,157,413** | **5,350,548** | **5,513,648** |
| The analysis of cost or valuation of the above assets is as follows: | | | | | |
| At cost (note (a)) | – | **1,347,145** | **1,157,413** | **2,504,558** | **2,504,558** |
| At valuation | | | | | |
| 2013 | **163,100** | **2,845,990** | – | **2,845,990** | **3,009,090** |
| | **163,100** | **4,193,135** | **1,157,413** | **5,350,548** | **5,513,648** |
| Accumulated depreciation | | | | | |
| At 1st January | – | **198,251** | **778,994** | **977,245** | **977,245** |
| Charge for the year (note 5(f)) | – | **87,179** | **127,181** | **214,360** | **214,360** |
| Written back on disposals | – | **(7,185)** | **(48,375)** | **(55,560)** | **(55,560)** |
| Elimination of accumulated depreciation on revalued bank premises | – | **(52,180)** | – | **(52,180)** | **(52,180)** |
| Exchange adjustment | – | **1,484** | **1,773** | **3,257** | **3,257** |
| At 31st December | – | **227,549** | **859,573** | **1,087,122** | **1,087,122** |
| Net book value (note (b)) | | | | | |
| At 31st December | **163,100** | **3,965,586** | **297,840** | **4,263,426** | **4,426,526** |

## 22. Tangible fixed assets *(continued)*

| | The Group 2012 | | | | |
|---|---|---|---|---|---|
| | Investment properties | Bank premises | Equipment | Bank premises and equipment | Total |
| Cost or valuation | | | | | |
| At 1st January | 589,772 | 4,050,316 | 1,106,323 | 5,156,639 | 5,746,411 |
| Additions | – | 40,623 | 100,801 | 141,424 | 141,424 |
| Disposals | – | (28,709) | (62,260) | (90,969) | (90,969) |
| Transfers from bank premises to investment properties | 150,894 | (150,894) | – | (150,894) | – |
| Surplus on revaluation | | | | | |
| – credited to bank premises revaluation reserve | – | 604,853 | – | 604,853 | 604,853 |
| – credited to consolidated income statement (note 6(a)) | 158,676 | – | – | – | 158,676 |
| Elimination of accumulated depreciation on revalued bank premises | – | (49,743) | – | (49,743) | (49,743) |
| Exchange adjustment | – | (46) | (114) | (160) | (160) |
| At 31st December | 899,342 | 4,466,400 | 1,144,750 | 5,611,150 | 6,510,492 |
| The analysis of cost or valuation of the above assets is as follows: | | | | | |
| At cost | – | 1,362,322 | 1,144,750 | 2,507,072 | 2,507,072 |
| At valuation | | | | | |
| 2012 | 899,342 | 3,104,078 | – | 3,104,078 | 4,003,420 |
| | 899,342 | 4,466,400 | 1,144,750 | 5,611,150 | 6,510,492 |
| Accumulated depreciation | | | | | |
| At 1st January | – | 167,700 | 709,018 | 876,718 | 876,718 |
| Charge for the year (note 5(f)) | – | 82,030 | 128,387 | 210,417 | 210,417 |
| Written back on disposals | – | (2,367) | (59,244) | (61,611) | (61,611) |
| Elimination of accumulated depreciation on revalued bank premises | – | (49,743) | – | (49,743) | (49,743) |
| Exchange adjustment | – | 631 | 833 | 1,464 | 1,464 |
| At 31st December | – | 198,251 | 778,994 | 977,245 | 977,245 |
| Net book value | | | | | |
| At 31st December | 899,342 | 4,268,149 | 365,756 | 4,633,905 | 5,533,247 |

## 22. Tangible fixed assets *(continued)*

| | The Bank 2013 | | |
|---|---|---|---|
| | Bank premises | Equipment | Total |
| Cost or valuation | | | |
| At 1st January | **2,585,040** | **777,539** | **3,362,579** |
| Additions through transfer from subsidiary | **229,770** | **–** | **229,770** |
| Additions | **69** | **42,296** | **42,365** |
| Disposals | **(1,068)** | **(39,580)** | **(40,648)** |
| Surplus on revaluation | | | |
| – credited to bank premises revaluation reserve | **203,390** | **–** | **203,390** |
| Elimination of accumulated depreciation on revalued bank premises | **(26,459)** | **–** | **(26,459)** |
| At 31st December | **2,990,742** | **780,255** | **3,770,997** |
| The analysis of cost or valuation of the above assets is as follows: | | | |
| At cost (note (a)) | **899,570** | **780,255** | **1,679,825** |
| At valuation | | | |
| 2013 | **2,091,172** | **–** | **2,091,172** |
| | **2,990,742** | **780,255** | **3,770,997** |
| Accumulated depreciation | | | |
| At 1st January | **120,126** | **537,176** | **657,302** |
| Charge for the year | **42,043** | **81,851** | **123,894** |
| Written back on disposals | **(279)** | **(30,706)** | **(30,985)** |
| Elimination of accumulated depreciation on revalued bank premises | **(26,459)** | **–** | **(26,459)** |
| At 31st December | **135,431** | **588,321** | **723,752** |
| Net book value | | | |
| At 31st December | **2,855,311** | **191,934** | **3,047,245** |

## 22. Tangible fixed assets *(continued)*

| | The Bank 2012 | | |
|---|---|---|---|
| | Bank premises | Equipment | Total |
| Cost or valuation | | | |
| At 1st January | 2,281,305 | 772,754 | 3,054,059 |
| Additions | 17,281 | 53,694 | 70,975 |
| Disposals | – | (48,909) | (48,909) |
| Surplus on revaluation | | | |
| – credited to bank premises revaluation reserve | 304,313 | – | 304,313 |
| Elimination of accumulated depreciation on revalued bank premises | (17,859) | – | (17,859) |
| At 31st December | 2,585,040 | 777,539 | 3,362,579 |
| The analysis of cost or valuation of the above assets is as follows: | | | |
| At cost | 900,638 | 777,539 | 1,678,177 |
| At valuation | | | |
| 2012 | 1,684,402 | – | 1,684,402 |
| | 2,585,040 | 777,539 | 3,362,579 |
| Accumulated depreciation | | | |
| At 1st January | 104,528 | 500,017 | 604,545 |
| Charge for the year | 33,457 | 83,708 | 117,165 |
| Written back on disposals | – | (46,549) | (46,549) |
| Elimination of accumulated depreciation on revalued bank premises | (17,859) | – | (17,859) |
| At 31st December | 120,126 | 537,176 | 657,302 |
| Net book value | | | |
| At 31st December | 2,464,914 | 240,363 | 2,705,277 |

**(a)** The fair value of the Group's and the Bank's bank premises held for non-administrative use which are stated at cost were HK$5,267,430,000 and HK$3,456,100,000 respectively as revalued by an independent firm of surveyors, Savills Valuation and Professional Services Limited at 31st December, 2013. The fair values are within level 3 of the fair value hierarchy. The valuation techniques and inputs used in Level 3 fair value measurements are the same as those used for bank premises held for administrative use, which are set out in note 22(b)(ii).

## 22. Tangible fixed assets *(continued)*

### (b) Fair value measurement of properties

#### (i) Fair value hierarchy

The following table presents the fair value of the Group's 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 is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2: Fair value measured using Level 2 inputs i.e. 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 | | | |
|---|---|---|---|---|
| | **2013** | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| Recurring fair value measurements | | | | |
| Investment properties | **–** | **–** | **163,100** | **163,100** |
| Bank premises held for administrative use | **–** | **–** | **2,845,990** | **2,845,990** |
| | **–** | **–** | **3,009,090** | **3,009,090** |

| | The Group | | | |
|---|---|---|---|---|
| | 2012 | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| Recurring fair value measurements | | | | |
| Investment properties | – | – | 899,342 | 899,342 |
| Bank premises held for administrative use | – | – | 3,104,078 | 3,104,078 |
| | – | – | 4,003,420 | 4,003,420 |

| | The Bank | | | |
|---|---|---|---|---|
| | **2013** | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| Recurring fair value measurements | | | | |
| Bank premises held for administrative use | **–** | **–** | **2,091,172** | **2,091,172** |
| | **–** | **–** | **2,091,172** | **2,091,172** |

| | The Bank | | | |
|---|---|---|---|---|
| | 2012 | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| Recurring fair value measurements | | | | |
| Bank premises held for administrative use | – | – | 1,684,402 | 1,684,402 |
| | – | – | 1,684,402 | 1,684,402 |

## 22. Tangible fixed assets *(continued)*

### (b) Fair value measurement of properties *(continued)*

#### (i) Fair value hierarchy *(continued)*

During the year ended 31st December 2013, there were no transfers between Level 1 and Level 2, nor transfers 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 of the Group's investment properties and bank premises held for administrative use were revalued by an independent firm of surveyors, Savills Valuation and Professional Services Limited as at 31st December, 2013, who have among their staff, Fellows of the Hong Kong Institute of Surveyors, with recent experience in the location and category of property being valued.

#### (ii) Information about Level 3 fair value measurements

| | Valuation techniques | Unobservable inputs | Ranges |
|---|---|---|---|
| Investment properties and bank premises held for administrative use | Direct comparison approach | Premium (discount) on quality of the properties | -30% to 30% |

The fair value of investment properties and bank premises are determined using direct comparison approach by reference to 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 properties compared to the recent sales. The valuations take into account the characteristic of the properties which included the location, size, view, floor level, year of completion and other factors collectively. Higher premium for higher quality properties will result in a higher fair value measurement.

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

| | The Group | | | |
|---|---|---|---|---|
| | **2013** | | 2012 | |
| | **Investment properties** | **Bank premises** | Investment properties | Bank premises |
| Cost or valuation | | | | |
| At 1st January | **899,342** | **3,104,078** | 589,772 | 2,685,280 |
| Additions | **–** | **743** | – | 17,972 |
| Disposals | **(748,142)** | **(620,045)** | – | (3,390) |
| Transfer from bank premises to investment properties | **–** | **–** | 150,894 | (150,894) |
| Depreciation charge for the year | **–** | **(54,959)** | – | (49,793) |
| Depreciation written back on disposals for the year | **–** | **2,779** | – | 50 |
| Surplus on revaluation | | | | |
| – credited to bank premises revaluation reserve | **–** | **413,394** | – | 604,853 |
| – credited to consolidated income statement | **11,900** | **–** | 158,676 | – |
| At 31st December | **163,100** | **2,845,990** | 899,342 | 3,104,078 |

## 22. Tangible fixed assets *(continued)*

### (b) Fair value measurement of properties *(continued)*

#### (ii) Information about Level 3 fair value measurements *(continued)*

| | The Bank | |
|---|---|---|
| | **2013** Bank premises | 2012 Bank premises |
| Cost or valuation | | |
| At 1st January | **1,684,402** | 1,380,667 |
| Additions through transfer from subsidiary | **229,770** | – |
| Additions | **69** | 17,281 |
| Depreciation charge for the year | **(26,459)** | (17,859) |
| Surplus on revaluation | | |
| – credited to bank premises revaluation reserve | **203,390** | 304,313 |
| At 31st December | **2,091,172** | 1,684,402 |

Fair value adjustment of investment properties is recognised in the line item "Net gains on revaluation of properties and disposal of tangible fixed assets" on the face of the consolidated income statement.

Surplus on revaluation of bank premises are recognised in other comprehensive income in "Bank premises revaluation reserve".

All the gains recognised in the income statement for the year arise from the properties held at the end of the reporting period.

**(iii)** The surplus on revaluation on bank premises held for administrative use net of deferred tax of HK$375,340,000 (2012: HK$563,071,000) and HK$200,904,000 (2012: HK$302,565,000) have been recognised in other comprehensive income and accumulated in the bank premises revaluation reserve of the Group and the Bank respectively.

**(iv)** The carrying amount of the Group's and the Bank's bank premises held for administrative use would have been HK$915,963,000 (2012: HK$1,052,559,000) and HK$830,366,000 (2012: HK$617,188,000) respectively had they been stated at cost less accumulated depreciation.

## 22. Tangible fixed assets *(continued)*

### (c) The net book value of investment properties and bank premises is as follows:

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| FREEHOLD | | | | |
| – Held outside Hong Kong | **210,290** | 187,250 | **–** | – |
| LEASEHOLD | | | | |
| – Held in Hong Kong | | | | |
| Long-term leases | | | | |
| (over 50 years unexpired) | **1,790,439** | 3,013,246 | **1,580,039** | 1,485,737 |
| Medium-term leases | | | | |
| (10 to 50 years unexpired) | **1,402,790** | 1,325,414 | **1,260,849** | 965,675 |
| – Held outside Hong Kong | | | | |
| Long-term leases | | | | |
| (over 50 years unexpired) | **7,263** | 10,938 | **–** | 3,148 |
| Medium-term leases | | | | |
| (10 to 50 years unexpired) | **430,817** | 429,009 | **14,423** | 10,354 |
| Short-term leases | | | | |
| (less than 10 years unexpired) | **287,087** | 201,634 | **–** | – |
| | **4,128,686** | 5,167,491 | **2,855,311** | 2,464,914 |

### (d) Fixed assets 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. None of the leases includes contingent rentals.

All properties held under operating leases that would otherwise meet the definition of investment property are classified as investment property.

The Group's total future minimum lease payments under non-cancellable operating leases are receivables as follows:

| | The Group | |
|---|---|---|
| | **2013** | 2012 |
| Within 1 year | **3,895** | 19,364 |
| After 1 year but within 5 years | **1,845** | 10,845 |
| | **5,740** | 30,209 |

## 23. Goodwill

### (a) Goodwill

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| Cost | | | | |
| At 1st January/31st December | **1,307,600** | 1,307,600 | **847,422** | 847,422 |
| Accumulated impairment loss | | | | |
| At 1st January/31st December | **1,170** | 1,170 | **–** | – |
| Net book value | | | | |
| At 31st December | **1,306,430** | 1,306,430 | **847,422** | 847,422 |

### (b) Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the Group's cash-generating units ("CGU") identified according to region of operation and reportable segment as follows:

| | **2013** | 2012 |
|---|---|---|
| Hong Kong: | | |
| Retail banking business acquired | **1,019,136** | 1,019,136 |
| Corporate banking business acquired | **233,741** | 233,741 |
| Treasury business acquired | **53,553** | 53,553 |
| | **1,306,430** | 1,306,430 |

The recoverable amount of the CGU is determined based on value in use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimate growth rate beyond initial cash flows projection of 4.00% (2012: 4.00%). The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates. The cash flows are discounted using a discount rate of 14.68% (2012: 13.36%). The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

## 24. Deposits and balances of banks, central banks and other financial institutions

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| Deposits from central banks | **907,522** | 108,123 | **864,103** | – |
| Deposits from banks | **2,350,800** | 983,339 | **2,119,757** | 370,016 |
| | **3,258,322** | 1,091,462 | **2,983,860** | 370,016 |

## 25. Deposits from customers

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| Demand deposits and current accounts | **25,871,964** | 23,742,656 | **20,590,768** | 19,537,890 |
| Savings deposits | **27,325,626** | 28,280,260 | **18,096,164** | 19,413,184 |
| Time, call and notice deposits | **124,712,370** | 113,912,542 | **84,994,997** | 79,657,031 |
| | **177,909,960** | 165,935,458 | **123,681,929** | 118,608,105 |

## 26. Certificates of deposit issued

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| Certificates of deposit issued at amortised cost | **4,186,223** | 2,413,199 | **4,186,223** | 2,413,199 |
| Structured certificates of deposit issued designated at fair value through profit or loss | **–** | 150,351 | **–** | 150,351 |
| | **4,186,223** | 2,563,550 | **4,186,223** | 2,563,550 |

At 31st December, 2013, there is no structured certificates of deposit issued designated at fair value through profit or loss for the Group and the Bank (2012: the carrying amounts of structured certificates of deposit issued designated at fair value through profit or loss are higher than their contractual amount payable by HK$351,000 due to changes in benchmark interest rates).

## 27. Trading liabilities

Trading liabilities represent negative fair values of derivative financial instruments held for trading. Details are set out in note 33(a).

Trading liabilities of the Bank include negative fair values of derivative financial instruments transacted with a subsidiary amounting to HK$7,316,000 (2012: HK$2,527,000).

## 28. Other accounts and provisions

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| Acceptances outstanding | **295,398** | 337,925 | **248,113** | 287,580 |
| Interest payable | **792,346** | 788,461 | **328,631** | 417,620 |
| Amount payable for purchase of debt securities | **150,020** | – | **150,020** | – |
| Other payables | **1,784,165** | 1,284,021 | **1,087,850** | 743,000 |
| | **3,021,929** | 2,410,407 | **1,814,614** | 1,448,200 |

## 29. Subordinated liabilities

| | The Group and the Bank | |
|---|---|---|
| | **2013** | 2012 |
| US$400 million 6.00% step-up perpetual subordinated notes, designated at fair value through profit or loss (note (a)) | **3,169,279** | 3,206,387 |
| US$225 million 9.375% perpetual subordinated notes, measured at amortised cost (note (b)) | **–** | 1,744,043 |
| | **3,169,279** | 4,950,430 |

(a) On 19th April, 2007, the Bank issued step-up perpetual subordinated notes which is included in tier 2 capital and subject to phase out, with a face value of HK$3,125,520,000 (US$400,000,000). The notes bear interest at a fixed rate of 6.00% per annum until 19th April, 2017 and are floating at LIBOR plus 1.85% per annum thereafter if the notes are not early redeemed at the option of the Bank. Despite the Bank has the option to defer making payment of interest on the subordinated note, interest payable on each interest payment date will be made by the Bank provided that the Bank has generated sufficient positive distributable profits during the 12 months preceding the interest payment date. The notes are listed on the Singapore Exchange Securities Trading Limited.

At 31st December, 2013, the carrying amount of the step-up perpetual subordinated notes designated at fair value through profit or loss are higher than their contractual amount payable at redemption for the Group and the Bank by HK$67,759,000 (2012: HK$105,867,000). The change in fair value of this step-up perpetual subordinated notes is recognised as "net realised and unrealised gains on financial instruments designated at fair value through profit or loss" in the consolidated income statement. This change in fair value which is attributable to change in credit risk for the year ended 31st December, 2013 is a loss of HK$125,558,000 (2012: HK$307,328,000) and the accumulated amount of this change for the Group and the Bank is a gain of HK$348,186,000 (2012: HK$473,744,000).

(b) On 3rd September, 2008, the Bank issued perpetual subordinated notes which is included in tier 2 capital and subject to phase out, with a face value of HK$1,756,283,000 (US$225,000,000). The notes bear interest at a fixed rate of 9.375% per annum and the notes can be early redeemed at the option of the Bank on 11th September, 2013. The Bank early redeemed the notes on 11th September, 2013 at 100 percent of the principal amount. Despite the Bank has the option to defer making payment of interest on the subordinated note, interest payable on each interest payment date will be made by the Bank provided that the Bank has generated sufficient positive distributable profits during the 12 months preceding the interest payment date. The notes are listed on the Singapore Exchange Securities Trading Limited.

## 30. Maturity profile

The following maturity profiles of the assets and liabilities of the Group and the Bank are based on the remaining periods to repayment at the balance sheet date.

| | The Group | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **2013** | | | | | | | |
| | Repayable on demand | Within 1 month | Over 1 month but within 3 months | Over 3 months but within 1 year | Over 1 year but within 5 years | Over 5 years | Undated | Total |
| **Assets** | | | | | | | | |
| Cash and balances with banks, central banks and other financial institutions | **7,564,466** | **–** | **–** | **–** | **–** | **–** | **–** | **7,564,466** |
| Placements with banks, central banks and other financial institutions | **–** | **13,551,706** | **2,848,128** | **2,816,260** | **–** | **–** | **–** | **19,216,094** |
| Trading assets | **–** | **95,994** | **–** | **250,897** | **1,118,705** | **–** | **975,148** | **2,440,744** |
| Financial assets designated at fair value through profit or loss | **–** | **256,318** | **–** | **946,897** | **5,924,213** | **1,093,612** | **–** | **8,221,040** |
| Advances to customers | **2,008,897** | **8,609,660** | **6,797,536** | **22,009,964** | **48,392,380** | **46,912,162** | **311,470** | **135,042,069** |
| Trade bills | **58,907** | **872,924** | **1,734,842** | **2,202,210** | **–** | **–** | **172** | **4,869,055** |
| Advances to banks | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| Held-to-maturity investments | **–** | **63,533** | **378,180** | **368,608** | **2,941,149** | **640,296** | **–** | **4,391,766** |
| Available-for-sale financial assets | **–** | **3,077,557** | **3,383,440** | **5,589,448** | **11,548,657** | **348,274** | **216,039** | **24,163,415** |
| Other assets | **72,667** | **1,492,893** | **249,095** | **131,602** | **114,887** | **1,586** | **6,404,510** | **8,467,240** |
| Total assets | **9,704,937** | **28,020,585** | **15,391,221** | **34,315,886** | **70,039,991** | **48,995,930** | **7,907,339** | **214,375,889** |
| **Liabilities** | | | | | | | | |
| Deposits and balances of banks, central banks and other financial institutions | **1,042,344** | **849,360** | **1,366,618** | **–** | **–** | **–** | **–** | **3,258,322** |
| Deposits from customers | **53,132,496** | **57,907,251** | **36,234,015** | **26,206,979** | **4,429,219** | **–** | **–** | **177,909,960** |
| Certificates of deposit issued | **–** | **–** | **–** | **1,769,698** | **2,416,525** | **–** | **–** | **4,186,223** |
| Trading liabilities | **–** | **–** | **–** | **–** | **–** | **–** | **773,110** | **773,110** |
| Subordinated liabilities | **–** | **–** | **–** | **–** | **–** | **–** | **3,169,279** | **3,169,279** |
| Other liabilities | **–** | **1,977,564** | **294,765** | **618,002** | **287,850** | **–** | **200,594** | **3,378,775** |
| Total liabilities | **54,174,840** | **60,734,175** | **37,895,398** | **28,594,679** | **7,133,594** | **–** | **4,142,983** | **192,675,669** |
| Net assets/(liabilities) gap | **(44,469,903)** | **(32,713,590)** | **(22,504,177)** | **5,721,207** | **62,906,397** | **48,995,930** | **3,764,356** | **21,700,220** |
| of which: | | | | | | | | |
| Certificates of deposit held | | | | | | | | |
| – included in trading assets | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| – included in held-to-maturity investments | **–** | **–** | **–** | **–** | **518,782** | **–** | **–** | **518,782** |
| – included in available-for-sale financial assets | **–** | **–** | **–** | **–** | **868,532** | **–** | **–** | **868,532** |
| Debt securities | | | | | | | | |
| – included in trading assets | **–** | **95,994** | **–** | **250,897** | **1,118,705** | **–** | **–** | **1,465,596** |
| – included in financial assets designated at fair value through profit or loss | **–** | **256,318** | **–** | **946,897** | **5,924,213** | **1,093,612** | **–** | **8,221,040** |
| – included in held-to-maturity investments | **–** | **63,533** | **378,180** | **368,608** | **2,422,367** | **640,296** | **–** | **3,872,984** |
| – included in available-for-sale financial assets | **–** | **3,077,557** | **3,383,440** | **5,589,448** | **10,680,125** | **348,274** | **–** | **23,078,844** |

# Notes to the Financial Statements

## 30. Maturity profile *(continued)*

| | The Group 2012 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Repayable on demand | Within 1 month | Over 1 month but within 3 months | Over 3 months but within 1 year | Over 1 year but within 5 years | Over 5 years | Undated | Total |
| **Assets** | | | | | | | | |
| Cash and balances with banks, central banks and other financial institutions | 7,211,390 | – | – | – | – | – | – | 7,211,390 |
| Placements with banks, central banks and other financial institutions | – | 6,527,240 | 5,774,660 | 4,530,650 | – | – | – | 16,832,550 |
| Trading assets | – | 18,665 | 93,100 | 5,818,104 | 1,056,810 | 603,164 | 827,710 | 8,417,553 |
| Financial assets designated at fair value through profit or loss | – | 125,271 | 206,436 | 210,528 | 6,858,977 | 2,477,958 | – | 9,879,170 |
| Advances to customers | 1,842,650 | 5,361,285 | 6,671,341 | 19,034,632 | 38,118,528 | 42,474,607 | 212,704 | 113,715,747 |
| Trade bills | 65,387 | 622,541 | 1,081,296 | 2,523,581 | – | – | 971 | 4,293,776 |
| Advances to banks | 213 | – | – | 765,396 | – | – | – | 765,609 |
| Held-to-maturity investments | – | 135,768 | 295,763 | 124,086 | 1,351,166 | 448,882 | – | 2,355,665 |
| Available-for-sale financial assets | – | 2,425,194 | 4,396,049 | 3,558,783 | 12,549,030 | 1,459,580 | 251,613 | 24,640,249 |
| Other assets | 362 | 1,182,618 | 300,961 | 126,758 | 173,453 | 9,392 | 7,458,616 | 9,252,160 |
| Total assets | 9,120,002 | 16,398,582 | 18,819,606 | 36,692,518 | 60,107,964 | 47,473,583 | 8,751,614 | 197,363,869 |
| **Liabilities** | | | | | | | | |
| Deposits and balances of banks, central banks and other financial institutions | 169,719 | 736,393 | 185,350 | – | – | – | – | 1,091,462 |
| Deposits from customers | 51,550,623 | 53,657,783 | 34,522,518 | 23,986,960 | 2,020,112 | 169,462 | 28,000 | 165,935,458 |
| Certificates of deposit issued | – | 354,549 | 163,300 | 1,076,709 | 968,992 | – | – | 2,563,550 |
| Trading liabilities | – | – | – | – | – | – | 552,174 | 552,174 |
| Subordinated liabilities | – | – | – | – | – | – | 4,950,430 | 4,950,430 |
| Other liabilities | – | 1,399,540 | 378,329 | 629,580 | 145,103 | – | 184,463 | 2,737,015 |
| Total liabilities | 51,720,342 | 56,148,265 | 35,249,497 | 25,693,249 | 3,134,207 | 169,462 | 5,715,067 | 177,830,089 |
| Net assets/(liabilities) gap | (42,600,340) | (39,749,683) | (16,429,891) | 10,999,269 | 56,973,757 | 47,304,121 | 3,036,547 | 19,533,780 |
| of which: | | | | | | | | |
| Certificates of deposit held | | | | | | | | |
| – included in trading assets | – | 18,665 | 93,100 | – | – | – | – | 111,765 |
| – included in available-for-sale financial assets | – | – | – | 541,175 | 832,433 | – | – | 1,373,608 |
| Debt securities | | | | | | | | |
| – included in trading assets | – | – | – | 5,818,104 | 1,056,810 | 603,164 | – | 7,478,078 |
| – included in financial assets designated at fair value through profit or loss | – | 125,271 | 206,436 | 210,528 | 6,858,977 | 2,477,958 | – | 9,879,170 |
| – included in held-to-maturity investments | – | 135,768 | 295,763 | 124,086 | 1,351,166 | 448,882 | – | 2,355,665 |
| – included in available-for-sale financial assets | – | 2,425,194 | 4,396,049 | 3,017,608 | 11,716,597 | 1,459,580 | – | 23,015,028 |

## 30. Maturity profile *(continued)*

| | The Bank | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **2013** | | | | | | | |
| | Repayable on demand | Within 1 month | Over 1 month but within 3 months | Over 3 months but within 1 year | Over 1 year but within 5 years | Over 5 years | Undated | Total |
| **Assets** | | | | | | | | |
| Cash and balances with banks, central banks and other financial institutions | 1,412,880 | – | – | – | – | – | – | 1,412,880 |
| Placement with banks, central banks and other financial institutions | – | 9,618,889 | 1,007,994 | 54,846 | – | – | – | 10,681,729 |
| Trading assets | – | 95,994 | – | 250,897 | 1,118,705 | – | 979,989 | 2,445,585 |
| Financial assets designated at fair value through profit or loss | – | 256,318 | – | 946,897 | 5,924,213 | 1,093,612 | – | 8,221,040 |
| Advances to customers | 1,830,540 | 7,343,128 | 5,332,661 | 13,551,810 | 31,391,025 | 24,243,645 | 207,629 | 83,900,438 |
| Trade bills | 58,907 | 289,407 | 1,005,082 | 3,284,802 | – | – | 172 | 4,638,370 |
| Advances to banks | – | – | – | – | – | – | – | – |
| Amounts due from subsidiaries | 545,532 | 710,830 | 748,631 | 12,796,932 | 1,651,418 | – | – | 16,453,343 |
| Held-to-maturity investments | – | – | 60,000 | – | 2,573,276 | 640,296 | – | 3,273,572 |
| Available-for-sale financial assets | – | 2,838,728 | 2,995,410 | 2,750,775 | 9,579,646 | 269,612 | 139,272 | 18,573,443 |
| Other assets | 72,280 | 1,017,226 | 190,503 | 33,892 | 42,442 | – | 7,423,735 | 8,780,078 |
| Total assets | 3,920,139 | 22,170,520 | 11,340,281 | 33,670,851 | 52,280,725 | 26,247,165 | 8,750,797 | 158,380,478 |
| **Liabilities** | | | | | | | | |
| Deposits and balances of banks, central banks and other financial institutions | 996,823 | 620,419 | 1,366,618 | – | – | – | – | 2,983,860 |
| Deposits from customers | 38,646,687 | 47,898,629 | 25,624,461 | 10,786,107 | 726,045 | – | – | 123,681,929 |
| Certificates of deposit issued | – | – | – | 1,769,698 | 2,416,525 | – | – | 4,186,223 |
| Trading liabilities | – | – | – | – | – | – | 776,248 | 776,248 |
| Amounts due to subsidiaries | 1,067,013 | 2,752,744 | 759,557 | 537,977 | 798 | – | 11 | 5,118,100 |
| Subordinated liabilities | – | – | – | – | – | – | 3,169,279 | 3,169,279 |
| Other liabilities | – | 1,251,861 | 197,322 | 298,289 | 77,929 | – | 183,471 | 2,008,872 |
| Total liabilities | 40,710,523 | 52,523,653 | 27,947,958 | 13,392,071 | 3,221,297 | – | 4,129,009 | 141,924,511 |
| Net assets/(liabilities) gap | (36,790,384) | (30,353,133) | (16,607,677) | 20,278,780 | 49,059,428 | 26,247,165 | 4,621,788 | 16,455,967 |
| of which: | | | | | | | | |
| Certificates of deposit held | | | | | | | | |
| – included in trading assets | – | – | – | – | – | – | – | – |
| – included in held-to-maturity investments | – | – | – | – | 518,782 | – | – | 518,782 |
| – included in available-for-sale financial assets | – | – | – | – | 834,021 | – | – | 834,021 |
| Debt securities | | | | | | | | |
| – included in trading assets | – | 95,994 | – | 250,897 | 1,118,705 | – | – | 1,465,596 |
| – included in financial assets designated at fair value through profit or loss | – | 256,318 | – | 946,897 | 5,924,213 | 1,093,612 | – | 8,221,040 |
| – included in held-to-maturity investments | – | – | 60,000 | – | 2,054,494 | 640,296 | – | 2,754,790 |
| – included in available-for-sale financial assets | – | 2,838,728 | 2,995,410 | 2,750,775 | 8,745,625 | 269,612 | – | 17,600,150 |

## 30. Maturity profile *(continued)*

| | The Bank 2012 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Repayable on demand | Within 1 month | Over 1 month but within 3 months | Over 3 months but within 1 year | Over 1 year but within 5 years | Over 5 years | Undated | Total |
| **Assets** | | | | | | | | |
| Cash and balances with banks, central banks and other financial institutions | 1,166,998 | – | – | – | – | – | – | 1,166,998 |
| Placement with banks, central banks and other financial institutions | – | 4,238,963 | 4,805,806 | 2,767,783 | – | – | – | 11,812,552 |
| Trading assets | – | 18,665 | 93,100 | 5,818,104 | 1,056,810 | 603,164 | 839,566 | 8,429,409 |
| Financial assets designated at fair value through profit or loss | – | 125,271 | 206,436 | 210,528 | 6,858,977 | 2,477,958 | – | 9,879,170 |
| Advances to customers | 1,625,287 | 4,048,609 | 5,179,506 | 9,294,935 | 25,562,473 | 23,509,405 | 234,617 | 69,454,832 |
| Trade bills | 65,387 | 337,761 | 498,608 | 5,738,072 | – | – | 171 | 6,639,999 |
| Advances to banks | 213 | – | – | 29,567 | – | – | – | 29,780 |
| Amounts due from subsidiaries | 155,658 | 208,664 | 2,717,081 | 9,088,249 | 3,367 | – | – | 12,173,019 |
| Held-to-maturity investments | – | – | – | – | 542,897 | 448,881 | – | 991,778 |
| Available-for-sale financial assets | – | 1,589,509 | 3,835,234 | 2,069,760 | 11,055,370 | 1,375,008 | 185,723 | 20,110,604 |
| Other assets | – | 812,561 | 236,456 | 67,861 | 47,205 | – | 7,125,419 | 8,289,502 |
| Total assets | 3,013,543 | 11,380,003 | 17,572,227 | 35,084,859 | 45,127,099 | 28,414,416 | 8,385,496 | 148,977,643 |
| **Liabilities** | | | | | | | | |
| Deposits and balances of banks, central banks and other financial institutions | 59,424 | 248,372 | 62,220 | – | – | – | – | 370,016 |
| Deposits from customers | 38,510,893 | 45,107,834 | 24,220,666 | 10,199,646 | 371,604 | 169,462 | 28,000 | 118,608,105 |
| Certificates of deposit issued | – | 354,549 | 163,300 | 1,076,709 | 968,992 | – | – | 2,563,550 |
| Trading liabilities | – | – | – | – | – | – | 552,911 | 552,911 |
| Amounts due to subsidiaries | 1,066,416 | 3,604,757 | 725,469 | 1,148,889 | 881 | – | 10 | 6,546,422 |
| Subordinated liabilities | – | – | – | – | – | – | 4,950,430 | 4,950,430 |
| Other liabilities | – | 839,968 | 260,795 | 309,332 | 66,287 | – | 168,606 | 1,644,988 |
| Total liabilities | 39,636,733 | 50,155,480 | 25,432,450 | 12,734,576 | 1,407,764 | 169,462 | 5,699,957 | 135,236,422 |
| Net assets/(liabilities) gap | (36,623,190) | (38,775,477) | (7,860,223) | 22,350,283 | 43,719,335 | 28,244,954 | 2,685,539 | 13,741,221 |
| of which: | | | | | | | | |
| Certificates of deposit held | | | | | | | | |
| – included in trading assets | – | 18,665 | 93,100 | – | – | – | – | 111,765 |
| – included in available-for-sale financial assets | – | – | – | 541,175 | 832,433 | – | – | 1,373,608 |
| Debt securities | | | | | | | | |
| – included in trading assets | – | – | – | 5,818,104 | 1,056,810 | 603,164 | – | 7,478,078 |
| – included in financial assets designated at fair value through profit or loss | – | 125,271 | 206,436 | 210,528 | 6,858,977 | 2,477,958 | – | 9,879,170 |
| – included in held-to-maturity investments | – | – | – | – | 542,897 | 448,881 | – | 991,778 |
| – included in available-for-sale financial assets | – | 1,589,509 | 3,835,234 | 1,528,585 | 10,222,937 | 1,375,008 | – | 18,551,273 |

## 31. Share capital and reserves

### (a) Share capital

| | 2013 | 2012 |
|---|---|---|
| Authorised: | | |
| 450,000,000 (2012: 450,000,000) ordinary shares of HK$1.00 each | **450,000** | 450,000 |
| Issued and fully paid: | | |
| At 1st January | **302,163** | 298,812 |
| Shares issued under Share Option Scheme | **25** | 110 |
| Shares issued under EIP | **262** | 153 |
| Shares issued in lieu of dividends | **4,975** | 3,088 |
| 307,424,722 (2012: 302,162,900) ordinary shares of HK$1.00 each | **307,425** | 302,163 |

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

**(i) Share Option Scheme**

During the year, options were exercised to subscribe for ordinary shares of 25,000 (2012: 110,000) shares in the Bank at a consideration of HK$1,095,000 (2012: HK$2,887,000) of which HK$25,000 (2012: HK$110,000) is credited to share capital and the balance of HK$1,070,000 (2012: HK$2,777,000) is credited to the share premium account. At 31st December, 2013, the outstanding options are 460,000 shares (2012: 485,000 shares).

**(ii) EIP**

During the year, awards under the EIP were exercised to subscribe for ordinary shares of 262,000 (2012: 152,250) shares in the Bank at a consideration of HK$262,000 (2012: HK$152,250). At 31st December, 2013, the outstanding awards under the EIP are 1,811,500 shares (2012: 2,073,500 shares).

The details of the Share Option Scheme and the EIP are disclosed in note 38 to the financial statements.

# Notes to the Financial Statements

## 31. Share capital and reserves *(continued)*

### (b) Reserves

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 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2013 | | | | | | |
| | Share premium | General reserve | Bank premises revaluation reserve | Investment revaluation reserve | Capital redemption reserve | Unappro-priated profits | Total |
| At 1st January | **1,041,643** | **1,801,949** | **1,392,247** | **352,942** | **769** | **8,849,508** | **13,439,058** |
| Share premium under Share Option Scheme | **1,070** | **–** | **–** | **–** | **–** | **–** | **1,070** |
| Share premium under EIP | **11,475** | **–** | **–** | **–** | **–** | **–** | **11,475** |
| Share premium in lieu of dividends | **351,560** | **–** | **–** | **–** | **–** | **–** | **351,560** |
| Dividends approved in respect of the previous year (note 9(b)) | **–** | **–** | **–** | **–** | **–** | **(489,808)** | **(489,808)** |
| Dividends declared in respect of the current year (note 9(a)) | **–** | **–** | **–** | **–** | **–** | **(141,415)** | **(141,415)** |
| Transfer (from)/to reserve | **–** | **–** | **(9,797)** | **–** | **–** | **9,797** | **–** |
| | **364,105** | **–** | **(9,797)** | **–** | **–** | **(621,426)** | **(267,118)** |
| Other comprehensive income: | | | | | | | |
| – fair value changes on available-for-sale financial assets net of deferred tax | **–** | **–** | **–** | **(127,298)** | **–** | **–** | **(127,298)** |
| – fair value changes on available-for-sale financial assets transferred to income statement on disposal net of deferred tax | **–** | **–** | **–** | **(65,430)** | **–** | **–** | **(65,430)** |
| – surplus on revaluation net of deferred tax | **–** | **–** | **200,904** | **–** | **–** | **–** | **200,904** |
| – profit attributable to shareholders of the Bank for the year | **–** | **–** | **–** | **–** | **–** | **2,968,426** | **2,968,426** |
| Total comprehensive income for the year, net of tax | **–** | **–** | **200,904** | **(192,728)** | **–** | **2,968,426** | **2,976,602** |
| At 31st December | **1,405,748** | **1,801,949** | **1,583,354** | **160,214** | **769** | **11,196,508** | **16,148,542** |

## 31. Share capital and reserves *(continued)*

### (b) Reserves *(continued)*

The Bank
2012

| | Share premium | General reserve | Bank premises revaluation reserve | Investment revaluation reserve | Capital redemption reserve | Unappro-priated profits | Total |
|---|---|---|---|---|---|---|---|
| At 1st January | | | | | | | |
| – as previously reported | 800,412 | 1,801,949 | 920,123 | 174,466 | 769 | 8,105,955 | 11,803,674 |
| – prior year adjustment in respect of deferred tax | – | – | 175,615 | – | – | (2,992) | 172,623 |
| – as restated | 800,412 | 1,801,949 | 1,095,738 | 174,466 | 769 | 8,102,963 | 11,976,297 |
| Share premium under Share Option Scheme | 2,777 | – | – | – | – | – | 2,777 |
| Share premium under EIP | 13,284 | – | – | – | – | – | 13,284 |
| Share premium in lieu of dividends | 225,170 | – | – | – | – | – | 225,170 |
| Dividends approved in respect of the previous year (note 9(b)) | – | – | – | – | – | (400,513) | (400,513) |
| Dividends declared in respect of the current year (note 9(a)) | – | – | – | – | – | (138,292) | (138,292) |
| Transfer (from)/to reserve | – | – | (6,056) | – | – | 6,056 | – |
| | 241,231 | – | (6,056) | – | – | (532,749) | (297,574) |
| Other comprehensive income: | | | | | | | |
| – fair value changes on available-for-sale financial assets net of deferred tax | – | – | – | 227,101 | – | – | 227,101 |
| – fair value changes on available-for-sale financial assets transferred to income statement on disposal net of deferred tax | – | – | – | (48,625) | – | – | (48,625) |
| – surplus on revaluation net of deferred tax | – | – | 302,565 | – | – | – | 302,565 |
| – profit attributable to shareholders of the Bank for the year | – | – | – | – | – | 1,279,294 | 1,279,294 |
| Total comprehensive income for the year, net of tax | – | – | 302,565 | 178,476 | – | 1,279,294 | 1,760,335 |
| At 31st December | 1,041,643 | 1,801,949 | 1,392,247 | 352,942 | 769 | 8,849,508 | 13,439,058 |

The Group's unappropriated profits as at 31st December, 2013 included the accumulated gains of HK$193,162,000 (2012: HK$141,905,000) of the associated companies and a regulatory reserve of HK$1,616,794,000 (2012: HK$1,294,869,000). The regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes by earmarking amounts in respect of losses which the Group will or may incur on advances to customers in addition to impairment losses recognised. Movements in the reserve are earmarked directly through unappropriated profits and in consultation with the Hong Kong Monetary Authority ("HKMA").

## 31. Share capital and reserves *(continued)*

### (b) Reserves *(continued)*

The application of the share premium account and the capital redemption reserve is governed by Sections 48B and 49H of the Hong Kong Companies Ordinance.

The capital reserve of the Group comprises unappropriated profits capitalised on the issue of bonus shares by subsidiaries in prior years and reserves established by Banco Weng Hang, S.A. and Wing Hang Bank (China) Limited in accordance with the local banking regulations and are not available for distribution.

The statutory reserve of the Group is calculated as a percentage of the total risk assets at the balance sheet date of Wing Hang Bank (China) Limited to cover its potential losses that are not yet incurred as required by the relevant requirements issued by the Ministry of Finance of the People's Republic of China and is not available for distribution.

The general reserve of the Group was set up from the transfer of unappropriated profits and exchange differences arising from translation of the financial statements of overseas branches and subsidiaries (note 2(j)).

Revaluation reserves have been set up and are dealt with in accordance with the accounting policies adopted for the revaluation of bank premises and available-for-sale financial assets (notes 2(k) and (f)). Bank premises revaluation reserve and investment revaluation reserve do not represent realised profits and are not available for distribution.

At 31st 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 amounted to HK$12,079,218,000 (2012: HK$10,121,601,000).

The Bank and its financial subsidiaries operate under regulatory jurisdictions which require the maintenance of minimum capital ratios which could therefore potentially restrict the amount of general reserve and unappropriated profits, which are available for distribution, to be distributed to shareholders.

## 32. Contingent liabilities and commitments

### (a) Contingent liabilities and commitments to extend credit

Contingent liabilities and commitments arises from forward asset purchases, amounts owing on partly paid-up shares and securities, forward deposits placed, asset sales or other transactions with recourse, as well as credit-related instruments which include letters of credit, guarantees and commitments to extend credit. The risk involved in these credit-related instruments 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. Since a significant portion of guarantees and commitments is expected to expire without being drawn upon, the total of the contractual amounts is not representative of future cash flows.

The risk weights used in the computation of credit risk weighted amounts range from 0% to 100%.

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 |
| Direct credit substitutes | **1,416,458** | 1,265,135 | **1,233,826** | 767,566 |
| Transaction-related contingencies | **149,469** | 244,126 | **254,242** | 234,379 |
| Trade-related contingencies | **623,006** | 703,048 | **567,784** | 638,571 |
| Other commitments: | | | | |
| With an original maturity of not more than one year | **1,020,894** | 259,580 | **707,802** | 26,860 |
| With an original maturity over one year | **2,038,352** | 2,657,224 | **1,285,848** | 1,973,880 |
| Which are unconditionally cancellable | **32,740,820** | 43,041,940 | **27,193,413** | 32,659,746 |
| Total | **37,988,999** | 48,171,053 | **31,242,915** | 36,301,002 |
| Credit risk weighted amounts | **2,532,462** | 2,606,797 | **1,868,233** | 1,616,012 |

### (b) Capital commitments

Capital commitments for acquisition of tangible fixed assets outstanding at 31st December, 2013 not provided for in the financial statements are as follows:

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| Expenditure authorised and contracted for | **28,312** | 28,080 | **20,568** | 21,558 |
| Expenditure authorised but not contracted for | **–** | 94 | **–** | – |
| | **28,312** | 28,174 | **20,568** | 21,558 |

## 32. Contingent liabilities and commitments *(continued)*

### (c) Lease commitments

At 31st 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 |
| Properties | | | | |
| Within 1 year | **89,221** | 75,514 | **43,333** | 44,622 |
| After 1 year but within 5 years | **161,313** | 84,475 | **72,414** | 17,387 |
| After 5 years | **4,000** | 9,373 | **–** | – |
| | **254,534** | 169,362 | **115,747** | 62,009 |
| Others | | | | |
| Within 1 year | **493** | 810 | **45** | 29 |
| After 1 year but within 5 years | **724** | 7 | **51** | – |
| | **1,217** | 817 | **96** | 29 |

The Group leases a number of properties and items of equipment under operating leases. The leases run for an initial period of one to ten years, with an option to renew the lease when all terms are renegotiated. Lease payments are periodically adjusted to reflect market rentals. None of the leases includes contingent rentals.

## 33. Derivative financial instruments

Derivatives refer to financial contracts whose value depends on the value of one or more underlying assets or indices.

Derivative financial instruments arise from forward, swap and option transactions undertaken by the Group and the Bank in the foreign exchange, interest rate and equity markets.

Derivative financial instruments are also used to manage the Group's own exposures 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 over-the-counter ("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 held for trading.

The notional amounts of these instruments indicate the volume of transactions outstanding at the balance sheet date and do not represent amounts at risk.

## 33. Derivative financial instruments *(continued)*

The following table is a summary of the notional amounts of each significant type of derivatives.

| | The Group **2013** | | |
|---|---|---|---|
| | Managed in conjunction with financial instruments designated at fair value through profit or loss | Others, including held for trading | Total |
| Exchange rate contracts | | | |
| Forwards | **–** | **36,303,707** | **36,303,707** |
| Options purchased | **–** | **10,862,286** | **10,862,286** |
| Options written | **–** | **10,605,525** | **10,605,525** |
| Interest rate contracts | | | |
| Swaps | **9,047,086** | **14,535,695** | **23,582,781** |
| Equity contracts | | | |
| Options purchased | **–** | **900,539** | **900,539** |
| Options written | **–** | **890,346** | **890,346** |
| | **9,047,086** | **74,098,098** | **83,145,184** |

| | The Group 2012 | | |
|---|---|---|---|
| | Managed in conjunction with financial instruments designated at fair value through profit or loss | Others, including held for trading | Total |
| Exchange rate contracts | | | |
| Forwards | – | 29,947,261 | 29,947,261 |
| Options purchased | – | 7,921,469 | 7,921,469 |
| Options written | – | 7,432,512 | 7,432,512 |
| Interest rate contracts | | | |
| Swaps | 8,419,103 | 16,023,446 | 24,442,549 |
| Equity contracts | | | |
| Options purchased | – | 79,074 | 79,074 |
| Options written | – | 67,399 | 67,399 |
| | 8,419,103 | 61,471,161 | 69,890,264 |

## 33. Derivative financial instruments *(continued)*

| | The Bank **2013** Managed in conjunction with financial instruments designated at fair value through profit or loss | Others, including held for trading | Total |
|---|---|---|---|
| Exchange rate contracts | | | |
| Forwards | **–** | **37,207,285** | **37,207,285** |
| Options purchased | **–** | **10,862,267** | **10,862,267** |
| Options written | **–** | **10,605,520** | **10,605,520** |
| Interest rate contracts | | | |
| Swaps | **9,047,086** | **14,668,695** | **23,715,781** |
| Equity contracts | | | |
| Options purchased | **–** | **900,539** | **900,539** |
| Options written | **–** | **890,346** | **890,346** |
| | **9,047,086** | **75,134,652** | **84,181,738** |

| | The Bank 2012 Managed in conjunction with financial instruments designated at fair value through profit or loss | Others, including held for trading | Total |
|---|---|---|---|
| Exchange rate contracts | | | |
| Forwards | – | 31,025,307 | 31,025,307 |
| Options purchased | – | 7,921,467 | 7,921,467 |
| Options written | – | 7,430,178 | 7,430,178 |
| Interest rate contracts | | | |
| Swaps | 8,419,103 | 16,231,446 | 24,650,549 |
| Equity contracts | | | |
| Options purchased | – | 79,074 | 79,074 |
| Options written | – | 67,399 | 67,399 |
| | 8,419,103 | 62,754,871 | 71,173,974 |

The trading transactions include the Group's and the Bank's positions arising from the execution of trade orders from customers or transactions undertaken to hedge these positions.

## 33. Derivative financial instruments *(continued)*

### (a) Use of derivative financial instruments

The following is a summary of the fair values of derivative financial instruments held for trading purposes by type of derivatives entered into by the Group and the Bank:

| | The Group | | | |
|---|---|---|---|---|
| | **2013** | | 2012 | |
| | Assets | Liabilities | Assets | Liabilities |
| Exchange rate contracts | **283,873** | **261,536** | 163,680 | 67,923 |
| Interest rate contracts | **657,596** | **485,709** | 658,691 | 480,233 |
| Equity contracts | **26,040** | **25,865** | 3,993 | 4,018 |
| Total (notes 15 and 27) | **967,509** | **773,110** | 826,364 | 552,174 |

| | The Bank | | | |
|---|---|---|---|---|
| | **2013** | | 2012 | |
| | Assets | Liabilities | Assets | Liabilities |
| Exchange rate contracts | **283,726** | **264,674** | 163,846 | 68,335 |
| Interest rate contracts | **663,138** | **485,709** | 670,784 | 480,558 |
| Equity contracts | **26,040** | **25,865** | 3,993 | 4,018 |
| Total (notes 15 and 27) | **972,904** | **776,248** | 838,623 | 552,911 |

### (b) Remaining life of derivative financial instruments

The following tables provide an analysis of the notional amounts of derivatives of the Group by relevant maturity groupings based on the remaining periods to settlement at the balance sheet date.

| | The Group **2013** | | | |
|---|---|---|---|---|
| | Within 1 year | Over 1 year but within 5 years | Over 5 years | Total |
| Exchange rate contracts | **53,594,264** | **4,177,254** | **–** | **57,771,518** |
| Interest rate contracts | **2,363,310** | **16,687,774** | **4,531,697** | **23,582,781** |
| Equity contracts | **1,790,885** | **–** | **–** | **1,790,885** |
| | **57,748,459** | **20,865,028** | **4,531,697** | **83,145,184** |

## 33. Derivative financial instruments *(continued)*

### (b) Remaining life of derivative financial instruments *(continued)*

| | The Group 2012 | | | |
|---|---|---|---|---|
| | Within 1 year | Over 1 year but within 5 years | Over 5 years | Total |
| Exchange rate contracts | 44,434,430 | 866,812 | – | 45,301,242 |
| Interest rate contracts | 5,851,635 | 15,200,104 | 3,390,810 | 24,442,549 |
| Equity contracts | 146,473 | – | – | 146,473 |
| | 50,432,538 | 16,066,916 | 3,390,810 | 69,890,264 |

| | The Bank **2013** | | | |
|---|---|---|---|---|
| | Within 1 year | Over 1 year but within 5 years | Over 5 years | Total |
| Exchange rate contracts | **54,497,809** | **4,177,263** | **–** | **58,675,072** |
| Interest rate contracts | **2,377,310** | **16,756,774** | **4,581,697** | **23,715,781** |
| Equity contracts | **1,790,885** | **–** | **–** | **1,790,885** |
| | **58,666,004** | **20,934,037** | **4,581,697** | **84,181,738** |

| | The Bank 2012 | | | |
|---|---|---|---|---|
| | Within 1 year | Over 1 year but within 5 years | Over 5 years | Total |
| Exchange rate contracts | 45,510,344 | 866,608 | – | 46,376,952 |
| Interest rate contracts | 5,926,635 | 15,283,104 | 3,440,810 | 24,650,549 |
| Equity contracts | 146,473 | – | – | 146,473 |
| | 51,583,452 | 16,149,712 | 3,440,810 | 71,173,974 |

## 33. Derivative financial instruments *(continued)*

### (c) The credit risk weighted amounts are as follows:

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| Exchange rate contracts | **700,059** | 374,126 | **687,147** | 367,566 |
| Interest rate contracts | **321,086** | 330,377 | **321,086** | 326,656 |
| Equity contracts | **93,932** | 3,511 | **93,932** | 3,511 |
| | **1,115,077** | 708,014 | **1,102,165** | 697,733 |

The risk weights used in the computation of credit risk weighted average amounts range from 0% to 100%. These amounts do not take into account the effects of bilateral netting arrangements.

## 34. Notes to the consolidated cash flow statement

### (a) Reconciliation of operating profit to net cash inflow/(outflow) from operating activities

| | The Group | |
|---|---|---|
| | **2013** | 2012 |
| Operating profit | **1,978,157** | 1,806,820 |
| Depreciation (note 5(f)) | **214,360** | 210,417 |
| EIP – fair value of awards (note 5(f)) | **11,475** | 13,284 |
| Interest expense on subordinated liabilities (note 5(b)) | **302,820** | 353,810 |
| Change in fair value of subordinated liabilities designated at fair value through profit or loss (note 5(d)) | **(38,160)** | 274,130 |
| Impairment losses released from available-for-sale financial assets | **–** | (3,626) |
| Profits tax paid | **(317,033)** | (390,243) |
| Change in treasury bills with original maturity of three months or above | **1,223,560** | (8,051,824) |
| Change in placements with banks, central banks and other financial institutions with original maturity of three months or above | **2,638,216** | (2,324,293) |
| Change in certificates of deposit held | **98,058** | (853,035) |
| Change in trading assets | **78,254** | 734,438 |
| Change in financial assets designated at fair value through profit or loss | **1,576,750** | (4,949,349) |
| Change in advances to customers and other accounts | **(21,438,025)** | (6,028,231) |
| Change in deposits and balances of banks, central banks and other financial institutions | **1,298,714** | 339,142 |
| Change in deposits from customers | **11,974,502** | 8,181,020 |
| Change in certificates of deposit issued | **1,622,673** | (193,099) |
| Change in trading liabilities | **220,936** | (530,231) |
| Change in other accounts and provision | **616,671** | (175,116) |
| Net cash inflow/(outflow) from operating activities | **2,061,928** | (11,585,986) |

## 34. Notes to the consolidated cash flow statement *(continued)*

### (b) Reconciliation of cash and cash equivalents with the consolidated balance sheet

| | The Group | |
|---|---|---|
| | **2013** | 2012 |
| Cash and balances with banks, central banks and other financial institutions | **7,564,466** | 7,211,390 |
| Placements with banks, central banks and other financial institutions | **19,216,094** | 16,832,550 |
| Treasury bills | **14,344,707** | 18,786,422 |
| Amounts shown in the consolidated balance sheet | **41,125,267** | 42,830,362 |
| Less: Amounts with an original maturity of three months or above | **(19,675,146)** | (23,536,922) |
| Deposits and balances of banks, central banks and other financial institutions that are repayable on demand | **(1,029,151)** | (161,005) |
| Cash and cash equivalents in the consolidated cash flow statement | **20,420,970** | 19,132,435 |

### (c) Disposal of subsidiary

| | The Group |
|---|---|
| | **2013** |
| Advances to customers and other accounts | **537** |
| Tangible fixed assets | **1,366,813** |
| Current tax payable | **(7,156)** |
| Deferred tax liabilities | **(3,253)** |
| Other accounts and provisions | **(5,149)** |
| | **1,351,792** |
| Add: Gain on disposal | **250,314** |
| Cash inflow from disposal of subsidiary | **1,602,106** |

## 35. Segment reporting

The Group manages its businesses by divisions, which are organised by a mixture of both business lines and geography. The segment disclosure is based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters.

### Hong Kong segment

This is mainly composed of retail banking activities, corporate banking activities and treasury activities.

Retail banking activities include acceptance of deposits, residential mortgages, hire purchase, consumer loans, wealth management, stock brokerage and insurance services.

Corporate banking activities include advance of commercial and industrial loans, trade financing and institutional banking.

Treasury activities include foreign exchange services, management of investment securities and trading activities.

### Mainland China segment

This comprises the business of Wing Hang Bank (China) Limited and the Bank's Shenzhen branch for which the main businesses are on corporate banking activities.

### Macau segment

This comprises the business of Banco Weng Hang, S.A. for which the main business is on retail banking activities.

For the purposes of assessing segment performance and allocating resources between segments, the Group's chief operating decision maker monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include tangible assets (include equipment of the Group and overseas bank premises), balance and placement with banks, central banks and other financial institutions and advances to bank which have been reported under Mainland China and Macau segments and financial assets with the exception of goodwill, interest in associated companies, taxation and other assets. Segment liabilities include deposits and financial liabilities.

Revenue and expenses are allocated to the reportable segments with reference to interest and fee and commission income generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation of assets attributable to those segments.

The identification of reportable segments also considered geographical information which has been classified by the geographical location of the principal operations of the subsidiaries, or in the case of the Bank itself, of the geographical location of the branch responsible for reporting the results or booking the assets and liabilities.

Specified non-current assets of the Group include tangible fixed assets, goodwill and investments in associated companies.

"Others" in the reconciliation to the reported amount on the consolidated income statement and consolidated balance sheet mainly represent the management of shareholders' fund and equity shares.

## 35. Segment reporting *(continued)*

### (a) Segment results, assets and liabilities

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the year is set out below.

| | The Group 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Hong Kong | | | | | | |
| | Retail banking | Corporate banking | Treasury | Total | Mainland China | Macau | Total |
| Net interest income | **1,625,027** | **453,218** | **338,665** | **2,416,910** | **646,167** | **451,545** | **3,514,622** |
| Non-interest income | **471,735** | **80,876** | **224,673** | **777,284** | **19,262** | **163,896** | **960,442** |
| Reportable segment revenue | **2,096,762** | **534,094** | **563,338** | **3,194,194** | **665,429** | **615,441** | **4,475,064** |
| Operating expenses | **(1,053,012)** | **(173,562)** | **(78,372)** | **(1,304,946)** | **(429,424)** | **(276,761)** | **(2,011,131)** |
| Operating profit before impairment losses and allowances | **1,043,750** | **360,532** | **484,966** | **1,889,248** | **236,005** | **338,680** | **2,463,933** |
| Impairment losses and allowances (charged on)/released from loans and advances | **(25,884)** | **4,334** | **–** | **(21,550)** | **(65,171)** | **374** | **(86,347)** |
| Operating profit | **1,017,866** | **364,866** | **484,966** | **1,867,698** | **170,834** | **339,054** | **2,377,586** |
| Net gains/(losses) on revaluation of properties and disposal of tangible fixed assets | **(788)** | **–** | **(2)** | **(790)** | **93** | **52,588** | **51,891** |
| Net gains on disposal of available-for-sale financial assets | **–** | **–** | **81,853** | **81,853** | **–** | **4,275** | **86,128** |
| Reportable segment profit before tax | **1,017,078** | **364,866** | **566,817** | **1,948,761** | **170,927** | **395,917** | **2,515,605** |
| Depreciation | **27,762** | **922** | **5,313** | **33,997** | **64,957** | **18,072** | **117,026** |
| Reportable segment assets | **56,635,202** | **45,328,393** | **29,810,773** | **131,774,368** | **39,466,485** | **30,554,331** | **201,795,184** |
| Addition to non-current segment assets | **30,111** | **85** | **–** | **30,196** | **10,027** | **17,119** | **57,342** |
| Reportable segment liabilities | **127,296,594** | **990,244** | **706,816** | **128,993,654** | **35,979,171** | **28,056,248** | **193,029,073** |

## 35. Segment reporting *(continued)*

### (a) Segment results, assets and liabilities *(continued)*

| | The Group 2012 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Hong Kong | | | | | | |
| | Retail banking | Corporate banking | Treasury | Total | Mainland China | Macau | Total |
| Net interest income | 1,427,789 | 282,546 | 302,723 | 2,013,058 | 717,160 | 360,110 | 3,090,328 |
| Non-interest income | 439,283 | 79,750 | 224,155 | 743,188 | 43,500 | 147,262 | 933,950 |
| Reportable segment revenue | 1,867,072 | 362,296 | 526,878 | 2,756,246 | 760,660 | 507,372 | 4,024,278 |
| Operating expenses | (950,230) | (164,001) | (65,534) | (1,179,765) | (400,748) | (234,786) | (1,815,299) |
| Operating profit before impairment losses and allowances | 916,842 | 198,295 | 461,344 | 1,576,481 | 359,912 | 272,586 | 2,208,979 |
| Impairment losses and allowances (charged on)/released from loans and advances | 559 | 15,443 | – | 16,002 | (251,821) | 5 | (235,814) |
| Impairment losses and allowances released from available-for-sale financial assets | – | – | 3,626 | 3,626 | – | – | 3,626 |
| Operating profit | 917,401 | 213,738 | 464,970 | 1,596,109 | 108,091 | 272,591 | 1,976,791 |
| Net gains/(losses) on revaluation of properties and disposal of tangible fixed assets | (1,790) | (5) | (35) | (1,830) | 197 | 24,400 | 22,767 |
| Net gains on disposal of available-for-sale financial assets | – | – | 83,258 | 83,258 | – | 3,346 | 86,604 |
| Reportable segment profit before tax | 915,611 | 213,733 | 548,193 | 1,677,537 | 108,288 | 300,337 | 2,086,162 |
| Depreciation | 25,347 | 1,444 | 3,279 | 30,070 | 61,413 | 16,465 | 107,948 |
| Reportable segment assets | 51,549,255 | 34,657,034 | 36,497,172 | 122,703,461 | 35,726,808 | 25,236,850 | 183,667,119 |
| Addition to non-current segment assets | 21,783 | 53 | 594 | 22,430 | 54,063 | 16,387 | 92,880 |
| Reportable segment liabilities | 120,409,959 | 1,294,197 | 1,322,886 | 123,027,042 | 32,706,591 | 23,176,291 | 178,909,924 |

## 35. Segment reporting *(continued)*

### (a) Segment results, assets and liabilities *(continued)*

Reconciliations of reportable segment revenue, profit before taxation, assets and liabilities:

| | The Group | |
|---|---|---|
| | **2013** | 2012 |
| **Revenue** | | |
| Reportable segment revenue | **4,475,064** | 4,024,278 |
| Other revenue | **46,877** | 121,116 |
| Elimination of inter-segment revenue | **(221,192)** | (254,524) |
| Consolidated operating income | **4,300,749** | 3,890,870 |

| | The Group | |
|---|---|---|
| | **2013** | 2012 |
| **Profit before taxation** | | |
| Reportable segment profit before taxation | **2,515,605** | 2,086,162 |
| Share of net gains of associated companies | **51,257** | 40,960 |
| Other revenue and net income | **35,270** | 74,175 |
| Elimination of inter-segment profit | **(46,602)** | (81,553) |
| Consolidated profit before taxation | **2,555,530** | 2,119,744 |

| | The Group | |
|---|---|---|
| | **2013** | 2012 |
| **Assets** | | |
| Reportable segment assets | **201,795,184** | 183,667,119 |
| Balance and placements with banks, central banks and other financial institutions | **11,561,298** | 12,566,668 |
| Advances to bank | **–** | 29,780 |
| Investments in associated companies | **252,554** | 229,723 |
| Tangible fixed assets | **3,318,010** | 4,499,574 |
| Goodwill | **1,306,430** | 1,306,430 |
| Current tax recoverable | **7,322** | 4,689 |
| Deferred tax assets | **28,833** | 33,992 |
| Other assets | **8,610,163** | 8,231,327 |
| Elimination of inter-segment assets | **(12,503,905)** | (13,205,433) |
| Consolidated total assets | **214,375,889** | 197,363,869 |

## 35. Segment reporting *(continued)*

### (a) Segment results, assets and liabilities *(continued)*

| | The Group | |
|---|---|---|
| | **2013** | 2012 |
| **Liabilities** | | |
| Reportable segment liabilities | **193,029,073** | 178,909,924 |
| Current tax payable | **133,665** | 98,866 |
| Deferred tax liabilities | **69,237** | 113,911 |
| Other liabilities | **8,760,227** | 7,120,794 |
| Elimination of inter-segment liabilities | **(9,316,533)** | (8,413,406) |
| Consolidated total liabilities | **192,675,669** | 177,830,089 |

### (b) Other geographical information

| | The Group **2013** | | | | |
|---|---|---|---|---|---|
| | Hong Kong | Mainland China | Macau | Less: inter-segment elimination | Total |
| Specified non-current assets | **4,965,218** | **482,808** | **525,940** | **11,544** | **5,985,510** |
| Contingent liabilities and commitments (note 32(a)) | **29,509,725** | **7,939,039** | **2,618,335** | **(2,078,100)** | **37,988,999** |

| | The Group 2012 | | | | |
|---|---|---|---|---|---|
| | Hong Kong | Mainland China | Macau | Less: inter-segment elimination | Total |
| Specified non-current assets | 6,135,679 | 510,328 | 411,810 | 11,583 | 7,069,400 |
| Contingent liabilities and commitments (note 32(a)) | 34,963,659 | 12,625,958 | 2,325,517 | (1,744,081) | 48,171,053 |

## 36. Material related party transactions

### (a) Substantial shareholder

During the year, transactions with The Bank of New York Mellon Corporation ("BNY"), a substantial shareholder of the Bank, or its subsidiaries are entered into by the Group in the ordinary course of business and on normal commercial terms. The income and expenses for the year, average on-balance sheet outstanding for the year and on-balance sheet and off-balance sheet outstanding at the balance sheet date are:

| | | The Group | | The Bank | |
|---|---|---|---|---|---|
| | | **2013** | 2012 | **2013** | 2012 |
| **(i)** | **Income and expense for the year** | | | | |
| | Interest income | **1,065** | 1,262 | **1,038** | 1,244 |
| | Interest expense | **862** | 1,516 | **862** | 1,516 |
| **(ii)** | **Average on-balance sheet outstanding for the year** | | | | |
| | Cash and balances with banks, central banks and other financial institutions | **243,522** | 208,576 | **132,279** | 135,717 |
| | Placement with banks, central banks and other financial institutions | **67,444** | 100,879 | **67,444** | 100,879 |
| | Deposits and balances of banks, central banks and other financial institutions | **146,902** | 90,428 | **145,743** | 88,813 |
| **(iii)** | **On-balance sheet outstanding at the balance sheet date** | | | | |
| | Cash and balances with banks, central banks and other financial institutions | **134,733** | 273,293 | **26,995** | 24,962 |
| | Deposits and balances of banks, central banks and other financial institutions | **241,345** | 44,575 | **239,773** | 42,892 |
| **(iv)** | **Off-balance sheet outstanding (contract amounts) at the balance sheet date** | | | | |
| | Other commitments | **32,000** | 31,787 | **32,000** | 31,787 |
| **(v)** | **Derivative financial instruments outstanding (notional amounts) at the balance sheet date** | | | | |
| | Exchange rate contracts | **2,738,785** | 1,050,648 | **2,738,785** | 1,050,648 |
| | Interest rate contracts | **3,179,058** | 2,751,712 | **3,179,058** | 2,751,712 |

## 36. Material related party transactions *(continued)*

### (b) Subsidiaries

During the year, the Bank entered into the transactions with subsidiaries owned by the Bank in the ordinary course of business and on normal commercial terms. The income and expenses for the year, average on-balance sheet outstanding for the year, on-balance sheet and off-balance sheet outstanding at the balance sheet date are:

| | The Bank | |
|---|---|---|
| | **2013** | 2012 |

**(i) Income and expense for the year**

| | | |
|---|---|---|
| Interest income | **312,305** | 235,573 |
| Interest expense | **60,410** | 70,018 |
| Other operating income | **142,489** | 109,432 |
| Operating expense | **78,531** | 54,537 |

The interest rates in connection with amounts due from subsidiaries and due to subsidiaries are under terms and conditions normally applicable to customers of comparable standing.

Other operating income represented income on providing management services, information technology services, rental services, share brokerage services, financial control and other administration services to the Bank's subsidiaries by the Bank.

Operating expenses represented rental services and share brokerage services fee paid to the Bank's subsidiaries by the Bank.

All income and expenses on these transactions are determined on an arm's length basis.

**(ii) Average on-balance sheet outstanding for the year**

| | | |
|---|---|---|
| Amounts due from subsidiaries | **14,204,472** | 12,269,944 |
| Amounts due to subsidiaries | **6,562,133** | 5,628,349 |

**(iii) On-balance sheet outstanding at the balance sheet date**

| | | |
|---|---|---|
| Amounts due from subsidiaries | **16,453,343** | 12,173,019 |
| Amounts due to subsidiaries | **5,118,100** | 6,546,422 |

No allowance for impairment losses has been made in respect of these balances as at 31st December, 2013 (2012: nil).

**(iv) Off-balance sheet outstanding (contract amounts) at the balance sheet date**

| | | |
|---|---|---|
| Direct credit substitutes | **11,383** | 11,776 |
| Transaction-related contingencies | **200,000** | 200,000 |
| Trade-related contingencies | **1,583** | 1,564 |
| Other commitments | **3,718,655** | 2,762,783 |

## 36. Material related party transactions *(continued)*

### (b) Subsidiaries *(continued)*

| | The Bank | |
|---|---|---|
| | **2013** | 2012 |
| **(v) Derivative financial instruments outstanding (notional amounts) at the balance sheet date** | | |
| Exchange rate contracts | **1,922,759** | 1,457,908 |
| Interest rate contracts | **133,000** | 358,000 |
| Equity contracts | **1,718** | 316 |

### (c) Associated companies

The Group provided a secured loan to an associated company for HK$47,640,000 in 2007 to finance its purchase of the Group's bank premise during the year 2007. The loan bears an interest rate of 0.55% per annum over HIBOR and is repayable by 2012 with an option to extend the repayment period to 2017. At 14th September, 2012, the loan was extended to 28th September, 2017 with the interest rate at 2.60%. At the balance sheet date, the outstanding amount of the loan is HK$22,987,000 (2012: HK$28,650,000).

### (d) Key management personnel

During the year, the Group entered into a number of transactions with the Group's key management personnel and their close family members and companies controlled or significantly influenced by them. All the transactions are in the ordinary course of business and under terms and conditions normally applicable to customers of comparable standing. The income, expenses and emoluments for the year, average on-balance sheet outstanding for the year and on-balance sheet outstanding at the balance sheet date are as follows:

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| **(i) Income and expense for the year** | | | | |
| Interest income | **1,082** | 863 | **1,082** | 863 |
| Interest expense | **25,421** | 27,839 | **20,720** | 22,345 |
| **(ii) Average on-balance sheet outstanding for the year** | | | | |
| Advances to customers | **81,515** | 68,942 | **81,515** | 68,942 |
| Deposits from customers | **1,866,686** | 1,783,322 | **1,653,157** | 1,523,135 |
| **(iii) On-balance sheet outstanding at the balance sheet date** | | | | |
| Advances to customers | **71,912** | 78,364 | **71,912** | 78,364 |
| Deposits from customers | **1,786,270** | 1,832,525 | **1,579,217** | 1,588,620 |

## 36. Material related party transactions *(continued)*

### (d) Key management personnel *(continued)*

**(iv) Emoluments for the year**

Remuneration for key management personnel, including amounts paid to the Bank's directors as disclosed in note 10 and certain of the highest paid employees as disclosed in note 11, is as follows:

| | The Group | |
|---|---|---|
| | **2013** | 2012 |
| Short-term employee benefits | **85,113** | 65,002 |
| Post-employment benefits | **3,246** | 3,118 |
| Equity compensation benefits | **6,562** | 7,681 |
| | **94,921** | 75,801 |

### (e) Loans to officers

Particulars of loans to officers disclosed pursuant to Section 161B(9) of the Hong Kong Companies Ordinance are as follows:

| | The Group and the Bank | |
|---|---|---|
| | **2013** | 2012 |
| Aggregate amount of relevant loans outstanding at 31st December | **45,839** | 47,052 |
| The maximum aggregate amount of relevant loans outstanding during the year | **50,226** | 50,463 |

**(f)** During the year, no allowance for impairment losses has been made in respect of the above advances to related parties (2012: nil).

## 37. Management of risks

The Group has established policies, procedures and limits to manage various types of risk that the Group is exposed to. Risk management processes and management information systems are in place to identify, measure, monitor and control credit risk, liquidity risk, market risk and operational risk. The risk management policies, procedures and limits are approved by the Board of Directors or its designated committee, and are monitored and reviewed regularly by relevant risk management committees, such as the Credit Committee and the Asset and Liability Management Committee ("ALMCO"). Internal auditors perform regular audits and independent checking to ensure compliance with the policies and procedures.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risks, and the Group's management of capital.

### (a) Credit risk management

Credit risk arises from the possibility that the counterparty in a transaction may default. It arises from the lending, trade finance, treasury, derivatives and other activities undertaken by the Group. The Board of Directors has delegated the Group's credit risk management to the Credit Committee, which is chaired by the Bank's Chairman and Chief Executive.

## 37. Management of risks *(continued)*

### (a) Credit risk management *(continued)*

The credit risk management function is independent of the business units. It oversees the implementation of credit policies and ensures the quality of credit evaluation and approval. Credit approval is conducted in accordance with the Group's credit policy, which defines the credit extension criteria, the credit approval and monitoring processes, the loan classification system and impairment policy. The credit policy also takes into account the requirements of the Hong Kong Banking Ordinance, guidelines issued by the HKMA and accounting standards issued by the HKICPA with respect to large exposures and impairment requirements.

Guidelines to manage credit risk have been laid down in the Group's Loaning Manual, which is regularly reviewed and approved by the Credit Committee. The Loaning Manual covers the delegated lending authorities, credit extension criteria, credit monitoring process, loan classification system, credit recovery and impairment policy.

#### (i) Corporate credit risk

The corporate credit exposures are diversified among corporates, middle market borrowers and SMEs. The large corporate exposures are generally concentrated among highly rated customers. The principal means of managing credit risk is the credit approval process. The Group has policies and procedures to evaluate the potential credit risk of a particular counterparty or transaction and to approve the transaction. For corporate clients, the Group has a detailed credit review system that is applied to each counterparty on a regular basis. The Group also has limits for exposure to individual industries and for borrowers and groups of borrowers, regardless of whether the exposure is in the form of loans or non-funded exposures. The Group also has a review process that ensures the proper level of review and approval depending on the size of the facility and risk grading of the credit.

The Group undertakes ongoing credit review and monitoring at various levels. The credit policies promote early detection of counterparty, industry or product exposures that require special attention. The Credit Committee oversees the overall portfolio risk as well as individual problem loans and potential problem loans on a regular basis.

#### (ii) Retail credit risk

The Group's retail credit policy and approval processes are designed based on the characteristics of the retail banking products: small value but high volume, and relatively homogeneous transactions. Monitoring the credit risk of retail exposures is based primarily on statistical analyses and portfolio review with respect to different products and types of customers. The Group reviews and revises the product terms and customer profiles on a continual basis according to the performance of respective portfolios and the market practices.

#### (iii) Credit risk for treasury transactions

The credit risk of the Group's treasury transactions is managed in the same way as the Group manages its corporate lending risk. The Group applies a risk grading to its counterparties and sets individual counterparty limits.

#### (iv) Credit-related commitments

The risks involved in credit-related commitments and contingencies are essentially the same as the credit risk involved in extending loan facilities to customers. These transactions are, therefore, subject to the same credit application, portfolio maintenance and collateral requirements as for customers applying for loans.

## 37. Management of risks *(continued)*

### (a) Credit risk management *(continued)*

#### (v) Master netting arrangements

To mitigate credit risks, the Group enters into master netting arrangements with counterparties whenever possible. Netting agreements provide that, 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.

The following table sets out the carrying amounts of recognised financial instruments that are subject to the above agreements:

| | The Group 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Gross amounts of recognised financial assets | Gross amounts of recognised financial liabilities set off in the balance sheet | Net amounts of financial assets presented in the balance sheet | Related amounts not set off in the balance sheet | | Net amount |
| | | | | Financial instruments | Cash collateral received | |
| **Financial assets** | | | | | | |
| Placements with banks | **1,387,899** | **–** | **1,387,899** | **(1,387,899)** | **–** | **–** |
| Positive fair values of derivative financial instruments held for trading | **743,237** | **–** | **743,237** | **(339,445)** | **(18,066)** | **385,726** |
| Interest receivable | **71,760** | **(71,760)** | **–** | **–** | **–** | **–** |
| | **2,202,896** | **(71,760)** | **2,131,136** | **(1,727,344)** | **(18,066)** | **385,726** |

| | The Group 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Gross amounts of recognised financial liabilities | Gross amounts of recognised financial assets set off in the balance sheet | Net amounts of financial liabilities presented in the balance sheet | Related amounts not set off in the balance sheet | | Net amount |
| | | | | Financial instruments | Cash collateral pledged | |
| **Financial liabilities** | | | | | | |
| Deposits from banks | **211,293** | **–** | **211,293** | **(211,293)** | **–** | **–** |
| Deposits from customers | **715,888** | **–** | **715,888** | **(715,888)** | **–** | **–** |
| Negative fair values of derivative financial instruments held for trading | **647,931** | **–** | **647,931** | **(339,445)** | **(167,111)** | **141,375** |
| Interest payable | **185,662** | **(71,760)** | **113,902** | **–** | **–** | **113,902** |
| | **1,760,774** | **(71,760)** | **1,689,014** | **(1,266,626)** | **(167,111)** | **255,277** |

## 37. Management of risks *(continued)*

### (a) Credit risk management *(continued)*

#### (v) Master netting arrangements *(continued)*

The Group 2012

| | Gross amounts of recognised financial assets | Gross amounts of recognised financial liabilities set off in the balance sheet | Net amounts of financial assets presented in the balance sheet | Related amounts not set off in the balance sheet: Financial instruments | Related amounts not set off in the balance sheet: Cash collateral received | Net amount |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Placements with banks | 119,627 | – | 119,627 | (119,627) | – | – |
| Positive fair values of derivative financial instruments held for trading | 770,496 | – | 770,496 | (195,025) | – | 575,471 |
| Interest receivable | 82,794 | (82,794) | – | – | – | – |
| | 972,917 | (82,794) | 890,123 | (314,652) | – | 575,471 |

The Group 2012

| | Gross amounts of recognised financial liabilities | Gross amounts of recognised financial assets set off in the balance sheet | Net amounts of financial liabilities presented in the balance sheet | Related amounts not set off in the balance sheet: Financial instruments | Related amounts not set off in the balance sheet: Cash collateral pledged | Net amount |
|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | |
| Deposits from banks | 615,689 | – | 615,689 | (584,209) | – | 31,480 |
| Deposits from customers | 293,855 | – | 293,855 | (293,855) | – | – |
| Negative fair values of derivative financial instruments held for trading | 477,685 | – | 477,685 | (195,025) | – | 282,660 |
| Interest payable | 196,877 | (82,794) | 114,083 | – | – | 114,083 |
| | 1,584,106 | (82,794) | 1,501,312 | (1,073,089) | – | 428,223 |

## 37. Management of risks *(continued)*

### (a) Credit risk management *(continued)*

#### (v) Master netting arrangements *(continued)*

| | The Bank 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Gross amounts of recognised financial assets | Gross amounts of recognised financial liabilities set off in the balance sheet | Net amounts of financial assets presented in the balance sheet | Related amounts not set off in the balance sheet | | Net amount |
| | | | | Financial instruments | Cash collateral received | |
| **Financial assets** | | | | | | |
| Positive fair values of derivative financial instruments held for trading | **743,237** | **–** | **743,237** | **(339,445)** | **(18,066)** | **385,726** |
| Interest receivable | **72,408** | **(72,408)** | **–** | **–** | **–** | **–** |
| | **815,645** | **(72,408)** | **743,237** | **(339,445)** | **(18,066)** | **385,726** |

| | The Bank 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Gross amounts of recognised financial liabilities | Gross amounts of recognised financial assets set off in the balance sheet | Net amounts of financial liabilities presented in the balance sheet | Related amounts not set off in the balance sheet | | Net amount |
| | | | | Financial instruments | Cash collateral pledged | |
| **Financial liabilities** | | | | | | |
| Deposits from banks | **211,293** | **–** | **211,293** | **(211,293)** | **–** | **–** |
| Deposits from customers | **715,888** | **–** | **715,888** | **(715,888)** | **–** | **–** |
| Negative fair values of derivative financial instruments held for trading | **647,931** | **–** | **647,931** | **(339,445)** | **(167,111)** | **141,375** |
| Interest payable | **185,749** | **(72,408)** | **113,341** | **–** | **–** | **113,341** |
| | **1,760,861** | **(72,408)** | **1,688,453** | **(1,266,626)** | **(167,111)** | **254,716** |

## 37. Management of risks *(continued)*

### (a) Credit risk management *(continued)*

#### (v) Master netting arrangements *(continued)*

The Bank 2012

| | Gross amounts of recognised financial assets | Gross amounts of recognised financial liabilities set off in the balance sheet | Net amounts of financial assets presented in the balance sheet | Related amounts not set off in the balance sheet: Financial instruments | Related amounts not set off in the balance sheet: Cash collateral received | Net amount |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Positive fair values of derivative financial instruments held for trading | 770,496 | – | 770,496 | (195,025) | – | 575,471 |
| Interest receivable | 84,475 | (84,475) | – | – | – | – |
| | 854,971 | (84,475) | 770,496 | (195,025) | – | 575,471 |

The Bank 2012

| | Gross amounts of recognised financial liabilities | Gross amounts of recognised financial assets set off in the balance sheet | Net amounts of financial liabilities presented in the balance sheet | Related amounts not set off in the balance sheet: Financial instruments | Related amounts not set off in the balance sheet: Cash collateral pledged | Net amount |
|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | |
| Deposits from banks | 248,372 | – | 248,372 | (216,892) | – | 31,480 |
| Deposits from customers | 293,855 | – | 293,855 | (293,855) | – | – |
| Negative fair values of derivative financial instruments held for trading | 477,685 | – | 477,685 | (195,025) | – | 282,660 |
| Interest payable | 197,206 | (84,475) | 112,731 | – | – | 112,731 |
| | 1,217,118 | (84,475) | 1,132,643 | (705,772) | – | 426,871 |

## 37. Management of risks *(continued)*

### (a) Credit risk management *(continued)*

#### (vi) Concentration of credit risk

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 is diversified along geographic, industry and product sectors in accordance with the established limits approved by the relevant risk committees.

(1) *Maximum exposure*

The maximum exposure to credit risk at the balance sheet date without taking into consideration of any collateral held or other credit enhancements is represented by the carrying amount of each financial asset in the balance sheet after deducting any impairment allowance. A summary of the maximum exposure is as follows:

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| Cash and balances with banks, central banks and other financial institutions | **7,564,466** | 7,211,390 | **1,412,880** | 1,166,998 |
| Placements with banks, central banks and other financial institutions | **19,216,094** | 16,832,550 | **10,681,729** | 11,812,552 |
| Trading assets | **2,440,744** | 8,417,553 | **2,445,585** | 8,429,409 |
| Financial assets designated at fair value through profit or loss | **8,221,040** | 9,879,170 | **8,221,040** | 9,879,170 |
| Advances to customers | **135,042,069** | 113,715,747 | **83,900,438** | 69,454,832 |
| Trade bills | **4,869,055** | 4,293,776 | **4,638,370** | 6,639,999 |
| Advances to banks | **–** | 765,609 | **–** | 29,780 |
| Loans to associated companies | **22,987** | 28,650 | **22,987** | 28,650 |
| Amounts due from subsidiaries | **–** | – | **16,453,343** | 12,173,019 |
| Available-for-sale financial assets | **24,163,415** | 24,640,249 | **18,573,443** | 20,110,604 |
| Financial guarantees and other credit related contingent liabilities | **2,188,933** | 2,212,309 | **2,055,852** | 1,640,516 |
| Loan commitments and other credit related commitments | **35,800,066** | 45,958,744 | **29,187,063** | 34,660,486 |

## 37. Management of risks *(continued)*

### (a) Credit risk management *(continued)*

#### (vi) Concentration of credit risk *(continued)*

*(2) Credit quality of loans and advances*

Advances to banks are only made to banks with good credit standing. Loans to associated companies are granted as our associated companies have good credit standing. At 31st December, 2013 and 2012, no advances to banks and loans to associated companies are past due nor impaired. The credit quality of advances to customers can be analysed as follows:

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| Gross advances to customers | | | | |
| – neither past due nor impaired | **133,775,830** | 112,568,576 | **83,660,210** | 72,476,900 |
| – past due but not impaired | **952,849** | 973,452 | **64,485** | 108,595 |
| – impaired (note 17(c)) | **594,589** | 511,783 | **273,434** | 251,368 |
| | **135,323,268** | 114,053,811 | **83,998,129** | 72,836,863 |
| of which: | | | | |
| Gross advances to customers | | | | |
| – Grade 1: Pass | **134,279,688** | 112,841,973 | **83,558,467** | 72,295,967 |
| – Grade 2: Special mention | **448,991** | 700,055 | **166,228** | 289,528 |

The Group classifies the loans and advances in accordance with the loan classification system required to be adopted for reporting to the HKMA.

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

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| Gross advances to customers that are past due but not impaired | | | | |
| – past due 3 months or less | **919,535** | 831,355 | **63,313** | 73,073 |
| – 6 months or less but over 3 months | **20,053** | 137,290 | **648** | 34,341 |
| – 1 year or less but over 6 months | **13,261** | 4,807 | **524** | 1,181 |
| – over 1 year | **–** | – | **–** | – |
| | **952,849** | 973,452 | **64,485** | 108,595 |

## 37. Management of risks *(continued)*

### (a) Credit risk management *(continued)*

#### (vi) Concentration of credit risk *(continued)*

*(2) Credit quality of loans and advances (continued)*

At 31st December, 2013, advances to customers that would be past due or impaired had the terms not been renegotiated amounted to HK$38,385,000 (2012: HK$42,495,000) and HK$30,159,000 (2012: HK$35,704,000) for the Group and the Bank respectively.

*(3) Credit quality of financial assets other than advances to customers, banks and associated companies*

Credit risk of treasury transactions is managed in the same way as the Group manages its corporate lending risk and risk gradings are applied to the counterparties with individual counterparty limits set. It is the Group's credit policy not to invest debt securities that are below the grading of BBB by Standard & Poor's Ratings Services or their equivalents unless it is approved by the Credit Committee.

At the balance sheet date, the credit quality of investment in debt securities analysed by designation of external credit assessment institution, Standard & Poor's Ratings Services or their equivalents, is as follows. In the absence of such issue ratings, the ratings designated for the issuers are reported.

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| AAA | **16,643,260** | 22,780,257 | **16,600,288** | 22,735,113 |
| AA- to AA+ | **11,122,329** | 10,559,916 | **5,492,058** | 5,423,287 |
| A- to A+ | **5,547,161** | 5,835,471 | **5,327,084** | 5,673,155 |
| BBB to BBB+ | **1,002,380** | 1,072,134 | **952,379** | 1,072,134 |
| Lower than BBB | **975,559** | 1,466,664 | **890,183** | 1,377,118 |
| | **35,290,689** | 41,714,442 | **29,261,992** | 36,280,807 |
| Unrated | **2,735,089** | 2,498,872 | **2,132,387** | 2,104,865 |
| | **38,025,778** | 44,213,314 | **31,394,379** | 38,385,672 |

There are no overdue debt securities included in "Financial assets designated at fair value through profit or loss" and "Available-for-sale financial assets" of the Group and the Bank as at 31st December, 2013 (2012: nil).

Included in "Other assets" of the Group and the Bank as at 31st December, 2013 and 31st December, 2012, there are no receivables which are overdue.

## 37. Management of risks *(continued)*

### (a) Credit risk management *(continued)*

#### (vi) Concentration of credit risk *(continued)*

*(4) Collateral and other credit enhancements*

The Group holds collateral against advances to customers in the form of mortgages over property, other registered securities over assets, cash deposits and guarantees. Collateral generally is not held over advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. The Group also holds commercial properties as collateral against loans to associated companies. Collateral held as security for financial assets or financial derivatives other than advances is determined by the nature of the instrument.

An estimate of the fair value of collateral and other credit enhancements held against past due but not impaired financial assets is as follows:

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| Fair value of collateral and other credit enhancements held against financial assets that are past due but not impaired | **2,589,538** | 2,846,190 | **133,162** | 645,868 |

Analysis of credit risk concentration by the economic sector of the respective financial assets is disclosed in notes 15 to 19 and the geographical concentration of the Group's assets is disclosed in note 35(b).

### (b) Liquidity risk management

Liquidity risk is the risk of inability to fund an increase in assets or meet obligations as they fall due. The Group has established liquidity management policies for ensuring adequate liquidity is maintained at all times. The Group maintained an average liquidity ratio of 38.6% in 2013, which is well above the statutory requirement of 25%.

Liquidity is managed day-to-day by the Treasurer under the direction of ALMCO. ALMCO, which comprises personnel from senior management, treasury function, risk management, financial management and other business areas that could affect liquidity risk, is responsible for overseeing the liquidity risk management, in particular implementation of appropriate liquidity policies and procedures, identifying, measuring and monitoring liquidity risk, and control over the liquidity risk management process. The Board of Directors approves the liquidity risk strategy and policies, maintaining continued awareness of the overall liquidity risk profile, and ensuring liquidity risk is adequately managed and controlled by senior management within the established risk management framework.

To cater for funding requirements during ordinary course of business, sufficient liquid assets are held and also access to the interbank market is maintained. In addition, adequate standby facilities are maintained in order to meet any unexpected and material cash outflow. The Group also performs regular stress tests which include both an institution-specific crisis scenario and a general market crisis scenario, on its liquidity position to ensure adequate liquidity is maintained at all times.

## 37. Management of risks *(continued)*

### (b) Liquidity risk management *(continued)*

The cash flows payable by the Group for the non-derivative financial liabilities including interest payable that will be settled by remaining contractual maturities at the balance sheet date are presented in the following table. The amounts disclosed are based on the contractual undiscounted cash flows. Interest payable in respect of term non-derivative financial liabilities is reported based on contractual interest payment date. Interest payable in respect of perpetual subordinated notes is reported based on the contractual interest payable up to the Bank's optional redemption date.

| | The Group 2013 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Repayable on demand | Within 1 month | Over 1 month but within 3 months | Over 3 months but within 1 year | Over 1 year but within 5 years | Over 5 years | Undated | Gross cash outflow |
| **Non-derivative financial liabilities** | | | | | | | | |
| Deposits and balances of banks, central banks and other financial institutions | 1,042,344 | 852,310 | 1,370,140 | – | – | – | – | 3,264,794 |
| Deposits from customers | 53,132,496 | 58,058,894 | 36,426,932 | 26,555,321 | 4,555,017 | – | – | 178,728,660 |
| Certificates of deposit issued | – | 4,371 | 5,151 | 1,813,409 | 2,477,940 | – | – | 4,300,871 |
| Subordinated liabilities | – | – | – | 93,046 | 558,274 | – | 3,101,520 | 3,752,840 |
| Other liabilities | – | 1,824,581 | 111,570 | 275,592 | 174,092 | – | 200,594 | 2,586,429 |
| | 54,174,840 | 60,740,156 | 37,913,793 | 28,737,368 | 7,765,323 | – | 3,302,114 | 192,633,594 |
| Unrecognised loan commitments | 24,594,683 | 338,670 | 512,922 | 8,523,742 | 1,830,049 | – | – | 35,800,066 |
| Financial guarantees and other credit related contingent liabilities | 220,778 | 274,821 | 380,217 | 1,175,914 | 136,582 | – | 621 | 2,188,933 |
| | 24,815,461 | 613,491 | 893,139 | 9,699,656 | 1,966,631 | – | 621 | 37,988,999 |
| **Derivative cash flows** | | | | | | | | |
| Derivative financial instruments settled on net basis | – | 24,928 | 80,890 | 214,247 | 956,846 | 179,340 | – | 1,456,251 |
| Derivative financial instruments settled on a gross basis | | | | | | | | |
| – total outflow | – | 17,958,790 | 8,641,039 | 8,426,300 | 1,138,281 | – | – | 36,164,410 |
| – total inflow | – | (18,054,196) | (8,790,679) | (8,778,755) | (1,180,409) | – | – | (36,804,039) |
| | – | (95,406) | (149,640) | (352,455) | (42,128) | – | – | (639,629) |

## 37. Management of risks *(continued)*

### (b) Liquidity risk management *(continued)*

| | The Group 2012 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Repayable on demand | Within 1 month | Over 1 month but within 3 months | Over 3 months but within 1 year | Over 1 year but within 5 years | Over 5 years | Undated | Gross cash outflow |
| **Non-derivative financial liabilities** | | | | | | | | |
| Deposits and balances of banks, central banks and other financial institutions | 169,719 | 736,843 | 185,821 | – | – | – | – | 1,092,383 |
| Deposits from customers | 51,550,623 | 53,814,507 | 34,695,039 | 24,328,950 | 2,091,577 | 169,462 | 28,000 | 166,678,158 |
| Certificates of deposit issued | – | 359,250 | 173,956 | 1,114,424 | 1,012,929 | – | – | 2,660,559 |
| Subordinated liabilities | – | – | 81,298 | 176,584 | 744,125 | – | 4,844,563 | 5,846,570 |
| Other liabilities | – | 1,233,475 | 155,755 | 297,432 | 77,428 | – | 184,463 | 1,948,553 |
| | 51,720,342 | 56,144,075 | 35,291,869 | 25,917,390 | 3,926,059 | 169,462 | 5,057,026 | 178,226,223 |
| Unrecognised loan commitments | 30,851,228 | 285,921 | 341,665 | 11,487,294 | 2,542,880 | – | 449,756 | 45,958,744 |
| Financial guarantees and other credit related contingent liabilities | 407,769 | 249,245 | 673,233 | 686,918 | 191,889 | 3,041 | 214 | 2,212,309 |
| | 31,258,997 | 535,166 | 1,014,898 | 12,174,212 | 2,734,769 | 3,041 | 449,970 | 48,171,053 |
| **Derivative cash flows** | | | | | | | | |
| Derivative financial instruments settled on net basis | – | 32,409 | 71,085 | 204,638 | 1,011,477 | 218,706 | – | 1,538,315 |
| Derivative financial instruments settled on a gross basis | | | | | | | | |
| – total outflow | – | 12,179,259 | 13,640,777 | 3,792,378 | 135,824 | – | – | 29,748,238 |
| – total inflow | – | (12,287,453) | (13,720,234) | (3,999,833) | (165,122) | – | – | (30,172,642) |
| | – | (108,194) | (79,457) | (207,455) | (29,298) | – | – | (424,404) |

## 37. Management of risks *(continued)*

### (b) Liquidity risk management *(continued)*

| | The Bank 2013 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Repayable on demand | Within 1 month | Over 1 month but within 3 months | Over 3 months but within 1 year | Over 1 year but within 5 years | Over 5 years | Undated | Gross cash outflow |
| **Non-derivative financial liabilities** | | | | | | | | |
| Deposits and balances of banks, central banks and other financial institutions | 996,823 | 622,783 | 1,370,140 | – | – | – | – | 2,989,746 |
| Deposits from customers | 38,646,687 | 47,977,891 | 25,721,608 | 10,923,297 | 741,056 | – | – | 124,010,539 |
| Certificates of deposit issued | – | 4,371 | 5,151 | 1,813,409 | 2,477,940 | – | – | 4,300,871 |
| Subordinated liabilities | – | – | – | 93,046 | 558,274 | – | 3,101,520 | 3,752,840 |
| Other liabilities | – | 1,167,528 | 94,540 | 159,743 | 74,959 | – | 183,471 | 1,680,241 |
| | 39,643,510 | 49,772,573 | 27,191,439 | 12,989,495 | 3,852,229 | – | 3,284,991 | 136,734,237 |
| Unrecognised loan commitments | 27,193,413 | 141,179 | 94,224 | 578,408 | 1,179,839 | – | – | 29,187,063 |
| Financial guarantees and other credit related contingent liabilities | 419,438 | 199,740 | 298,682 | 1,069,546 | 67,825 | – | 621 | 2,055,852 |
| | 27,612,851 | 340,919 | 392,906 | 1,647,954 | 1,247,664 | – | 621 | 31,242,915 |
| **Derivative cash flows** | | | | | | | | |
| Derivative financial instruments settled on net basis | – | 24,453 | 80,803 | 214,247 | 956,846 | 179,340 | – | 1,455,689 |
| Derivative financial instruments settled on a gross basis | | | | | | | | |
| – total outflow | – | 17,974,297 | 9,817,712 | 8,131,456 | 1,146,035 | – | – | 37,069,500 |
| – total inflow | – | (18,006,668) | (9,843,333) | (8,198,519) | (1,157,158) | – | – | (37,205,678) |
| | – | (32,371) | (25,621) | (67,063) | (11,123) | – | – | (136,178) |

## 37. Management of risks *(continued)*

### (b) Liquidity risk management *(continued)*

The Bank
2012

| | Repayable on demand | Within 1 month | Over 1 month but within 3 months | Over 3 months but within 1 year | Over 1 year but within 5 years | Over 5 years | Undated | Gross cash outflow |
|---|---|---|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | | | | | |
| Deposits and balances of banks, central banks and other financial institutions | 59,424 | 248,645 | 62,691 | – | – | – | – | 370,760 |
| Deposits from customers | 38,510,893 | 45,206,321 | 24,311,266 | 10,346,682 | 386,842 | 169,462 | 28,000 | 118,959,466 |
| Certificates of deposit issued | – | 359,250 | 173,956 | 1,114,424 | 1,012,929 | – | – | 2,660,559 |
| Subordinated liabilities | – | – | 81,298 | 176,584 | 744,125 | – | 4,844,563 | 5,846,570 |
| Other liabilities | – | 729,264 | 107,702 | 166,957 | 54,840 | – | 168,606 | 1,227,369 |
| | 38,570,317 | 46,543,480 | 24,736,913 | 11,804,647 | 2,198,736 | 169,462 | 5,041,169 | 129,064,724 |
| Unrecognised loan commitments | 32,659,746 | 26,860 | – | 4,237 | 1,915,765 | – | 53,878 | 34,660,486 |
| Financial guarantees and other credit related contingent liabilities | 488,404 | 174,169 | 381,066 | 246,943 | 349,720 | – | 214 | 1,640,516 |
| | 33,148,150 | 201,029 | 381,066 | 251,180 | 2,265,485 | – | 54,092 | 36,301,002 |
| **Derivative cash flows** | | | | | | | | |
| Derivative financial instruments settled on net basis | – | 31,736 | 70,523 | 204,854 | 1,011,477 | 218,706 | – | 1,537,296 |
| Derivative financial instruments settled on a gross basis | | | | | | | | |
| – total outflow | – | 12,185,461 | 14,733,326 | 3,840,435 | 142,800 | – | – | 30,902,022 |
| – total inflow | – | (12,265,350) | (14,760,099) | (3,855,614) | (144,187) | – | – | (31,025,250) |
| | – | (79,889) | (26,773) | (15,179) | (1,387) | – | – | (123,228) |

The detail of the analysis on the Group's and Bank's material assets and liabilities into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date are set out in note 30.

### (c) Market risk management

Market risk is the risk arising from the movements in market prices of on- and off- balance sheet positions in interest rates, foreign exchange rates as well as equity and commodity prices and the resulting change in the profit or loss or reserve of the Group.

The Group is exposed to market risk on position taken or financial instrument held or taken such as foreign exchange contracts, interest rate contracts, fixed income and equity securities and derivatives instruments.

## 37. Management of risks *(continued)*

### (c) Market risk management *(continued)*

The Board of Directors reviews and approves the policies for the management of market risks and trading authorities. ALMCO has been delegated the responsibility of controlling and monitoring market risk including regular review of the risk exposures and the risk management framework such as the established limits and stop-losses. The limits are set by ALMCO and reviewed on a periodic basis with reference to market conditions, with any material changes requiring a review by the Board of Directors. It is the Bank's policy that no limit should be exceeded. Middle Office has been delegated the duties of intra-day monitoring and ensuring compliance with the policy and limits.

The Group adopts a prudent approach in managing the portfolio of trading instruments. It reduces excessive market risk by offsetting trading transactions or hedging the open positions by executing derivative contracts with other market counterparties. Trading of interest rate and foreign exchange derivative contracts forms an integral part of the Group's trading activities, which are primarily for squaring the trading positions or covering the customer driven positions.

The Group uses the Price Value of a Basis Point ("PVBP") measurement to monitor and limit its interest rate risk exposure. PVBP is a technique involving the calculation of the change in present value of a financial instrument or a portfolio of instruments due to a change of one basis point in interest rates. It also provides a quick tool to evaluate the impact on profit and loss due to a basis point movement in interest rates.

#### (i) Interest rate risk

The Group's interest rate exposures arise from lending, deposit taking as well as treasury activities. Interest rate risk primarily results from the timing differences in the repricing of interest-bearing assets, liabilities and commitments, which may apply to both banking book and trading book. It also relates to positions from non-interest bearing liabilities including shareholders' funds and current accounts, as well as from certain fixed rate loans and liabilities. The Group's interest rate risk is monitored by the ALMCO within limits approved by the Board, including interest rate gap limit, product limit and PVBP limit. The Group also uses interest rate swaps and other derivatives to manage interest rate risk.

Interest rate sensitivity set out below is for risk management reported to ALMCO only in simplified scenario. Actual changes in the Group's profit before tax resulting from the change in interest rates may differ from the result of the sensitivity analysis. The effect on interest-bearing financial instruments and interest rate swaps has been included in this calculation.

| | **2013** Increase/ (decrease) in Group's profit before tax | 2012 Increase/ (decrease) in Group's profit before tax |
|---|---|---|
| Increase in 10 basis points | **21,494** | 7,569 |
| Decrease in 10 basis points | **(21,494)** | (7,569) |

Structural interest rate risk arises primarily from the deployment of non-interest bearing liabilities, including shareholders' funds and current accounts, as well as from certain fixed rate loans and liabilities. Structural interest rate risk is monitored by ALMCO.

# Notes to the Financial Statements

## 37. Management of risks *(continued)*

### (c) Market risk management *(continued)*

#### (i) Interest rate risk *(continued)*

The following tables indicate the expected next repricing dates for the assets and liabilities at the balance sheet date.

| | The Group 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Total | Within 3 months | Over 3 months but within 1 year | Over 1 year but within 5 years | Over 5 years | Non-interest bearing |
| **Assets** | | | | | | |
| Cash and balances with banks, central banks and other financial institutions | 7,564,466 | 5,987,673 | – | – | – | 1,576,793 |
| Placements with banks, central banks and other financial institutions | 19,216,094 | 16,399,834 | 2,816,260 | – | – | – |
| Trading assets | 2,440,744 | 147,458 | 423,910 | 894,227 | – | 975,149 |
| Financial assets designated at fair value through profit or loss | 8,221,040 | 256,318 | 946,897 | 5,924,213 | 1,093,612 | – |
| Advances to customers and other accounts | 137,487,644 | 114,096,437 | 11,866,495 | 9,027,673 | 196,081 | 2,300,958 |
| Trade bills | 4,869,055 | 2,667,463 | 2,201,592 | – | – | – |
| Advances to banks | – | – | – | – | – | – |
| Held-to-maturity investments | 4,391,766 | 1,862,973 | 368,608 | 1,519,889 | 640,296 | – |
| Available-for-sale financial assets | 24,163,415 | 12,673,556 | 4,877,304 | 6,048,242 | 348,274 | 216,039 |
| Loans to associated companies | 22,987 | 22,987 | – | – | – | – |
| Other assets | 5,998,678 | – | – | – | – | 5,998,678 |
| Total assets | 214,375,889 | 154,114,699 | 23,501,066 | 23,414,244 | 2,278,263 | 11,067,617 |
| **Liabilities** | | | | | | |
| Deposits and balances of banks, central banks and other financial institutions | 3,258,322 | 3,243,682 | – | – | – | 14,640 |
| Deposits from customers | 177,909,960 | 135,918,072 | 26,211,898 | 4,389,290 | 14 | 11,390,686 |
| Certificates of deposit issued | 4,186,223 | 1,569,600 | 499,940 | 2,116,683 | – | – |
| Trading liabilities | 773,110 | – | – | – | – | 773,110 |
| Other liabilities | 3,378,775 | 62,918 | – | – | – | 3,315,857 |
| Subordinated liabilities | 3,169,279 | – | – | 3,169,279 | – | – |
| Total liabilities | 192,675,669 | 140,794,272 | 26,711,838 | 9,675,252 | 14 | 15,494,293 |
| Derivatives (in the banking book) net long/(short) position (notional amount) | – | – | – | – | – | – |
| Interest rate sensitivity gap | 21,700,220 | 13,320,427 | (3,210,772) | 13,738,992 | 2,278,249 | (4,426,676) |

## 37. Management of risks *(continued)*

### (c) Market risk management *(continued)*

#### (i) Interest rate risk *(continued)*

| | The Group 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Total | Within 3 months | Over 3 months but within 1 year | Over 1 year but within 5 years | Over 5 years | Non-interest bearing |
| **Assets** | | | | | | |
| Cash and balances with banks, central banks and other financial institutions | 7,211,390 | 5,806,381 | – | – | – | 1,405,009 |
| Placements with banks, central banks and other financial institutions | 16,832,550 | 12,301,900 | 4,530,650 | – | – | – |
| Trading assets | 8,417,553 | 125,750 | 5,933,516 | 927,413 | 603,164 | 827,710 |
| Financial assets designated at fair value through profit or loss | 9,879,170 | 483,615 | 58,621 | 6,858,977 | 2,477,957 | – |
| Advances to customers and other accounts | 115,859,826 | 93,897,128 | 10,829,681 | 8,880,605 | 189,710 | 2,062,702 |
| Trade bills | 4,293,776 | 1,727,242 | 2,566,534 | – | – | – |
| Advances to banks | 765,609 | 213 | 765,396 | – | – | – |
| Held-to-maturity investments | 2,355,665 | 431,532 | 124,086 | 1,351,166 | 448,881 | – |
| Available-for-sale financial assets | 24,640,249 | 13,879,978 | 2,623,994 | 6,581,265 | 1,303,399 | 251,613 |
| Loans to associated companies | 28,650 | 28,650 | – | – | – | – |
| Other assets | 7,079,431 | – | – | – | – | 7,079,431 |
| Total assets | 197,363,869 | 128,682,389 | 27,432,478 | 24,599,426 | 5,023,111 | 11,626,465 |
| **Liabilities** | | | | | | |
| Deposits and balances of banks, central banks and other financial institutions | 1,091,462 | 1,081,336 | – | – | – | 10,126 |
| Deposits from customers | 165,935,458 | 129,218,751 | 23,992,169 | 1,783,897 | 41 | 10,940,600 |
| Certificates of deposit issued | 2,563,550 | 817,600 | 1,076,709 | 669,241 | – | – |
| Trading liabilities | 552,174 | – | – | – | – | 552,174 |
| Other liabilities | 2,737,015 | 60,635 | – | – | – | 2,676,380 |
| Subordinated liabilities | 4,950,430 | – | 1,744,043 | 3,206,387 | – | – |
| Total liabilities | 177,830,089 | 131,178,322 | 26,812,921 | 5,659,525 | 41 | 14,179,280 |
| Derivatives (in the banking book) net long/(short) position (notional amount) | – | – | – | – | – | – |
| Interest rate sensitivity gap | 19,533,780 | (2,495,933) | 619,557 | 18,939,901 | 5,023,070 | (2,552,815) |

## 37. Management of risks *(continued)*

### (c) Market risk management *(continued)*

#### (i) Interest rate risk *(continued)*

| | The Bank | | | | | |
|---|---|---|---|---|---|---|
| | 2013 | | | | | |
| | Total | Within 3 months | Over 3 months but within 1 year | Over 1 year but within 5 years | Over 5 years | Non-interest bearing |
| **Assets** | | | | | | |
| Cash and balances with banks, central banks and other financial institutions | 1,412,880 | 672,151 | – | – | – | 740,729 |
| Placements with banks, central banks and other financial institutions | 10,681,729 | 10,626,883 | 54,846 | – | – | – |
| Trading assets | 2,445,585 | 147,458 | 423,910 | 894,227 | – | 979,990 |
| Financial assets designated at fair value through profit or loss | 8,221,040 | 256,318 | 946,897 | 5,924,213 | 1,093,612 | – |
| Advances to customers and other accounts | 85,603,487 | 68,765,211 | 8,003,870 | 7,164,101 | 68,204 | 1,602,101 |
| Trade bills | 4,638,370 | 1,353,545 | 3,284,825 | – | – | – |
| Advances to banks | – | – | – | – | – | – |
| Held-to-maturity investments | 3,273,572 | 1,481,260 | – | 1,152,016 | 640,296 | – |
| Available-for-sale financial assets | 18,573,443 | 11,858,788 | 2,038,631 | 4,267,139 | 269,612 | 139,273 |
| Amounts due from subsidiaries | 16,453,343 | 14,296,010 | 470,076 | 1,650,412 | – | 36,845 |
| Loans to associated companies | 22,987 | 22,987 | – | – | – | – |
| Other assets | 7,054,042 | – | – | – | – | 7,054,042 |
| Total assets | 158,380,478 | 109,480,611 | 15,223,055 | 21,052,108 | 2,071,724 | 10,552,980 |
| **Liabilities** | | | | | | |
| Deposits and balances of banks, central banks and other financial institutions | 2,983,860 | 2,971,197 | – | – | – | 12,663 |
| Deposits from customers | 123,681,929 | 102,408,382 | 10,791,034 | 685,798 | – | 9,796,715 |
| Certificates of deposit issued | 4,186,223 | 1,569,600 | 499,940 | 2,116,683 | – | – |
| Trading liabilities | 776,248 | – | – | – | – | 776,248 |
| Amounts due to subsidiaries | 5,118,100 | 4,175,950 | 536,303 | – | – | 405,847 |
| Other liabilities | 2,008,872 | 62,918 | – | – | – | 1,945,954 |
| Subordinated liabilities | 3,169,279 | – | – | 3,169,279 | – | – |
| Total liabilities | 141,924,511 | 111,188,047 | 11,827,277 | 5,971,760 | – | 12,937,427 |
| Derivatives (in the banking book) net long/(short) position (notional amount) | – | – | – | – | – | – |
| Interest rate sensitivity gap | 16,455,967 | (1,707,436) | 3,395,778 | 15,080,348 | 2,071,724 | (2,384,447) |

## 37. Management of risks *(continued)*

### (c) Market risk management *(continued)*

#### (i) Interest rate risk *(continued)*

| | The Bank 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Total | Within 3 months | Over 3 months but within 1 year | Over 1 year but within 5 years | Over 5 years | Non-interest bearing |
| **Assets** | | | | | | |
| Cash and balances with banks, central banks and other financial institutions | 1,166,998 | 589,139 | – | – | – | 577,859 |
| Placements with banks, central banks and other financial institutions | 11,812,552 | 9,044,769 | 2,767,783 | – | – | – |
| Trading assets | 8,429,409 | 125,751 | 5,933,516 | 927,413 | 603,164 | 839,565 |
| Financial assets designated at fair value through profit or loss | 9,879,170 | 483,615 | 58,621 | 6,858,977 | 2,477,957 | – |
| Advances to customers and other accounts | 70,948,859 | 56,662,192 | 5,327,367 | 7,403,215 | 73,501 | 1,482,584 |
| Trade bills | 6,639,999 | 901,323 | 5,738,676 | – | – | – |
| Advances to banks | 29,780 | 213 | 29,567 | – | – | – |
| Held-to-maturity investments | 991,778 | – | – | 542,897 | 448,881 | – |
| Available-for-sale financial assets | 20,110,604 | 12,483,479 | 1,134,970 | 5,087,605 | 1,218,826 | 185,724 |
| Amounts due from subsidiaries | 12,173,019 | 11,757,896 | 384,503 | – | – | 30,620 |
| Loans to associated companies | 28,650 | 28,650 | – | – | – | – |
| Other assets | 6,766,825 | – | – | – | – | 6,766,825 |
| Total assets | 148,977,643 | 92,077,027 | 21,375,003 | 20,820,107 | 4,822,329 | 9,883,177 |
| **Liabilities** | | | | | | |
| Deposits and balances of banks, central banks and other financial institutions | 370,016 | 361,806 | – | – | – | 8,210 |
| Deposits from customers | 118,608,105 | 98,544,322 | 10,204,856 | 135,121 | – | 9,723,806 |
| Certificates of deposit issued | 2,563,550 | 817,600 | 1,076,709 | 669,241 | – | – |
| Trading liabilities | 552,911 | – | – | – | – | 552,911 |
| Amounts due to subsidiaries | 6,546,422 | 4,883,269 | 1,148,477 | – | – | 514,676 |
| Other liabilities | 1,644,988 | 60,635 | – | – | – | 1,584,353 |
| Subordinated liabilities | 4,950,430 | – | 1,744,043 | 3,206,387 | – | – |
| Total liabilities | 135,236,422 | 104,667,632 | 14,174,085 | 4,010,749 | – | 12,383,956 |
| Derivatives (in the banking book) net long/(short) position (notional amount) | – | – | – | – | – | – |
| Interest rate sensitivity gap | 13,741,221 | (12,590,605) | 7,200,918 | 16,809,358 | 4,822,329 | (2,500,779) |

## 37. Management of risks *(continued)*

### (c) Market risk management *(continued)*

**(i) Interest rate risk** *(continued)*

The following table indicates the effective interest rates for the last month of the year:

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| | % | % | % | % |
| Placement with banks, central banks and other financial institutions | **2.80** | 1.51 | **1.32** | 0.44 |
| Advances to customers and trade bills | **3.23** | 3.37 | **2.67** | 2.82 |
| Debt securities | **2.35** | 2.38 | **2.34** | 2.33 |
| | **3.01** | 2.89 | **2.46** | 2.40 |
| Deposits and balances of banks, central banks and other financial institutions | **1.22** | 0.72 | **0.96** | 0.61 |
| Deposits from customers | **1.34** | 1.29 | **0.93** | 0.98 |
| Certificates of deposit issued | **1.42** | 2.38 | **1.42** | 2.38 |
| Subordinated liabilities | **5.89** | 7.29 | **5.89** | 7.29 |
| | **1.42** | 1.48 | **1.07** | 1.24 |

**(ii) Currency risk**

The Group's foreign exchange positions, which arise from foreign exchange dealing, commercial banking operations and structural foreign currency exposures arising from capital investment in subsidiaries and branches outside Hong Kong, mainly in US dollars, Macau Patacas and Renminbi, are managed by ALMCO. All foreign exchange positions are managed by the ALMCO within limits approved by the Board of Directors.

The net positions or net structural positions in foreign currencies are disclosed below where each currency constitutes 10% or more of the respective total net position or total net structural position in all foreign currencies.

The net option position is calculated on the basis of delta-weighted positions of all foreign exchange options contracts. The net structural position includes the Bank's overseas branch, banking subsidiaries and other subsidiaries substantially involved in foreign exchange trading and include structural assets or liabilities as follow:

– investments in overseas subsidiaries and related companies; and

– subordinated liabilities.

## 37. Management of risks *(continued)*

### (c) Market risk management *(continued)*

#### (ii) Currency risk *(continued)*

| | The Group | | | | | |
|---|---|---|---|---|---|---|
| | **2013** | | | 2012 | | |
| *(In millions of HK$ equivalent)* | US$ | Chinese Renminbi | Total | US$ | Chinese Renminbi | Total |
| Spot assets | **42,464** | **40,892** | **94,976** | 49,028 | 37,031 | 95,644 |
| Spot liabilities | **(31,327)** | **(42,184)** | **(92,252)** | (30,857) | (37,868) | (87,581) |
| Forward purchases | **12,217** | **8,154** | **28,904** | 6,884 | 3,249 | 21,210 |
| Forward sales | **(24,472)** | **(4,085)** | **(29,971)** | (23,371) | (1,476) | (26,625) |
| Net option positions | **1,341** | **(2,495)** | **(1,152)** | (1,055) | (924) | (1,990) |
| Net long positions | **223** | **282** | **505** | 629 | 12 | 658 |

| | The Group **2013** | | | |
|---|---|---|---|---|
| *(In millions of HK$ equivalent)* | Macau Patacas | Chinese Renminbi | US$ | Total |
| Net structural positions | **831** | **2,412** | **691** | **3,934** |

| | The Group 2012 | | | |
|---|---|---|---|---|
| *(In millions of HK$ equivalent)* | Macau Patacas | Chinese Renminbi | US$ | Total |
| Net structural positions | 737 | 2,134 | 770 | 3,641 |

| | The Bank | | | | | |
|---|---|---|---|---|---|---|
| | **2013** | | | 2012 | | |
| *(In millions of HK$ equivalent)* | US$ | Chinese Renminbi | Total | US$ | Chinese Renminbi | Total |
| Spot assets | **39,429** | **6,118** | **56,870** | 46,262 | 7,284 | 63,054 |
| Spot liabilities | **(28,549)** | **(7,292)** | **(54,287)** | (28,199) | (8,020) | (54,998) |
| Forward purchases | **12,341** | **8,155** | **29,028** | 6,993 | 3,249 | 21,319 |
| Forward sales | **(24,337)** | **(4,213)** | **(29,962)** | (23,372) | (1,585) | (26,735) |
| Net option positions | **1,341** | **(2,495)** | **(1,152)** | (1,055) | (924) | (1,990) |
| Net long positions | **225** | **273** | **497** | 629 | 4 | 650 |

## 37. Management of risks *(continued)*

### (c) Market risk management *(continued)*

#### (ii) Currency risk *(continued)*

| *(In millions of HK$ equivalent)* | The Bank **2013** Macau Patacas | Chinese Renminbi | US$ | Total |
|---|---|---|---|---|
| Net structural positions | **831** | **2,412** | **691** | **3,934** |

| *(In millions of HK$ equivalent)* | The Bank 2012 Macau Patacas | Chinese Renminbi | US$ | Total |
|---|---|---|---|---|
| Net structural positions | 737 | 2,134 | 770 | 3,641 |

#### (iii) Equity risk

The Group's equities exposures in 2013 and 2012 are mainly in long-term equity investments which are reported as "Available-for-sale financial assets" set out in note 19. Equities held for trading purpose are included under "Trading assets" set out in note 15. These are subject to trading limits and risk management control procedures and other market risk regime.

### (d) Operational risk management

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The Group's risk management framework is established to control risks at both corporate and departmental levels. The underlying management principle is built upon a long-standing culture of high integrity and risk awareness fostered by senior executives of the Group.

The framework consists of governing policies with control measures to ascertain absolute compliance by all operating units. These measures are directed, controlled and held to account by operational management committees chaired by senior executives. Regular reviews are performed by the committees to ensure proper functioning of internal controls and to identify improvement opportunities.

Furthermore, independent reviews are conducted by the Group's Internal Audit Division to measure the effectiveness of the Group's system of internal controls. This division reports to the Audit Committee to ensure the framework is managed with high standards of probity.

### (e) Capital management

The Group's policy is to maintain a strong capital base to support the development of the Group's business and to meet the statutory capital ratio. In addition to meeting the requirements from the HKMA, the Group's primary objectives when managing capital are 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, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

## 37. Management of risks *(continued)*

### (e) Capital management *(continued)*

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. The amount of minimum capital requirements held for credit, market and operational risks are calculated in accordance with the Basel II requirements and the regulations from the HKMA.

Capital is allocated to the various activities of the Bank depending on the risk taken by each business division. Where the subsidiaries are directly regulated by oversea regulators, they are required to maintain minimum capital according to those regulators' rules. The Bank and certain financial subsidiaries, as specified by the HKMA, are subject to the HKMA's capital requirements for its regulatory supervision purposes. The Group and its individually regulated subsidiaries have complied with all externally imposed capital requirements throughout the year ended 31st December, 2013 and 2012 and are well above the minimum required ratio set by the HKMA.

The capital ratios as at 31st December, 2013 are computed on a consolidated basis including the Bank and certain of its subsidiaries as specified by the HKMA for its regulatory purposes, and are in accordance with the Banking (Capital) Rules ("the Capital Rules"). The ratios as of 31st December, 2013 are compiled in accordance with the amended Capital Rules effective from 1st January, 2013 for the implementation of the Basel III capital accord, whereas the ratios as of 31st December, 2012 were compiled in accordance with the pre-amended Capital Rules as in force immediately before 1st January, 2013.

### (f) Transfers of financial assets

As of 31st December, 2013, the Group and the Bank entered into repurchase agreements with certain banks and customers to sell debt securities of carrying amount of HK$982,212,000 (2012: HK$950,797,000) and HK$982,212,000 (2012: HK$575,883,000) respectively which subject to the simultaneous agreements ("repurchase agreements") to repurchase these securities at the agreed dates and prices.

The carrying amounts of debt securities sold under repurchase agreements by nature are as follows:

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| Held-to-maturities investments | **241,180** | 46,845 | **241,180** | 46,845 |
| Available-for-sale financial assets | **225,829** | 444,311 | **225,829** | 69,397 |
| Financial assets designated at fair value through profit or loss | **507,906** | 459,641 | **507,906** | 459,641 |
| Trading assets | **7,297** | – | **7,297** | – |
| | **982,212** | 950,797 | **982,212** | 575,883 |

## 37. Management of risks *(continued)*

### (f) Transfers of financial assets *(continued)*

The consideration received under these repurchase agreements for the Group and the Bank totaling HK$927,181,000 (2012: HK$909,544,000) and HK$927,181,000 (2012: HK$542,227,000) respectively were reported as "Deposits and balances of banks, central banks and other financial institutions" and "Deposits from customers" at 31st December, 2013 and 31st December, 2012. The details are as follows:

| | The Group | | The Bank | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| Deposits and balances of banks, central banks and other financial institutions | **211,293** | 615,689 | **211,293** | 248,372 |
| Deposits from customers | **715,888** | 293,855 | **715,888** | 293,855 |
| | **927,181** | 909,544 | **927,181** | 542,227 |

As stipulated in the repurchase agreements, there was no transfer of the legal ownership of these securities to the counterparties during the covered period. However, the Group and the Bank were not allowed to sell or pledge these securities during the covered period unless both parties mutually agree with such arrangement. Accordingly, these securities were not derecognised from the financial statements but regarded as "collateral" for the secured lending from these counterparties. Normally, the counterparties could only claim from the collateral when there exists an event of default on the secured lending.

As at 31st December, 2013 and 31st December, 2012, there were no outstanding transferred financial assets in which the Group and the Bank have a continuing involvement, that were derecognised in their entirety.

## 38. Staff benefits

### (a) Retirement schemes

| | The Group | |
|---|---|---|
| | **2013** | 2012 |
| Retirement benefit costs (note 5(f)) | **72,274** | 70,521 |

The Group operates both a Mandatory Provident Fund Exempt ORSO Scheme ("the ORSO Scheme") which is registered under the Hong Kong Occupational Retirement Schemes Ordinance and two Mandatory Provident Fund Schemes ("the MPF Schemes") established under the Hong Kong Mandatory Provident Fund Ordinance to cover all qualifying employees in Hong Kong. As from 1st August, 2004, the ORSO Scheme has been frozen as employees and the employer have made the contributions to MPF Schemes instead. In addition, a defined contribution scheme was established on 3rd January, 2001 to cover all qualifying employees in Macau at various funding rates, in accordance with the local practice and requirements. The costs of these schemes are charged to the income statement as incurred and the assets of these schemes are held separately from the Group. Any forfeiture amount under the MPF Schemes is refunded to the Group when the member leaves employment prior to the employer's voluntary contributions being vested fully.

## 38. Staff benefits *(continued)*

### (b) Equity compensation benefits

#### (i) Share Option Scheme

Pursuant to the approved Share Option Scheme, the directors are authorised, at their discretion, to invite certain executive, to take up options to purchase ordinary shares in the Bank as an incentive to them. Prior to 1st September, 2001, the exercise price was 80% of the average closing price on The Stock Exchange of Hong Kong Limited ("SEHK") on the five business days immediately preceding the date of offer of such options. After 1st September, 2001, the exercise price should be at least the higher of the closing price of the shares on SEHK on the date of the grant, which must be a trading day, and the average closing price of the shares on SEHK for the five business days immediately preceding the date of grant.

*(1) Movements in share options*

| | **2013** | | 2012 | |
|---|---|---|---|---|
| | Weighted average exercise price HK$ | Number of shares | Weighted average exercise price HK$ | Number of shares |
| Outstanding at 1st January | **47.10** | **485,000** | 43.24 | 595,000 |
| Exercised | **43.80** | **(25,000)** | 26.25 | (110,000) |
| Outstanding and exercisable at 31st December | **47.28** | **460,000** | 47.10 | 485,000 |

No share options were granted during 2013 and 2012.

*(2) Terms and conditions of unexpired and unexercised share options at balance sheet date*

| Date of options granted | Exercise price HK$ | **2013** Number of shares | 2012 Number of shares |
|---|---|---|---|
| 21/05/2004 | 43.80 | **240,000** | 265,000 |
| 14/01/2005 | 51.25 | **180,000** | 180,000 |
| 28/01/2005 | 50.25 | **40,000** | 40,000 |
| | | **460,000** | 485,000 |

The options granted under the Share Option Scheme will be exercisable between the first and the tenth anniversaries of the date of grant, and settled by physical delivery of shares.

The options outstanding at 31st December, 2013 have a weighted average remaining contractual life of 0.70 years (2012: 1.69 years).

## 38. Staff benefits *(continued)*

### (b) Equity compensation benefits *(continued)*

#### (i) Share Option Scheme *(continued)*

*(3) Details of share options exercised during the year*

| Exercise date | Exercise price HK$ | Weighted average closing price per share at preceding day before exercise date HK$ | Proceeds received HK$ | **2013** Number of shares | 2012 Number of shares |
|---|---|---|---|---|---|
| 11/12/2012 | 25.80 | 79.85 | 1,032,000 | **–** | 40,000 |
| 11/12/2012 | 26.50 | 79.85 | 1,855,000 | **–** | 70,000 |
| 13/05/2013 | 43.80 | 80.80 | 1,095,000 | **25,000** | – |
| | | | | **25,000** | 110,000 |

The weighted average share price at the exercise date for share options exercised in 2013 was HK$78.90 (2012: HK$78.45).

*(4) Fair value of share options and assumptions*

The fair value per option at the dates of grant was measured based on the Binominal pricing model. The Binominal pricing model was used in estimating the fair value of share options after taking into account the exercise price and the life of the option. Such option pricing model requires the input of highly subjective assumptions including the risk-free interest rate, expected volatility and dividend yield of the shares. The changes in subjective input assumptions can materially affect the fair value estimate.

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information. Expected dividends are based on historical dividends.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. The fair values of the options were measured at the grant date and are charged to the income statement and credited to shareholders' funds between the grant date and vesting date. There were no market conditions associated with the share option grants.

## 38. Staff benefits *(continued)*

### (b) Equity compensation benefits *(continued)*

#### (ii) EIP

Pursuant to the approved EIP, the directors are authorised, at their discretion, to invite certain executives, to take up awards to vesting ordinary shares in the Bank as incentive for them to remain in employment with the Bank. The EIP was approved on 30th April, 2009 for the purposes of renewing the employee incentive plan which was approved on 22nd April, 2004 and has expired in April 2009. Under the EIP, the directors may during the first five years after the EIP was approved granted awards to certain executives to acquire ordinary shares in the Bank. The number of shares that may be issued under EIP may not exceed one million shares.

The Group grants awards at no consideration for certain employees to acquire ordinary shares in the Bank under the EIP. The shares will be acquired at a nominal value of HK$1.00 per share under the award. If the Board of Directors determines to select the cash option when shares vest, which is available under the plan, no new shares will be issued on the date of vesting. The percentage of awards vested between the sixth to the tenth anniversaries after the date of grant is as follows:

| Date | Percentage of Award vesting |
|---|---|
| Sixth anniversary of the date of grant | 5% |
| Seventh anniversary of the date of grant | 10% |
| Eighth anniversary of the date of grant | 15% |
| Ninth anniversary of the date of grant | 20% |
| Tenth anniversary of the date of grant | 50% |

Movement in EIP during the year is as follow:

| | **2013** Number of awards | 2012 Number of awards |
|---|---|---|
| Outstanding at 1st January | **2,073,500** | 2,225,750 |
| Exercised | **(262,000)** | (152,250) |
| Lapsed | **–** | – |
| Outstanding and exercisable at 31st December | **1,811,500** | 2,073,500 |

## 38. Staff benefits *(continued)*

### (b) Equity compensation benefits *(continued)*

#### (ii) EIP *(continued)*

At 31st December, 2013, the Directors and employees of the Bank have the following interest in awards to purchase the ordinary shares in the Bank:

| Date of awards granted | Exercise price HK$ | 2013 Fair value of awards at date of grant | 2013 Number of shares | 2012 Fair value of awards at date of grant | 2012 Number of shares |
|---|---|---|---|---|---|
| 21/05/2004 | 1.00 | **10,593,000** | **247,500** | 14,830,200 | 346,500 |
| 23/01/2006 | 1.00 | **74,521,200** | **1,326,000** | 83,288,400 | 1,482,000 |
| 29/01/2007 | 1.00 | **12,581,800** | **133,000** | 13,244,000 | 140,000 |
| 05/11/2009 | 1.00 | **7,822,500** | **105,000** | 7,822,500 | 105,000 |
| | | **105,518,500** | **1,811,500** | 119,185,100 | 2,073,500 |

The fair value per award at the date of grant is determined based on the closing price of the shares of the Bank less the exercise price of the award. There are no awards granted during the year (2012: nil).

## 39. Fair values of financial instruments

### (a) Financial instruments carried at fair value

Financial instruments measured at fair value on an ongoing basis include trading assets and liabilities, financial instruments designated at fair value, and financial instruments classified as available-for-sale.

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

- Level 2: Inputs other than quoted prices included within Level 1 that are observable, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This category includes all instruments where the valuation technique includes inputs not based on observable market data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

## 39. Fair values of financial instruments *(continued)*

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

Fair values of financial instruments that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments that are not traded in the active markets, the Group determines fair values using valuation techniques. Valuation techniques include net present value of expected future cash flows and discounted cash flow models based on "no-arbitrage" principles, standard option pricing models across the industry for vanilla derivative products. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The majority of valuation techniques employ only observable market data. Hence, the reliability of the fair values measurement is high. However, certain financial instruments are valued on the basis of one or more significant market inputs that are not observable. The fair value derived is more judgemental. "Not observable" does not mean there is absolutely no market data available but there is little or no current market data available from which to determine the level at which an arm's length transaction would likely occur. Examples of observable inputs include foreign exchange spot and forward rates, benchmark interest rate curves and volatility surfaces for commonly traded option products. Examples of unobservable inputs include volatility surfaces for less commonly traded option products and correlations between market factors.

Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the valuation uncertainty associated with determination of fair values. The availability varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex instruments, the Group uses the broker pricing service, which adopts proprietary valuation models, as inputs to a fair value measurement. These models usually are developed from recognised valuation models across the industry with some or all of the inputs into these models being unobservable in the market.

Fair values are subject to a control framework that aims to ensure that they are either determined, or validated, by a function independent of the risk-taker. To this end, ultimate responsibility for the determination of fair values lies with Middle Office. Middle Office establishes procedures governing valuation, and is responsible for ensuring that these comply with all relevant accounting standards.

## 39. Fair values of financial instruments *(continued)*

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

The table below analyses financial instruments measured at fair value at the balance sheet date according to the level in the fair value hierarchy into which they are categorised:

| | The Group | | | |
|---|---|---|---|---|
| | **2013** | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| Recurring fair value measurements | | | | |
| **Assets** | | | | |
| Trading assets | | | | |
| – Treasury bills | **1,075,813** | **25,481** | **–** | **1,101,294** |
| – Certificates of deposit held | **–** | **–** | **–** | **–** |
| – Other debt securities | **170,823** | **193,479** | **–** | **364,302** |
| – Equity securities | **7,639** | **–** | **–** | **7,639** |
| – Positive fair values of derivative financial instruments held for trading | **–** | **967,509** | **–** | **967,509** |
| | **1,254,275** | **1,186,469** | **–** | **2,440,744** |
| Financial assets designated at fair value through profit or loss | | | | |
| – Treasury bills | **67,069** | **64** | **–** | **67,133** |
| – Other debt securities | **7,142,135** | **1,011,772** | **–** | **8,153,907** |
| | **7,209,204** | **1,011,836** | **–** | **8,221,040** |
| Available-for-sale financial assets | | | | |
| – Treasury bills | **9,579,856** | **2,655,192** | **–** | **12,235,048** |
| – Certificates of deposit held | **34,511** | **834,021** | **–** | **868,532** |
| – Other debt securities | **9,320,405** | **1,523,391** | **–** | **10,843,796** |
| – Equity securities | **101,196** | **29,010** | **17,068** | **147,274** |
| | **19,035,968** | **5,041,614** | **17,068** | **24,094,650** |
| | **27,499,447** | **7,239,919** | **17,068** | **34,756,434** |
| **Liabilities** | | | | |
| Certificates of deposit issued | | | | |
| – Structured certificates of deposit issued designated at fair value through profit or loss | **–** | **–** | **–** | **–** |
| Trading liabilities | | | | |
| – Negative fair values of derivative financial instruments held for trading | **–** | **773,110** | **–** | **773,110** |
| Subordinated liabilities | | | | |
| – Subordinated liabilities designated at fair value through profit or loss | **–** | **3,169,279** | **–** | **3,169,279** |
| | **–** | **3,942,389** | **–** | **3,942,389** |

## 39. Fair values of financial instruments *(continued)*

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

| | The Group 2012 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Recurring fair value measurements | | | | |
| **Assets** | | | | |
| Trading assets | | | | |
| – Treasury bills | 6,888,072 | 12 | – | 6,888,084 |
| – Certificates of deposit held | 111,765 | – | – | 111,765 |
| – Other debt securities | 387,517 | 202,477 | – | 589,994 |
| – Equity securities | 1,346 | – | – | 1,346 |
| – Positive fair values of derivative financial instruments held for trading | – | 826,364 | – | 826,364 |
| | 7,388,700 | 1,028,853 | – | 8,417,553 |
| Financial assets designated at fair value through profit or loss | | | | |
| – Treasury bills | 148,513 | – | – | 148,513 |
| – Other debt securities | 8,593,334 | 1,043,772 | 93,551 | 9,730,657 |
| | 8,741,847 | 1,043,772 | 93,551 | 9,879,170 |
| Available-for-sale financial assets | | | | |
| – Treasury bills | 8,869,405 | 1,516,533 | – | 10,385,938 |
| – Certificates of deposit held | 541,175 | 832,433 | – | 1,373,608 |
| – Other debt securities | 10,260,347 | 2,368,743 | – | 12,629,090 |
| – Equity securities | 69,746 | 17,129 | 95,973 | 182,848 |
| | 19,740,673 | 4,734,838 | 95,973 | 24,571,484 |
| | 35,871,220 | 6,807,463 | 189,524 | 42,868,207 |
| **Liabilities** | | | | |
| Certificates of deposit issued | | | | |
| – Structured certificates of deposit issued designated at fair value through profit or loss | – | 150,351 | – | 150,351 |
| Trading liabilities | | | | |
| – Negative fair values of derivative financial instruments held for trading | – | 552,174 | – | 552,174 |
| Subordinated liabilities | | | | |
| – Subordinated liabilities designated at fair value through profit or loss | – | 3,206,387 | – | 3,206,387 |
| | – | 3,908,912 | – | 3,908,912 |

## 39. Fair values of financial instruments *(continued)*

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

| | The Bank | | | |
|---|---|---|---|---|
| | 2013 | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| Recurring fair value measurements | | | | |
| **Assets** | | | | |
| Trading assets | | | | |
| – Treasury bills | **1,075,813** | **25,481** | **–** | **1,101,294** |
| – Certificates of deposit held | **–** | **–** | **–** | **–** |
| – Other debt securities | **170,823** | **193,479** | **–** | **364,302** |
| – Equity securities | **7,085** | **–** | **–** | **7,085** |
| – Positive fair values of derivative financial instruments held for trading | **–** | **972,904** | **–** | **972,904** |
| | **1,253,721** | **1,191,864** | **–** | **2,445,585** |
| Financial assets designated at fair value through profit or loss | | | | |
| – Treasury bills | **67,069** | **64** | **–** | **67,133** |
| – Other debt securities | **7,142,135** | **1,011,772** | **–** | **8,153,907** |
| | **7,209,204** | **1,011,836** | **–** | **8,221,040** |
| Available-for-sale financial assets | | | | |
| – Treasury bills | **7,897,336** | **142,095** | **–** | **8,039,431** |
| – Certificates of deposit held | **–** | **834,021** | **–** | **834,021** |
| – Other debt securities | **8,076,452** | **1,484,267** | **–** | **9,560,719** |
| – Equity securities | **76,952** | **21,721** | **5,120** | **103,793** |
| | **16,050,740** | **2,482,104** | **5,120** | **18,537,964** |
| | **24,513,665** | **4,685,804** | **5,120** | **29,204,589** |
| **Liabilities** | | | | |
| Certificates of deposit issued | | | | |
| – Structured certificates of deposit issued designated at fair value through profit or loss | **–** | **–** | **–** | **–** |
| Trading liabilities | | | | |
| – Negative fair values of derivative financial instruments held for trading | **–** | **776,248** | **–** | **776,248** |
| Subordinated liabilities | | | | |
| – Subordinated liabilities designated at fair value through profit or loss | **–** | **3,169,279** | **–** | **3,169,279** |
| | **–** | **3,945,527** | **–** | **3,945,527** |

## 39. Fair values of financial instruments *(continued)*

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

| | The Bank 2012 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Recurring fair value measurements | | | | |
| **Assets** | | | | |
| Trading assets | | | | |
| – Treasury bills | 6,888,072 | 12 | – | 6,888,084 |
| – Certificates of deposit held | 111,765 | – | – | 111,765 |
| – Other debt securities | 387,517 | 202,477 | – | 589,994 |
| – Equity securities | 943 | – | – | 943 |
| – Positive fair values of derivative financial instruments held for trading | – | 838,623 | – | 838,623 |
| | 7,388,297 | 1,041,112 | – | 8,429,409 |
| Financial assets designated at fair value through profit or loss | | | | |
| – Treasury bills | 148,513 | – | – | 148,513 |
| – Other debt securities | 8,593,334 | 1,043,772 | 93,551 | 9,730,657 |
| | 8,741,847 | 1,043,772 | 93,551 | 9,879,170 |
| Available-for-sale financial assets | | | | |
| – Treasury bills | 6,258,783 | 435,374 | – | 6,694,157 |
| – Certificates of deposit held | 541,175 | 832,433 | – | 1,373,608 |
| – Other debt securities | 9,528,609 | 2,328,507 | – | 11,857,116 |
| – Equity securities | 53,356 | 12,863 | 84,025 | 150,244 |
| | 16,381,923 | 3,609,177 | 84,025 | 20,075,125 |
| | 32,512,067 | 5,694,061 | 177,576 | 38,383,704 |
| **Liabilities** | | | | |
| Certificates of deposit issued | | | | |
| – Structured certificates of deposit issued designated at fair value through profit or loss | – | 150,351 | – | 150,351 |
| Trading liabilities | | | | |
| – Negative fair values of derivative financial instruments held for trading | – | 552,911 | – | 552,911 |
| Subordinated liabilities | | | | |
| – Subordinated liabilities designated at fair value through profit or loss | – | 3,206,387 | – | 3,206,387 |
| | – | 3,909,649 | – | 3,909,649 |

## 39. Fair values of financial instruments *(continued)*

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

During the year ended 31st December, 2013, there were no material transfers between Level 1 and Level 2, or transfers into or out of Level 3 (31st December, 2012: nil). 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.

#### (i) Valuation of financial instruments with significant unobservable inputs

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy:

| | The Group 2013 | | |
|---|---|---|---|
| | Financial assets designated at fair value through profit or loss – Debt securities | Available-for-sale financial assets – Equity securities | Total |
| **Assets** | | | |
| At 1st January | **93,551** | **95,973** | **189,524** |
| Sales | **–** | **(190,928)** | **(190,928)** |
| Settlements | **(93,551)** | **–** | **(93,551)** |
| Net realised gains recognised in the income statement | **–** | **124,468** | **124,468** |
| Changes in fair value recognised in the income statement: | | | |
| – Net gains from financial instruments designated at fair value through profit or loss | **–** | **–** | **–** |
| Changes in fair value recognised in the other comprehensive income | **–** | **(12,445)** | **(12,445)** |
| At 31st December | **–** | **17,068** | **17,068** |
| Total gains or losses for the year included in investment revaluation reserve of the other comprehensive income for assets held at the balance sheet date | **–** | **–** | **–** |
| Total gains or losses for the year included in the income statement for assets held at the balance sheet date | | | |
| – Net gains from financial instruments designated at fair value through profit or loss | **–** | **–** | **–** |

## 39. Fair values of financial instruments *(continued)*

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

#### (i) Valuation of financial instruments with significant unobservable inputs *(continued)*

| | The Group 2012 | | |
|---|---|---|---|
| | Financial assets designated at fair value through profit or loss – Debt securities | Available-for-sale financial assets – Equity securities | Total |
| **Assets** | | | |
| At 1st January | 43,368 | 94,754 | 138,122 |
| Settlements | – | – | – |
| Changes in fair value recognised in the income statement: | | | |
| – Net gains from financial instruments designated at fair value through profit or loss | 50,183 | – | 50,183 |
| Changes in fair value recognised in the other comprehensive income | – | 1,219 | 1,219 |
| At 31st December | 93,551 | 95,973 | 189,524 |
| Total gains or losses for the year included in investment revaluation reserve of the other comprehensive income for assets held at the balance sheet date | – | 1,219 | 1,219 |
| Total gains or losses for the year included in the income statement for assets held at the balance sheet date | | | |
| – Net gains from financial instruments designated at fair value through profit or loss | 50,183 | – | 50,183 |

## 39. Fair values of financial instruments *(continued)*

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

#### (i) Valuation of financial instruments with significant unobservable inputs *(continued)*

| | The Bank 2013 | | |
|---|---|---|---|
| | Financial assets designated at fair value through profit or loss – Debt securities | Available-for-sale financial assets – Equity securities | Total |
| **Assets** | | | |
| At 1st January | **93,551** | **84,025** | **177,576** |
| Sales | **–** | **(190,928)** | **(190,928)** |
| Settlements | **(93,551)** | **–** | **(93,551)** |
| Net realised gains recognised in the income statement | **–** | **124,468** | **124,468** |
| Changes in fair value recognised in the income statement: | | | |
| – Net gains from financial instruments designated at fair value through profit or loss | **–** | **–** | **–** |
| Changes in fair value recognised in the other comprehensive income | **–** | **(12,445)** | **(12,445)** |
| At 31st December | **–** | **5,120** | **5,120** |
| Total gains or losses for the year included in investment revaluation reserve of the other comprehensive income for assets held at the balance sheet date | **–** | **–** | **–** |
| Total gains or losses for the year included in the income statement for assets held at the balance sheet date | | | |
| – Net gains from financial instruments designated at fair value through profit or loss | **–** | **–** | **–** |

## 39. Fair values of financial instruments *(continued)*

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

#### (i) Valuation of financial instruments with significant unobservable inputs *(continued)*

| | The Bank 2012 | | |
|---|---|---|---|
| | Financial assets designated at fair value through profit or loss – Debt securities | Available-for-sale financial assets – Equity securities | Total |
| **Assets** | | | |
| At 1st January | 43,368 | 82,806 | 126,174 |
| Settlements | – | – | – |
| Changes in fair value recognised in the income statement: | | | |
| – Net gains from financial instruments designated at fair value through profit or loss | 50,183 | – | 50,183 |
| Changes in fair value recognised in the other comprehensive income | – | 1,219 | 1,219 |
| At 31st December | 93,551 | 84,025 | 177,576 |
| Total gains or losses for the year included in investment revaluation reserve of the other comprehensive income for assets held at the balance sheet date | – | 1,219 | 1,219 |
| Total gains or losses for the year included in the income statement for assets held at the balance sheet date | | | |
| – Net gains from financial instruments designated at fair value through profit or loss | 50,183 | – | 50,183 |

## 39. Fair values of financial instruments *(continued)*

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

#### (ii) Effect of changes in significant non-observable assumptions to reasonably possible alternatives assumptions

The fair value of financial instruments are, in certain circumstances, measured using valuation models that incorporate assumptions that are not supported by prices from observable current market transactions in the same instrument and are not based on observable market data. The following table shows the sensitivity of fair values in Level 3 due to parallel movement of plus or minus 10 percent of change in fair value to reasonably possible alternative assumptions.

| | The Group **2013** | | | |
|---|---|---|---|---|
| | Reflected in profit/(loss) | | Reflected in other comprehensive income | |
| | Favourable changes | Unfavourable changes | Favourable changes | Unfavourable changes |
| Financial assets designated at fair value through profit or loss | | | | |
| – Debt securities | **–** | **–** | **–** | **–** |
| Available-for-sale financial assets | | | | |
| – Equity securities | **–** | **–** | **1,707** | **(1,707)** |
| | **–** | **–** | **1,707** | **(1,707)** |

| | The Group 2012 | | | |
|---|---|---|---|---|
| | Reflected in profit/(loss) | | Reflected in other comprehensive income | |
| | Favourable changes | Unfavourable changes | Favourable changes | Unfavourable changes |
| Financial assets designated at fair value through profit or loss | | | | |
| – Debt securities | 9,355 | (9,355) | – | – |
| Available-for-sale financial assets | | | | |
| – Equity securities | – | – | 1,707 | (1,707) |
| | 9,355 | (9,355) | 1,707 | (1,707) |

## 39. Fair values of financial instruments *(continued)*

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

#### (ii) Effect of changes in significant non-observable assumptions to reasonably possible alternatives assumptions *(continued)*

| | The Bank **2013** | | | |
|---|---|---|---|---|
| | Reflected in profit/(loss) | | Reflected in other comprehensive income | |
| | Favourable changes | Unfavourable changes | Favourable changes | Unfavourable changes |
| Financial assets designated at fair value through profit or loss | | | | |
| – Debt securities | **–** | **–** | **–** | **–** |
| Available-for-sale financial assets | | | | |
| – Equity securities | **–** | **–** | **512** | **(512)** |
| | **–** | **–** | **512** | **(512)** |

| | The Bank 2012 | | | |
|---|---|---|---|---|
| | Reflected in profit/(loss) | | Reflected in other comprehensive income | |
| | Favourable changes | Unfavourable changes | Favourable changes | Unfavourable changes |
| Financial assets designated at fair value through profit or loss | | | | |
| – Debt securities | 9,355 | (9,355) | – | – |
| Available-for-sale financial assets | | | | |
| – Equity securities | – | – | 512 | (512) |
| | 9,355 | (9,355) | 512 | (512) |

## 39. Fair values of financial instruments *(continued)*

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

The carrying amounts of the Group's and the Bank's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31st December, 2013 and 31st December, 2012 except for the following financial instruments, for which their carrying amounts and fair value and the level of fair value hierarchy are disclosed below:

| | The Group | | | | | | |
|---|---|---|---|---|---|---|---|
| | **2013** | | | | | 2012 | |
| | Carrying value | Fair value | Level 1 | Level 2 | Level 3 | Carrying value | Fair value |
| **Financial assets** | | | | | | | |
| Held-to-maturity investments | **4,391,766** | **4,380,002** | **3,469,396** | **910,606** | **–** | 2,355,665 | 2,400,060 |
| **Financial liabilities** | | | | | | | |
| Certificates of deposit issued at amortised cost | **4,186,223** | **4,208,438** | **–** | **4,208,438** | **–** | 2,413,199 | 2,439,028 |
| Subordinated liabilities valued at amortised cost | **–** | **–** | **–** | **–** | **–** | 1,744,043 | 1,831,123 |

| | The Bank | | | | | | |
|---|---|---|---|---|---|---|---|
| | **2013** | | | | | 2012 | |
| | Carrying value | Fair value | Level 1 | Level 2 | Level 3 | Carrying value | Fair value |
| **Financial assets** | | | | | | | |
| Held-to-maturity investments | **3,273,572** | **3,273,780** | **2,412,873** | **860,907** | **–** | 991,778 | 1,049,897 |
| **Financial liabilities** | | | | | | | |
| Certificates of deposit issued at amortised cost | **4,186,223** | **4,208,438** | **–** | **4,208,438** | **–** | 2,413,199 | 2,439,028 |
| Subordinated liabilities valued at amortised cost | **–** | **–** | **–** | **–** | **–** | 1,744,043 | 1,831,123 |

The following methods and significant assumptions have been applied in determining the fair values of financial instruments presented in above.

**(i)** the fair value of demand deposits and savings accounts with no specific maturity is assumed to be the amount payable on demand at the balance sheet date.

**(ii)** the fair value of variable rate financial instruments is assumed to approximate their carrying amounts and, in the case of loans and unquoted debt securities, does not, therefore, reflect changes in their credit quality, as the impact of credit risk is recognised separately by deducting the amount of the impairment loss and allowances from both the carrying amount and fair value.

## 39. Fair values of financial instruments *(continued)*

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

**(iii)** the fair value of fixed rate loans and mortgages carried at amortised cost is estimated by comparing market interest rates when the loans were granted with current market rates offered on similar loans. Changes in the credit quality of loans within the portfolio are not taken into account in determining gross fair values, as the impact of credit risk is recognised separately by deducting the amount of the impairment loss and allowances from both the carrying amount and fair value.

**(iv)** the fair value of unquoted equity investments is estimated, if possible, using applicable price/earnings ratios for similar listed companies adjusted to reflect the specific circumstances of the issuers.

## 40. Possible impact of amendments, new standards and Interpretations issued but not yet effective for the year ended 31st December, 2013

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and interpretations and one new standard which are not yet effective for the year ended 31st December, 2013 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group:

| | Effective for accounting periods beginning on or after |
|---|---|
| Amendments to HKAS 32, *Offsetting financial assets and financial liabilities* | 1st January, 2014 |
| Amendments to HKAS 39, *Novation of derivatives and continuation of hedge accounting* | 1st January, 2014 |
| HKFRS 9, *Financial instruments* | Undetermined (not earlier than 1st January, 2015) |

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 Group's financial statements.

As for HKFRS 9, since these exists uncertainties with regard to final requirements, it remains impracticable to quantify the effect of HKFRS 9 as at the date of publication of these financial statements.

## 41. Approval of the financial statements

These financial statements were approved and authorised for issue by the Board of Directors on 6th March, 2014.

# Unaudited Supplementary Financial Information

*(Expressed in thousands of Hong Kong dollars unless otherwise stated)*

The notes to the consolidated financial statements and the following unaudited supplementary financial information are prepared to comply with the Banking (Disclosure) Rules.

## (a) Capital and liquidity ratios

### (i) Capital ratio

| | The Group | |
|---|---|---|
| | **2013** | 2012 |
| Total capital ratio as at 31st December | **15.9%** | 15.7% |
| Tier 1 capital ratio as at 31st December | **12.0%** | 10.0% |
| Common Equity Tier 1 capital ratio as at 31st December | **12.0%** | – |

As mentioned in note 37(e) of "Notes to the financial statements" on the capital management of the Group, the calculation of the regulatory capital and capital charges are in accordance with the Banking (Capital) Rules. The ratios as of 31st December, 2013 are compiled in accordance with the amended Capital Rules effective from 1st January, 2013 for the implementation of the "Basel III" capital accord, whereas the ratios as of 31st December, 2012 were compiled in accordance with the "pre-amended Capital Rules" as in force immediately before 1st January, 2013. Accordingly, the capital ratios of the two years are not directly comparable.

In calculating the capital ratio of the Group, the following subsidiaries are excluded from the regulatory scope of consolidation which are mainly securities and insurance companies that are authorised and supervised by a regulator and are subject to supervisory arrangements regarding the maintenance of adequate capital to support business activities comparable to those prescribed for authorised institutions under the Capital Rules and the Banking Ordinance:

| | | 2013 | |
|---|---|---|---|
| Subsidiaries | Principal activities | Total assets | Total equity |
| CF Limited | Dormant | **–** | **–** |
| Chekiang First Bank (Nominees) Limited | Nominee Services | **10** | **10** |
| Chekiang First Bank (Trustees) Limited | Trustee Services | **3,954** | **3,944** |
| Chekiang First Limited | Dormant | **1** | **1** |
| Chekiang First Securities Company Limited | Securities Dealing | **6,679** | **6,623** |
| Honfirst Investment Limited | Futures Trading | **16,349** | **16,293** |
| Technico Limited | Dormant | **700** | **(71)** |
| Wing Hang Bank (Nominees) Limited | Nominee Services | **10** | **10** |
| Wing Hang Bank (Trustee) Limited | Trustee Services | **3,573** | **3,549** |
| Wing Hang Insurance Agency Limited | Insurance Agency | **24,101** | **13,705** |
| Wing Hang Insurance Brokers Limited | Insurance Broker | **11,656** | **6,298** |
| Wing Hang Shares Brokerage Company Limited | Securities Dealing | **500,255** | **228,636** |

As at 31st December, 2013, there are no subsidiaries which are included within both the accounting scope of consolidation and the regulatory scope of consolidation but the method of consolidation differs.

## (a) Capital and liquidity ratios *(continued)*

### (i) Capital ratio *(continued)*

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

The detailed disclosure required by the Banking (Disclosure) Rules will be disclosed before 31st March, 2014 under "Regulatory Disclosure" on the website of the Bank (www.whbhk.com).

### (ii) Average liquidity ratio

| | The Group | |
|---|---|---|
| | **2013** | 2012 |
| Average liquidity ratio for the year | **38.6%** | 38.6% |

The average liquidity ratio for the year includes the liquidity positions of the Bank and certain of its financial subsidiaries, which is the basis of computation agreed with the Hong Kong Monetary Authority ("HKMA"), and has been computed in accordance with the Fourth Schedule to the Hong Kong Banking Ordinance.

## (b) Advances to customers analysed by geographical area

The geographical information is classified by the geographical location of the counterparties after taking into account any risk transfer. In general, such transfer of risk takes place if the claims are guaranteed by a party in a geographical location which is different from that of the borrower or if the claims are on an overseas branch of a bank whose head office is located in another geographical location.

| | The Group | | | | |
|---|---|---|---|---|---|
| | **2013** | | | | |
| | Gross advances to customers | Impaired advances to customers | Overdue advances to customers for over three months | Individual impairment allowances | Collective impairment allowances |
| Hong Kong | **100,901,918** | **276,905** | **244,301** | **40,811** | **116,436** |
| Macau | **17,213,024** | **50,650** | **51,825** | **1,585** | **8,935** |
| Mainland China | **16,035,068** | **258,999** | **257,215** | **14,469** | **91,285** |
| Others | **1,173,258** | **8,035** | **6,596** | **732** | **6,946** |
| | **135,323,268** | **594,589** | **559,937** | **57,597** | **223,602** |

## (b) Advances to customers analysed by geographical area *(continued)*

| | The Group 2012 | | | | |
|---|---|---|---|---|---|
| | Gross advances to customers | Impaired advances to customers | Overdue advances to customers for over three months | Individual impairment allowances | Collective impairment allowances |
| Hong Kong | 84,406,130 | 272,513 | 246,645 | 31,673 | 129,618 |
| Macau | 14,476,759 | 23,721 | 50,528 | 2,285 | 11,125 |
| Mainland China | 12,210,614 | 209,220 | 288,846 | 46,645 | 102,498 |
| Others | 2,960,308 | 6,329 | 12,678 | 1,199 | 13,021 |
| | 114,053,811 | 511,783 | 598,697 | 81,802 | 256,262 |

## (c) Further analysis of advances to customers by industry sectors

The following information concerning the further analysis of advances to customers by industry sectors is prepared by classifying the advances according to the usage of the advances in respect of industry sectors which constitute not less than 10% of gross advances to customers.

| | The Group **2013** | | | | | |
|---|---|---|---|---|---|---|
| | Gross advances to customers | Overdue advances to customers for over three months | Individual impairment allowances | Collective impairment allowances | Impairment allowances (released)/ charged to income statement during the year | Impairment allowances written off during the year |
| Property investment | **20,319,089** | **762** | **–** | **16,825** | **(3,639)** | **–** |
| Advances for the purchase of other residential properties | **23,287,360** | **11,475** | **34** | **25,360** | **(4,497)** | **–** |
| Advances for use outside Hong Kong | | | | | | |
| – Mainland China | **25,900,373** | **386,508** | **28,903** | **127,484** | **98,536** | **115,481** |
| – Macau | **18,483,267** | **51,825** | **1,585** | **8,278** | **3,736** | **2,694** |

## (c) Further analysis of advances to customers by industry sectors *(continued)*

| | The Group 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Gross advances to customers | Overdue advances to customers for over three months | Individual impairment allowances | Collective impairment allowances | Impairment allowances charged to income statement during the year | Impairment allowances written off during the year |
| Property investment | 19,245,115 | 765 | – | 19,632 | 17,293 | – |
| Advances for the purchase of other residential properties | 20,034,184 | 3,713 | – | 25,208 | 37,003 | – |
| Advances for use outside Hong Kong | | | | | | |
| – Mainland China | 21,574,823 | 418,799 | 49,884 | 154,076 | 121,468 | 96,895 |
| – Macau | 15,187,321 | 50,528 | 2,285 | 9,362 | 2,203 | 604 |

## (d) Overdue and rescheduled assets

### (i) Overdue and rescheduled advances to customers

| | The Group | | | |
|---|---|---|---|---|
| | **2013** | | 2012 | |
| Gross advances to customers which have been overdue with respect to either principal or interest for periods of: | Amount | % of total advances to customers | Amount | % of total advances to customers |
| – 6 months or less but over 3 months | **74,777** | **0.06** | 337,749 | 0.30 |
| – 1 year or less but over 6 months | **38,778** | **0.03** | 39,039 | 0.03 |
| – Over 1 year | **446,382** | **0.33** | 221,909 | 0.19 |
| | **559,937** | **0.42** | 598,697 | 0.52 |
| Covered portion of overdue advances | **512,160** | | 495,475 | |
| Uncovered portion of overdue advances | **47,777** | | 103,222 | |
| | **559,937** | | 598,697 | |
| Current market values of collateral held against covered portion of overdue advances | **2,053,646** | | 1,949,003 | |
| Individual impairment allowances made on overdue advances | **35,350** | | 66,563 | |

## (d) Overdue and rescheduled assets *(continued)*

### (i) Overdue and rescheduled advances to customers *(continued)*

Collateral held with respect to overdue advances to customers are mainly properties and vehicles.

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

Rescheduled advances are those advances which have been restructured or renegotiated because of a deterioration in the financial position of the borrower, or of the inability of the borrower to meet the original repayment schedule and for which the revised repayment terms are non-commercial to the Group. Rescheduled advances are stated net of any advances that have subsequently become overdue for over 3 months and can be analysed as follows:

| | The Group | | | |
|---|---|---|---|---|
| | **2013** | | 2012 | |
| | Amount | % of total advances to customers | Amount | % of total advances to customers |
| Rescheduled advances to customers | **9,053** | **0.01** | 10,718 | 0.01 |

There were no advances to banks which were overdue nor rescheduled as at 31st December, 2013 and 31st December, 2012.

### (ii) Other overdue assets

| | The Group | |
|---|---|---|
| | **2013** | 2012 |
| Trade bills which have been overdue with respect to either principal or interest for periods of: | | |
| – 6 months or less but over 3 months | **–** | – |
| – 1 year or less but over 6 months | **–** | – |
| – Over 1 year | **1,274** | 962 |
| | **1,274** | 962 |

There are no overdue debt securities included in "Financial assets designated at fair value through profit or loss" and "Available-for-sale financial assets" as at 31st December, 2013 and 31st December, 2012.

Included in "Other assets" as at 31st December, 2013 and 31st December, 2012, there are no receivables which are overdue.

## (e) Non-bank Mainland China exposures

The analysis on non-bank Mainland China exposures includes exposures of the Bank and certain of its subsidiaries on the basis agreed with the HKMA.

| | The Group | | | |
|---|---|---|---|---|
| | **2013** | | | |
| *(In millions of HK$ equivalent)* | On-balance sheet exposures | Off-balance sheet exposures | Total exposures | Individual impairment allowances |
| Mainland entities | **23,176** | **9,526** | **32,702** | **11** |
| Companies and individuals outside the Mainland where the credit is granted for use in the Mainland | **8,501** | **365** | **8,866** | **14** |
| Other counterparties the exposures to whom are considered by the Group to be non-bank Mainland exposures | **3,800** | **119** | **3,919** | **4** |
| | **35,477** | **10,010** | **45,487** | **29** |

| | The Group | | | |
|---|---|---|---|---|
| | 2012 | | | |
| *(In millions of HK$ equivalent)* | On-balance sheet exposures | Off-balance sheet exposures | Total exposures | Individual impairment allowances |
| Mainland entities | 20,425 | 7,706 | 28,131 | 45 |
| Companies and individuals outside the Mainland where the credit is granted for use in the Mainland | 8,262 | 10 | 8,272 | 3 |
| Other counterparties the exposures to whom are considered by the Group to be non-bank Mainland exposures | 2,087 | 42 | 2,129 | 2 |
| | 30,774 | 7,758 | 38,532 | 50 |

## (f) Cross-border claims

The information concerning cross-border claims has been classified by the geographical location of the counterparties after taking into account any risk transfer. In general, such transfer of risk takes place if the claims are guaranteed by a party in a geographical location which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another geographical location.

| | The Group **2013** | | | |
|---|---|---|---|---|
| | Banks and other financial institutions | Public sector entities | Others | Total |
| Macau | **185** | **–** | **11,819,564** | **11,819,749** |
| Mainland China | **16,411,619** | **–** | **5,370,856** | **21,782,475** |
| Australia | **4,563,455** | **–** | **504,861** | **5,068,316** |
| Other Asia Pacific | **3,366,033** | **195,987** | **2,576,771** | **6,138,791** |
| United States | **511,176** | **–** | **1,782,190** | **2,293,366** |
| Other North and South American countries | **952,410** | **695,866** | **519,069** | **2,167,345** |
| Middle East and Africa | **323,874** | **–** | **301,165** | **625,039** |
| Germany | **79,219** | **–** | **1,886** | **81,105** |
| United Kingdom | **1,149,538** | **–** | **165,238** | **1,314,776** |
| Other European countries | **199,787** | **–** | **80,175** | **279,962** |
| | **27,557,296** | **891,853** | **23,121,775** | **51,570,924** |

| | The Group 2012 | | | |
|---|---|---|---|---|
| | Banks and other financial institutions | Public sector entities | Others | Total |
| Macau | 5,017 | – | 9,833,685 | 9,838,702 |
| Mainland China | 15,343,244 | – | 4,561,710 | 19,904,954 |
| Australia | 5,421,843 | – | 540,846 | 5,962,689 |
| Other Asia Pacific | 2,362,174 | 248,341 | 2,423,076 | 5,033,591 |
| United States | 924,483 | – | 8,281,583 | 9,206,066 |
| Other North and South American countries | 610,579 | 866,576 | 2,249,971 | 3,727,126 |
| Middle East and Africa | 328,058 | – | 309,486 | 637,544 |
| Germany | 54,773 | – | 2,027 | 56,800 |
| United Kingdom | 384,165 | – | 19,725 | 403,890 |
| Other European countries | 265,989 | – | 182,257 | 448,246 |
| | 25,700,325 | 1,114,917 | 28,404,366 | 55,219,608 |

## (g) Additional disclosures on credit risk management

### (i) Capital requirement

In calculating the capital ratio of the Group for regulating reporting purposes, the Group's capital requirements are calculated under the Standardised (Credit Risk) Approach, except for Wing Hang Bank (China) Limited and Banco Weng Hang, S.A. which the capital requirements are calculated under the Basic Approach. The Group uses the following external credit assessment institutions ("ECAIs") to calculate its capital adequacy requirements prescribed in the Banking (Capital) Rules:

- Fitch Ratings
- Moody's Investors Service, Inc.
- Standard & Poor's Ratings Services
- Rating and Investment Information, Inc.

The following capital requirement is made by multiplying the Group's risk-weighted amount derived from the relevant calculation approach by 8%. It does not reflect the Group's actual regulatory capital.

(1) The capital requirements on each class of exposure calculated under the Standardised (Credit Risk) Approach at the balance sheet date can be analysed as follow:

| | **2013** | 2012 |
|---|---|---|
| Classes of exposure: | | |
| – Sovereign | **2,914** | 3,202 |
| – Public sector entity | **101,719** | 99,729 |
| – Bank | **852,907** | 876,725 |
| – Securities firm | **121** | 218 |
| – Corporate | **3,298,886** | 2,825,758 |
| – Cash items | **4,125** | 21 |
| – Regulatory retail | **764,844** | 683,910 |
| – Residential mortgage loans | **1,099,089** | 1,015,053 |
| – Other exposures which are not past due | **498,010** | 525,778 |
| – Past due | **18,871** | 18,376 |
| Total capital requirements for on-balance sheet exposures | **6,641,486** | 6,048,770 |
| – Direct credit substitutes | **88,256** | 29,175 |
| – Transaction-related contingencies | **1,105** | 671 |
| – Trade-related contingencies | **11,396** | 12,768 |
| – Other commitments | **51,183** | 73,022 |
| – Exchange rate contracts | **46,180** | 24,900 |
| – Interest rate contracts | **25,687** | 26,132 |
| – Equity contracts | **4,726** | 2 |
| – Default risk exposures-securities financing transactions | **2,342** | – |
| Total capital requirements for off-balance sheet exposures | **230,875** | 166,670 |
| | **6,872,361** | 6,215,440 |

## (g) Additional disclosures on credit risk management *(continued)*

### (i) Capital requirement *(continued)*

(2) The capital requirements on each class of exposure calculated under the Basic Approach at the balance sheet date can be analysed as follow:

| | 2013 | 2012 |
|---|---|---|
| Classes of exposure: | | |
| – Sovereign | **75,158** | 83,956 |
| – Public sector entity | **691** | 726 |
| – Bank | **200,488** | 125,260 |
| – Cash items | **2** | 5 |
| – Residential mortgage loans | **569,462** | 500,341 |
| – Other exposures | **1,812,978** | 1,533,838 |
| Total capital requirements for on-balance sheet exposures | **2,658,779** | 2,244,126 |
| – Direct credit substitutes | **18,052** | 59,658 |
| – Transaction-related contingencies | **2,659** | 7,026 |
| – Trade-related contingencies | **1,650** | 1,850 |
| – Other commitments | **32,369** | 28,775 |
| – Exchange rate contracts | **938** | 442 |
| – Interest rate contracts | **–** | 298 |
| – Default risk exposures-securities financing transactions | **22,261** | – |
| Total capital requirements for off-balance sheet exposures | **77,929** | 98,049 |
| | **2,736,708** | 2,342,175 |

## (g) Additional disclosures on credit risk management *(continued)*

### (ii) Credit risk exposures

Credit ratings from above-mentioned ECAIs are used for all classes of credit exposures mentioned below. The Group follows the process prescribed in Part 4 of the Banking (Capital) Rules to map the ratings to the exposures booked in the Bank's banking book.

An analysis of the credit risk calculated under Standardised (Credit Risk) Approach by class of exposures at the balance sheet date is as follows:

| | 2013 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Total exposures | Exposures after recognised credit risk mitigation | | Risk-weighted amounts | | Total risk-weighted amounts | Total exposure covered by recognised collateral | Total exposure covered by recognised guarantees or recognised credit derivative contracts |
| | | Rated | Unrated | Rated | Unrated | | | |
| On-balance Sheet: | | | | | | | | |
| – Sovereign | **8,135,878** | **9,563,801** | **–** | **36,426** | **–** | **36,426** | **–** | **–** |
| – Public sector entity | **2,266,171** | **3,874,132** | **2,483,295** | **774,826** | **496,659** | **1,271,485** | **–** | **719,204** |
| – Multilateral development bank | **–** | **218,667** | **–** | **–** | **–** | **–** | **–** | **–** |
| – Bank | **25,324,929** | **25,315,020** | **5,436,026** | **7,968,325** | **2,693,006** | **10,661,331** | **1,952,327** | **341,904** |
| – Securities firm | **878,893** | **–** | **3,023** | **–** | **1,511** | **1,511** | **875,870** | **–** |
| – Corporate | **55,797,436** | **11,156,602** | **34,016,704** | **7,219,369** | **34,016,704** | **41,236,073** | **638,953** | **10,435,266** |
| – Cash items | **957,500** | **–** | **957,500** | **–** | **51,561** | **51,561** | **–** | **–** |
| – Regulatory retail | **13,442,622** | **–** | **12,747,398** | **–** | **9,560,549** | **9,560,549** | **286,620** | **408,603** |
| – Residential mortgage loans | **36,290,868** | **–** | **33,468,958** | **–** | **13,738,613** | **13,738,613** | **114,953** | **2,706,957** |
| – Other exposures which are not past due exposures | **6,071,389** | **927,501** | **4,900,337** | **927,501** | **5,297,622** | **6,225,123** | **227,998** | **15,552** |
| – Past due exposures | **247,699** | **12,682** | **235,017** | **–** | **235,894** | **235,894** | **190,546** | **13,225** |
| | **149,413,385** | **51,068,405** | **94,248,258** | **16,926,447** | **66,092,119** | **83,018,566** | **4,287,267** | **14,640,711** |
| Off-balance sheet: | | | | | | | | |
| – off-balance sheet exposures other than OTC derivative transactions or credit derivative contracts | **2,189,696** | **410,576** | **1,687,587** | **243,084** | **1,656,166** | **1,899,250** | **91,531** | **184,188** |
| – OTC derivative transactions | **1,726,291** | **1,174,585** | **501,937** | **458,917** | **498,505** | **957,422** | **49,770** | **–** |
| – Default risk exposures-securities financing transactions | **982,212** | **43,702** | **11,329** | **17,939** | **11,329** | **29,268** | **927,181** | **–** |
| | **4,898,199** | **1,628,863** | **2,200,853** | **719,940** | **2,166,000** | **2,885,940** | **1,068,482** | **184,188** |
| | **154,311,584** | **52,697,268** | **96,449,111** | **17,646,387** | **68,258,119** | **85,904,506** | **5,355,749** | **14,824,899** |
| Exposures deducted from capital base | **–** | | | | | | | |

## (g) Additional disclosures on credit risk management *(continued)*

### (ii) Credit risk exposures *(continued)*

| | 2012 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Total exposures | Exposures after recognised credit risk mitigation | | Risk-weighted amounts | | Total risk-weighted amounts | Total exposure covered by recognised collateral | Total exposure covered by recognised guarantees or recognised credit derivative contracts |
| | | Rated | Unrated | Rated | Unrated | | | |
| On-balance Sheet: | | | | | | | | |
| – Sovereign | 6,905,110 | 9,359,523 | – | 40,027 | – | 40,027 | – | – |
| – Public sector entity | 2,703,159 | 3,696,262 | 2,536,844 | 739,252 | 507,369 | 1,246,621 | – | 889,909 |
| – Multilateral development bank | 140,328 | 363,188 | – | – | – | – | – | – |
| – Bank | 29,064,651 | 25,400,284 | 2,743,789 | 9,586,357 | 1,372,712 | 10,959,069 | 2,293,672 | 1,055,280 |
| – Securities firm | 346,042 | – | 5,442 | – | 2,721 | 2,721 | 340,599 | 1 |
| – Corporate | 44,191,462 | 10,170,362 | 28,942,808 | 6,379,162 | 28,942,809 | 35,321,971 | 635,566 | 4,892,829 |
| – Cash items | 802,627 | – | 802,627 | – | 262 | 262 | – | – |
| – Regulatory retail | 12,066,430 | – | 11,398,506 | – | 8,548,880 | 8,548,880 | 295,916 | 372,008 |
| – Residential mortgage loans | 32,347,541 | – | 29,445,706 | – | 12,688,157 | 12,688,157 | 158,844 | 2,742,991 |
| – Other exposures which are not past due exposures | 6,870,768 | 910,268 | 5,661,955 | 910,268 | 5,661,955 | 6,572,223 | 275,958 | 22,587 |
| – Past due exposures | 250,075 | 13,066 | 237,009 | – | 229,699 | 229,699 | 200,095 | 17,035 |
| | 135,688,193 | 49,912,953 | 81,774,686 | 17,655,066 | 57,954,564 | 75,609,630 | 4,200,650 | 9,992,640 |
| Off-balance sheet: | | | | | | | | |
| – off-balance sheet exposures other than OTC derivative transactions or credit derivative contracts | 1,740,266 | 595,811 | 978,285 | 492,253 | 953,194 | 1,445,447 | 166,170 | 175,000 |
| – OTC derivative transactions | 1,344,419 | 1,141,171 | 174,422 | 468,039 | 169,895 | 637,934 | 28,826 | – |
| | 3,084,685 | 1,736,982 | 1,152,707 | 960,292 | 1,123,089 | 2,083,381 | 194,996 | 175,000 |
| | 138,772,878 | 51,649,935 | 82,927,393 | 18,615,358 | 59,077,653 | 77,693,011 | 4,395,646 | 10,167,640 |
| Exposures deducted from capital base | 348,516 | | | | | | | |

The above exposures are principal amount or credit equivalent amount, as applicable, net of individual impairment allowances.

## (g) Additional disclosures on credit risk management *(continued)*

### (iii) Counterparty credit risk-related exposures calculated under the Standardised (Credit Risk) Approach

In respect of the Group's counterparty credit risk which arises from over-the-counter ("OTC") derivative transactions, repo-style transactions and credit derivative contracts (other than recognised credit derivative contracts), all credit limits are established in advance of transacting the business and credit and settlement risk must be correctly captured, monitored and reported in accordance with the Group risk methodologies. Credit exposures are measured in book or market value terms depending on the product involved. These methods of calculating credit exposure apply to all counterparties or reference entities in transaction.

The policy for secured collateral on derivatives is guided by the Group's Loaning Manual ensuring the due-diligence necessary to fully understand the effectiveness of netting and collateralisation by jurisdiction, counterparty, product and agreement type is fully assessed and that the due-diligence standards are high and consistently applied.

Under the terms of our current collateral obligations under derivative contracts, the Group estimate based on the positions as at 31st December, 2013 that the Bank would not be required to post additional collateral in the event of one or two notch downgrade in the Bank's credit ratings (2012: nil).

Wrong-way risk is an aggravated form of concentration risk and arises when there is a strong correlation between the probability of default of counterparty and the mark-to-market value of the underlying transaction. The Group uses a range of procedures to monitor and control wrong-way risk, including requiring front offices to obtain prior approval before undertaking wrong way risk transactions outside pre-agreed guidelines.

(1) Analysis of the major classes of its exposures by counterparty type

| | **2013** | | 2012 | |
|---|---|---|---|---|
| | OTC derivative transactions | Repo-styles transactions | OTC derivative transactions | Repo-styles transactions |
| Notional amounts: | | | | |
| – Banks | **49,308,501** | **224,334** | 47,412,792 | – |
| – Corporates | **17,028,317** | **757,878** | 10,976,263 | – |
| – Others | **3,478,615** | **–** | 3,276,282 | – |
| | **69,815,433** | **982,212** | 61,665,337 | – |
| Credit equivalent amounts or net credit exposures net of recognised collateral: | | | | |
| – Banks | **1,163,883** | **13,041** | 1,140,671 | – |
| – Corporates | **433,642** | **41,990** | 143,907 | – |
| – Others | **78,997** | **–** | 31,015 | – |
| | **1,676,522** | **55,031** | 1,315,593 | – |
| Risk-weighted amounts: | | | | |
| – Banks | **453,565** | **2,608** | 467,540 | – |
| – Corporates | **428,291** | **26,660** | 143,907 | – |
| – Others | **75,566** | **–** | 26,488 | – |
| | **957,422** | **29,268** | 637,935 | – |

## (g) Additional disclosures on credit risk management *(continued)*

### (iii) Counterparty credit risk-related exposures calculated under the Standardised (Credit Risk) Approach *(continued)*

(2) Analysis of the counterparty party credit risk exposures

| | **2013** | | 2012 | |
|---|---|---|---|---|
| | **OTC derivative transactions** | **Repo-styles transactions** | OTC derivative transactions | Repo-styles transactions |
| Gross total positive fair value which are not repo-style transactions | **962,167** | **–** | 820,086 | – |
| Recognised collateral held before any haircuts: | | | | |
| – cash on deposit with the Bank | **270,700** | **927,181** | 321,871 | – |
| – debt securities | **–** | **–** | – | – |
| – equity securities | **6,045** | **–** | 11,533 | – |
| – others | **356,465** | **–** | 250,841 | – |
| | **633,210** | **927,181** | 584,245 | – |
| Credit equivalent amounts or net credit exposures net of recognised collateral held | **1,676,522** | **55,031** | 1,315,593 | – |
| Risk weighted amounts | **957,422** | **29,268** | 637,935 | – |

(3) Credit derivative contracts which create exposures to counterparty credit risk

There are no credit derivative contracts which are used for management of the Group's credit portfolio as at 31st December, 2013 and 31st December 2012.

## (g) Additional disclosures on credit risk management *(continued)*

### (iv) Credit risk mitigation

The Group's policy provides that netting is only to be applied where it has the legal right to do so.

Under the Banking (Capital) Rules, recognised netting is defined as any netting done pursuant to a valid bilateral netting arrangement. Consistent with the Banking (Capital) Rules, only bilateral netting arrangements are included for capital adequacy credit risk mitigation calculation. While the use of multi-lateral netting arrangement is allowed for internal credit risk management, it is not a valid credit risk mitigation under the Banking (Capital) Rules.

It is the Group's policy that all corporate and institutional facilities be reviewed (and hence revalued) at least on an annual basis. Where facilities have been overdue for more than 90 days and are tangibly secured, the collateral must be revalued not less than every 3 months.

For residential mortgage loans that are more than 90 days past due, the mortgaged property must be revalued not less than every 3 months.

The main types of recognised collateral taken by the Group are those as stated in Section 80 of the Banking (Capital) Rules, including (but not limited to) cash on deposit, gold bullion, equities listed in a main index and/or a recognised exchange and various recognised debt securities.

As stated in Sections 98 and 99 of the Banking (Capital) Rules, certain guarantees and credit derivative contracts are recognised for credit risk mitigation purposes. The main types of guarantees are from sovereigns, corporate and banks. With corporate guarantees, in order for it to be recognised as a credit risk mitigants, it must have a credit rating of A- or better by Standard & Poor's Ratings Services, Fitch Ratings and Rating and Investment Information, Inc, or a credit rating of A3 or better by Moody's Investors Service.

There were immaterial credit and market risk concentrations within the credit risk mitigants (recognised collateral and guarantees) used by the Group.

### (v) Asset securitisation

The Group has no asset securitisation exposures under the Standardised (Credit Risk) Approach and Basic Approach at 31st December, 2013 and 31st December 2012.

### (vi) Market risk capital charge

The capital charge for market risk calculated in accordance with the Standardised (Market Risk) Approach at the balance sheet date is as follow:

| | **2013** | 2012 |
|---|---|---|
| Capital charge for market risk | | |
| – Interest rate exposures (including options) | **259,254** | 240,638 |
| – Equity rate exposures (including options) | **2,681** | 2,716 |
| – Foreign exchange exposures (including gold and options) | **282,695** | 229,236 |
| | **544,630** | 472,590 |

## (g) Additional disclosures on credit risk management *(continued)*

### (vii) Operational risk capital charge

The capital charge for operational risk calculated in accordance with the Basic Indicator Approach at the balance sheet date is as follow:

| | **2013** | 2012 |
|---|---|---|
| Capital charge for operational risk | **593,363** | 540,222 |

### (viii) Equity exposures in banking's book

Investments in equity shares which are intended to be held on a continuing basis, but which do not comprise investments in associates or subsidiaries, are classified as available-for-sale securities and are reported in the balance sheet as "Available-for-sale financial assets". Available-for-sale securities are measured at fair value as described in notes 2(f)(ii) and (iii) of "Notes to the financial statements" on the financial statements. Included within this category are investments made by the Group for strategic purposes, which are subject to additional internal procedures and approvals to ensure that the investment is in accordance with the Group's strategy and to ensure compliance with all relevant regulatory and legal restrictions.

| | **2013** | 2012 |
|---|---|---|
| Cumulative realised gains from sales and liquidations | **124,468** | – |
| Unrealised gains: | | |
| – recognised in reserve but not through income statement | **116,763** | 85,877 |
| – deducted from the supplementary capital | **–** | – |

### (ix) Interest rate exposures in banking's book

Interest rate exposures are calculated under the Price Value of a Basis Point ("PVBP") methodology.

For the information of the nature and measurement of the risk, please refer to note 37(c) of "Notes to the financial statements".

| | **2013** | | 2012 | |
|---|---|---|---|---|
| | HK dollars | US dollars | HK dollars | US dollars |
| Interest rate changes by 10 basis points | | | | |
| – increase in earnings by increasing 10 basis points | **12,475** | **1,696** | 4,706 | 555 |
| – decrease in earnings by decreasing 10 basis points | **(12,475)** | **(1,696)** | (4,706) | (555) |

## (h) Corporate Governance

The Group is committed to high standards of corporate governance. The Group has fully complied with the requirements set out in the guideline on "Corporate Governance of Locally Incorporated Authorised Institutions" under Supervisory Policy Manual issued by the HKMA. The Group established a number of committees under the Board of Directors including the Executive Committee, Credit Committee, Management Committee, Asset and Liability Management Committee, Audit Committee, Director Nomination Committee, Risk Management Committee and Remuneration Committee. The compositions and functions are explained in the "Corporate Governance Report".

# List of Branches

## HONG KONG

| | |
|---|---|
| **Main Branch** | 161 Queen's Road Central, Central |
| **Aberdeen Branch** | 170-172 Aberdeen Main Road, Aberdeen |
| **Causeway Bay Branch** | 443-445 Hennessy Road, Causeway Bay |
| **Central Branch** | G/F, Henley Building, 5 Queen's Road Central, Central |
| **Fortress Hill Branch** | Shop B2A, 318-328 King's Road, Fortress Hill |
| **Gloucester Road Branch** | G/F, 60 Gloucester Road, Wanchai |
| **Gold & Silver Exchange Branch** | 1/F, 12-18 Mercer Street, Sheung Wan |
| **Happy Valley Branch** | Shop 2, 15-17 King Kwong Street, Happy Valley |
| **Johnston Road Branch** | 131-133 Johnston Road, Wanchai |
| **North Point Branch** | 441-443 King's Road, North Point |
| **Shaukeiwan Branch** | Perfect Mount Gardens, 1 Po Man Street, Shaukeiwan |
| **Taikoo Shing Branch** | Shop G12, Wah Shan Mansion, 17 Taikoo Shing Road |
| | Shop P26, 1/F, Fu Shan Mansion, 25 Taikoo Shing Road |
| **United Centre Branch** | Shop 2008-9, 2/F, United Centre, 95 Queensway, Admiralty |
| **Western Branch** | 139-141 Des Voeux Road West, Sai Ying Pun |

### Auto & Equipment Finance

| | |
|---|---|
| **Main Office** | 5/F., Eastern Central Plaza, 3 Yiu Hing Road, Shaukeiwan |

## KOWLOON

| | |
|---|---|
| **Castle Peak Road Branch** | Shop 2, 253-259 Castle Peak Road, Cheung Sha Wan |
| **Cheung Sha Wan Branch** | T-301, 1/F, Administration Block, Cheung Sha Wan Wholesale Food Market |
| **Hoi Yuen Road Branch** | Unit 2, G/F, 60 Hoi Yuen Road, Kwun Tong |
| **Hunghom Branch** | 104 Ma Tau Wai Road, Hunghom |
| **Kowloon Branch** | 298 Nathan Road, Jordan |
| **Kowloon City Branch** | 37 Nga Tsin Wai Road, Kowloon City |
| **Kwun Tong Branch** | 22-24 Fu Yan Street, Kwun Tong |
| **Mei Foo Branch** | Shop N52, G/F, Mount Sterling Mall, Mei Foo Sun Chuen |
| **Mongkok Road Branch** | 16 Mongkok Road, Mongkok |
| **Ngau Tau Kok Road Branch** | 347-349 Ngau Tau Kok Road, Kwun Tong |
| **San Po Kong Branch** | G/F, 66-70 Tseuk Luk Street, San Po Kong |
| **Shamshuipo Branch** | 57 Cheung Sha Wan Road, Shamshuipo |
| **Tai Kok Tsui Branch** | 51-67 Tung Chau Street, Tai Kok Tsui |
| **Tokwawan Branch** | 237A Tokwawan Road, Tokwawan |
| **Tsimshatsui Branch** | 54 Cameron Road, Tsimshatsui |
| **Tsimshatsui East Branch** | Shop 17-18, G/F, Houston Centre, Tsimshatsui |
| **Whampoa Estate Branch** | 8-10 Tak Man Street, Whampoa Estate, Hunghom |
| **Yaumati Branch** | 507 Nathan Road, Yaumati |

## NEW TERRITORIES

| | |
|---|---|
| **Kwai Chung Branch** | Kwai Chung Centre, 100 Kwai Hing Road, Kwai Chung |
| **Sha Tsui Road Branch** | 345-347 Sha Tsui Road, Tsuen Wan |
| **Shatin Plaza Branch** | Shop 9, Level 1, Shatin Plaza, Shatin |
| **Sheung Shui Branch** | 104-104A San Fung Avenue, Sheung Shui |
| **Tai Po Branch** | Shop F, 12-26 Tai Wing Lane, Tai Po |
| **Tai Wai Branch** | 32-34 Tai Wai Road, Shatin |
| **Tseung Kwan O Branch** | Shop 1022-23, Level 1, Metro City Phase II, Tseung Kwan O |
| **Tsuen Wan Branch** | 35 Chung On Street, Tsuen Wan |
| **Tuen Mun Branch** | Shop G70-71, G/F, Tuen Mun Town Plaza, Phase 1, Tuen Mun |
| **Yuen Long Branch** | Shop 1-3, G/F, 40-54 Castle Peak Road, Yuen Long |

### Auto & Equipment Finance

| | |
|---|---|
| **Yuen Long Center** | Rms 1003-4 & Rms 1103-4, HSBC Building Yuen Long, 150-160 Castle Peak Road, Yuen Long |

# List of Branches

## Wing Hang Credit Ltd.

| | |
|---|---|
| **Main Branch** | 5/F & 6/F, Wing Hang Finance Centre, 60 Gloucester Road, Wanchai |
| **Central Branch** | Unit 1202, 12/F, Wing On Centre, 111 Connaught Road Central, Central |
| **Wanchai Gloucester Road Branch** | 6/F, Wing Hang Finance Centre, 60 Gloucester Road, Wanchai |
| **Wanchai Hennessy Road Branch** | Unit 705, 7/F., Emperor Group Centre, 288 Hennessy Road, Wanchai |
| **Causeway Bay Branch** | Unit B, 19/F., McDonald's Building, 46-54 Yee Wo Street, Causeway Bay |
| **Tsimshatsui Branch** | Units 1401 & 1402, 14/F., Carnarvon Plaza, 20 Carnarvon Road, Tsimshatsui |
| **Jordan Branch** | Unit 1204, 12/F., Fourseas Building, 208-212 Nathan Road, Jordan |
| **Mongkok Branch** | Unit 1106, 11/F, Wai Fung Plaza, 664 Nathan Road, Mongkok |
| **Prince Edward Branch** | Units 1115 & 1116, 11/F., Pioneer Centre, 750 Nathan Road, Mongkok |
| **Hung Hom Branch** | G/F, 96 Ma Tau Wai Road, Hung Hom |
| **San Po Kong Branch** | G/F, On Keung Building, 51 Hong Keung Street, San Po Kong |
| **Kowloon Bay Branch** | Unit 1512, 15/F, Telford House, 16 Wang Hoi Road, Kowloon Bay |
| **Kwun Tong Hong Ning Road Branch** | G/F, 71 Hong Ning Road, Kwun Tong |
| **Kwun Tong Kwun Tong Road Branch** | Unit 1104, 11/F., Kwun Tong View, 410 Kwun Tong Road, Kwun Tong |
| **Kwai Fong Branch** | Units 1909-1911, 19/F, Tower II, Metroplaza, 223 Hing Fong Road, Kwai Fong |
| **Tsuen Wan Nan Fung Branch** | Unit 1521, 15/F, Nan Fung Centre, 264-298 Castle Peak Road, Tsuen Wan |
| **Tsuen Wan City Landmark Branch** | Unit 2210, 22/F, City Landmark I, 68 Chung On Street, Tsuen Wan |
| **Shatin Branch** | Shop No. 13, Level 1, Shatin Lucky Plaza, 1-15 Wang Pok Street, Shatin |
| **Tai Po Branch** | G/F, 7 Kwong Fuk Road, Tai Po |
| **Sheung Shui Branch** | Units 1303A-1305, Level 13, Landmark North, 39 Lung Sum Avenue, Sheung Shui |
| **Yuen Long Branch** | Unit 804, 8/F, HSBC Building Yuen Long, 150-160 Castle Peak Road, Yuen Long |
| **Revolving Credit Centre** | 6/F, Wing Hang Insurance Building, 11 Wing Kut Street, Central |
| **Property Loans Centre** | Units 1401 & 1402, 14/F., Carnarvon Plaza, 20 Carnarvon Road, Tsimshatsui |
| **Special Product Department** | Rooms 1509-10, 15/F, Olympia Plaza, 255 King's Road, North Point |
| **Online Loan Centre** | Units 1909-1911, 19/F, Tower II, Metroplaza, 223 Hing Fong Road, Kwai Fong |

## CHINA

| | |
|---|---|
| **Head Office** | 8/F Shun Hing Square, Di Wang Commercial Centre, 5002 Shennan Dong Road, Shenzhen |
| **Shenzhen Branch** | Units 501-503, 505-513, 515-516, 5/F, Unit M02 & Units 08-09, 1/F, Shun Hing Square, Di Wang Commercial Centre, 5002 Shennan Dong Road, Shenzhen |
| **Shenzhen Fumin Sub-branch** | Unit B07-09, 25, 26, G/F & Unit 04, 13/F, Zhiben Building, 12 Fumin Road, Futian District, Shenzhen |
| **Shenzhen Longgang Sub-branch** | Room 104-105, Lijing Center, Building 12, Xinhong Garden, Longxiang Road, Center, Longgang District, Shenzhen |
| **Shenzhen Chegongmiao Sub-branch** | Unit 102-5, Main Building of Tianan Cyber Times, Chegongmiao, Futian District, Shenzhen |
| **Shenzhen Qianhai Sub-branch** | L1-06 & Room C1606, Tiley Central Plaza II, East to Houhai Road, Nanshan District, Shenzhen |
| **Shenzhen Huaqiang Sub-branch** | 1D, Hangyuan Building, Zhenhua Road, Futian District, Shenzhen |
| **Huizhou Sub-branch** | Units 103-105, Huamao Building, 7 Wenchang Yi Road, Jiangbei, Huizhou |
| **Guangzhou Branch** | Room 2102-2105 & Room 2504-2509, Goldlion Digital Network Center, 138 Tiyu Road East, Tianhe District, Guangzhou |
| **Guangzhou Talent Center Sub-branch** | Unit 01, 1/F, Talent Center, 45-4 Tianhe Road, Yuexiu District, Guangzhou |
| **Guangzhou Haizhu Sub-branch** | Unit 02, 1/F & Room 901-902, Vertical City, No. 238 Changgang Zhong Road, Haizhu District, Guangzhou |
| **Foshan Sub-branch** | Unit 12-15, G/F, One City Mall, 268 Dongle Road, Daliang, Shunde District, Foshan |
| **Zhuhai Branch** | Unit 2, G/F & Unit 1-2, 1/F, Shuiwan Da Sha, 82 Jingshan Road, Jida, Zhuhai |
| **Shanghai Branch** | 23/F, 21st Century Center Building, 210 Century Avenue, Pudong New Area, Shanghai |
| **Shanghai Hongqiao Sub-branch** | G/F, 321 Xianxia Road, Changning District, Shanghai |
| **Beijing Branch** | Units 2809-2818, 28F, Tower B, Gemdale Plaza, No.91, Jianguo Road, Chaoyang District, Beijing |

## MACAU

| | |
|---|---|
| **Main Branch** | 241 Avenida de Almeida Ribeiro |
| **Ho Lan Un Branch** | 3D Avenida do Conselheiro Ferreira de Almeida |
| **Hong Kai Si Branch** | 85 Avenida Horta e Costa |
| **San Kiu Branch** | 19-21 Estrada de Adolfo Loureiro |
| **Hak Sa Van Branch** | 32C-F Estrada de Marginal do Hipodromo |
| **Toi San Branch** | 338 Avenida de A.T. Barbosa |
| **Kou Tei Vu Kai Branch** | 29A Rua Pedro Coutinho R/C |
| **Iao Hon Branch** | 195 Rua Oito do Bairro Iao Hon |
| **Ho Pin San Kai Branch** | 75-79 Rua Almirante Sergio |
| **San Hau On Branch** | 286 Alameda Dr. Carlos D'Assumpcao R/C |
| **StarWorld Hotel Branch** | Shop A, Level 2 of StarWorld Hotel, Avenida de Amizade |
| **Flower City Branch** | 356-366, Rua de Evora, Edif. Lei Fung, Taipa |
| **Fai Chi Kei Branch** | Avenida do Conselheiro Borja Nos. 309-315, Mayfair Garden D-R/C |

永亨銀行有限公司
WING HANG BANK, LIMITED

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